2011

Qualitative and Quantitative Disclosures Relating to Capital Adequacy of the Capital Group Of ING Bank Śląski S.A. for the year 2011

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 2011.

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 2011 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 325/2011 of the Polish Financial Supervisory Authority (KNF) dated 20 December 2011 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

	31.12.2011	31.12.2010
I. Tier I capital	**5 471 204**	**4 849 374**
1. Core capital	**1 161 717**	**1 161 405**
- Share capital	130 100	130 100
- Issue premium	956 250	956 250
- Other supplementary capital	75 367	75 055
2. Capital reserve	**3 761 366**	**3 180 003**
- Capital reserve including retained profit of past years	3 312 679	2 808 602
- Non-controlling interests	2 295	2 352
- Net profit of current period in audited part	446 392	369 049
- Tier I capital revaluation	0	0
3. General risk fund	**910 152**	**850 179**
4. Reductions of Tier I capital	**-362 031**	**-342 213**
- Intangible assets	-362 031	-342 213
II. Tier II capital	**17 483**	**8 125**
- Tier I capital revaluation adjustment recognised as Tier II capital	17 483	8 125
III. Reductions of Tier I and Tier II capitals	**-40 000**	**-40 000**
- Reductions of Tier I capital	-22 517	-31 875
- Reductions of Tier II capital	-17 483	-8 125
Total capital funds	**5 448 687**	**4 817 499**
Short-term capital	**32 694**	**26 506**
Total capital funds for capital adequacy purposes	**5 481 381**	**4 844 005**

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 325/2011 (article 5), 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 decrease in 50 per cent Tier I capital and in 50 per cent Tier II capital. In case of 50 per cent value of the reductions is over than Tier II capital, the surplus decreases 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

Group got an agreement by the Polish Supervisory Authority and De Nederlandsche Bank on implementation of AIRB methodology for corporate portfolio provided that reported requirement should be not lower then calculated according to SA.

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).

	31.12.2011	**31.12.2010**
Total capital requirements for the following risks: credit risk, counterparty's credit risk, dilution and delivery of instruments at a later date	3 175 939	2 581 597
Capital requirement for settlement-delivery risk	7 883	5 064
Total capital requirements for the following risks: prices of equity securities, risk of debt instrument prices, FX and commodity price risk	3	1 753
Total capital requirements for operational risk	361 683	326 871
Capital requirement for overall interest rate risk	24 808	19 689
Capital requirement due to exposure concentration limit and large exposures limit overrun	0	11 998
Total capital requirements	**3 570 316**	**2 946 972**

The capital requirement for credit risk represents approx. 89% 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:

Exposure	Risk weight	Exposure value	Ekwiwalent pozabilansowy	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
Exposures calculated based on SA method					
Central Governments	0%	23 061 722	0	0	0
Regional Governments	20%	3 780 734	164 482	789 043	63 123
	50%	16 314	751	8 532	683
Retail	75%	4 636 160	1 253 787	4 417 461	353 397
Residential Retail	75%	10 879 838	335 425	8 411 447	672 916
Past due	100%	152 779	1 177	153 956	12 316
	150%	5 836	838	10 010	801
Other	0%	2 928 757	0	0	0
	20%	77 847	0	15 569	1 246
	100%	762 296	0	762 296	60 984
Exposures calculated based on AIRB method					
Institutions	- *	5 534 785	469 761	1 112 407	88 993
Corporates	- *	18 104 146	6 190 515	19 189 627	1 535 170
Equity exposures	370%	198 173	0	733 242	58 659
Other and temporary capital requirements					
The completion to total level of capital requirements					327 651
TOTAL: **Total capital requirements for the following risks: credit risk, counterparty's credit risk, dilution and delivery of instruments at a later date**					**3 175 939**

** calculation based on rating*

2.2 INTERNAL RATING SYSTEM

Each entity with the Bank's credit exposure must have a rating assigned as is used in a standard manner at the Bank. Determination of the customer risk class forms an integral part of the Bank's credit risk evaluation process for corporate clients.

For entrepreneurs' exposures, the Bank uses a 22 grade rating, employed throughout ING Group. Its classes present the debtor-related risk. The customer is assigned to a given risk class based on the:

- financial model, using the data from the debtors' financial reports,
- evaluation of qualitative factors,
- financial standing of the parent company.

Investment Grade 1-10

Investment grade comprises the entities which we assess as encumbered with a relatively low risk; however, in making risk classification, we take account of the threats arising from economic and business conditions.

Speculative Grade 11 - 17

It is a group of a relatively large bucket of risk levels, and thus the characteristics of extreme classes within this group varies considerably. In general, we may say that:

- the entities from top classes under this group are fulfilling their financial obligations at present, however the debt cover ratio (principal and interest) over a longer term is not certain, and thus the safety margin is limited; there is real threat of credit risk growth due to unfavourable business or economic conditions;
- the borrowers assigned to the top risk classes (the worst classes from that group) can be characterised by uncertain income perspectives, worse quality of assets and over a longer term the risk of equity mismatch and possibility of loss occurrence.

Problem Loan Grade 18 - 22

This risk group comprises the Borrowers who showed explicit symptoms of problems with debt service or who are in the default situation.

Borrowers from this risk group are rated only by risk units managing a given client exposure.

For:

- strategic clients - the global ING Group model PD is applied – the debtor is assigned to one of 17 corporate client risk classes in the brackets from 1 to 17,
- corporate clients - the local SME PD model is applied – the debtor is assigned to one of 9 corporate client risk classes in the brackets from 9 to 17.

In the table below is presented the structure of connections between internal and external rating systems.

ING rating	S&P / Fitch IBCA	Moody's
1	AAA	Aaa
2	AA+	Aa1
3	AA	Aa2
4	AA-	Aa3
5	A+	A1
6	A	A2
7	A-	A3
8	BBB+	Baa1
9	BBB	Baa2
10	BBB-	Baa3
11	BB+	Ba1
12	BB	Ba2
13	BB-	Ba3
14	B+	B1
15	B	B2
16	B-	B3
17	CCC	Caa1
18	CC	Ca
19	C	C
20	D	C
21	D	C
22	D	C

2.3 CORPORATE CREDIT RISK MANAGEMENT TOOLS

In 2011 Bank initiated number of activities within credit risk management area aiming at implementation of KNF resolution 258/2011 on detailed rules for the functioning of risk management and internal control system and detailed conditions for estimating banks' internal capital and reviewing the process of assessing and maintaining internal capital policies and rules for determining the variable components of remuneration of managers in the bank.

Following the ING Group's decision to implement the Advanced Internal Rating Based Approach (or AIRB), the Bank prepared and implemented local and global models for basic risk parameters:

- PD (probability of default),
- LGD (loss given default),
- EAD (exposure at default)

for various classes of assets in line with AIRB.

The Bank obtained the final approval to apply AIRB method for the corporate credit portfolio from the Dutch National Bank (DNB) and the Polish Financial Supervision Authority on 6 October 2011.

As far as enterprises exposures are concerned, the following models, among others, are applied at the Bank:

- for the strategic clients segment covering businesses with annual income above EUR 100 million:

    - global PD (expert and statistical) ING Group rating model developed at the ING Group level accounting for the local data and monitored regularly on the said data.

    - global LGD and EAD (hybrid expert and statistical models) models also developed at ING Group level accounting for the local data and monitored regularly based on the said data.

- for the local mid-sized and mid-corporate segments (SME assets class) covering clients with annual income from EUR 1.2 to 100 million:

    - local PD (expert and statisitcal) rating model developed under the supervision of the ING Group based on the Bank's internal data, applied at ING also as a regional model for Central and Eastern European states,

    - local LGD and EAD models (hybrid expert and statistical models) developed under the supervision of ING based on the Bank's internal data and applied at ING as regional models for the Central and Eastern European states.

Besides above, the Bank uses also global models for exposures to banks and other financial institutions and to sovereigns and local governments.

The models are employed to calculate the economic capital allowing its level to be optimised. They contribute to a better quantification of the credit risk for the Bank's portfolio. It is on their basis that the provisions under IFRS, the efficiency of Bank's performance (RAROC, economic profit, goodwill management) and credit prices are estimated, among other positions.

While employing the risk models, the Bank makes use of advanced IT systems supporting the client and transaction risk rating process. An integrated ING Group's environment is the primary IT tool used to manage credit risk. As this tool combines all applications needed to fully meet the New Capital Accord requirements, it enables the Bank to manage risk effectively not only on the Bank's Branch level, but also on the level of individual relationship manager's portfolio.

2.4 REVIEWS AND CREDIT RISK RATING

Commercial functions who grant credits are separated from the process of transaction- and client risk rating (four-eye control principle). Credit risk is rated (by the Risk Manager) based on the principle of separation from the commercial functions (Relationship Manager).

The following parties are involved in the process of risk rating: Rating Owner (Relationship Manager) and Risk Manager.

The Rating Owner inputs the financial data related to the client and has exclusive responsibility for the correctness of the risk rating, including Review.

There is only one owner of a borrower's risk rating. The risk management unit responsible for restructuring and debt collection (i.e. Corporate Credit Restructuring Department) becomes a rating owner for borrowers rated 18 to 22.

The final rating is determined by the Risk Manager, or by the Appeal Judge if an appeal has been made.

The Risk Manager is responsible for:

- verifying that the appropriate rating model has been used for the borrower,
- verifying that financial and non-financial data entered are correct,
- challenging unaudited financial data,
- finalizing the rating.

The outcomes of specific models may be subjects to arbitrary adjustments in that the ultimate rating grades are determined as part of the appeal process.

A one notch difference (positive or negative) between the rating calculated by the rating model and the view of the appellant (the person initiating an appeal) is sufficient to start a rating appeal.

Reasons for a rating appeal are for example:

- the rating model is not appropriate for the borrower,
- circumstances that may not (yet) be captured by the rating model but which are likely to have a (usually negative) effect on the borrower's PD, especially if:
    - borrower has or is expected to default on any financial obligation to any party,
    - major disruption of activities,
    - change in legislation that will seriously impact the financial performance.

IT system in Bank, used also in whole ING Group, supports credit risk assessment process and enables, as well, centralized gathering data on risk rating grades of clients.

2.5 FREQUENCY OF RISK RATING REVIEWS AND UPDATES (IF ANY)

Only the Rating Owner can review the risk rating. The following rules will apply to rating reviews:

- a risk rating must be reviewed at least annually; a risk rating is considered overdue after 12 months from the last approval date of the risk rating,
- the Rating Owner should take appropriate action to either review or cancel the risk rating if the

Bank has terminated the relationship with the Borrower and no credit risk remains; the Rating Owner should perform an interim re-rating when the value of one or more risk drivers has materially changed. Events that could cause a consideration for a re-rating are for example a change of risk rating of the influencing parent or a change of any of the qualitative risk drivers,

- without a review till the end of 18 months from the last approval date of the risk rating, a risk rating will automatically expire (not applicable for irregular borrowers whose ratings do not expire).

2.6 USING INTERNAL RATING

The components of AIRB method are used in the following activities:

- credit exposure – measurement and management,
- planning process and defining the strategy,
- reporting.

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 2011 is 12.28 %.

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. Group is also calculating capital requirements on the basis of data received from designated ING Bank Śląski departments 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 modified AIRB methodology, which is based on transactions and client risk parameters (EAD, PD, LGD);

2. Capital for coverage of the transfer risk
   – includes the risk of default in the event of transactions in foreign currencies and/or with client located in country with internal rating worst then 9,
   – is determined similarly to the credit risk, on the basis of the sovereign risk parameters;

3. Capital for coverage of the market risk
   – includes four types of risk: trading risk; equity investment risk, property in own use risk, investment in real estate risk,
   – trading risk and equity investment risk are calculated on the basis of VaR methodology,
   – property in own use risk and investment in real estate risk are calculated on the basis of exposure value and stress testing this value by risk factors, which are calculated on historical basis;

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 expense risk is based on actual operational 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.

ATTACHMENT

Additional Pillar 3 information

amounts in millions of euros, unless stated otherwise

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 Bank adopted the Advanced Internal Ratings Based (AIRB) approach for the majority of its significant portfolios that contain credit risk in accordance with the approvals granted by DNB (Dutch Central Bank), and various local regulators, as required. However, there remains a small portion of the portfolio that is subject to the Standardised Approach (SA). 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 2011 ING Bank decreased its SA Portfolio by 18% in terms of credit risk exposures. ING Bank continues to work towards reducing the portion of its portfolio which falls under the Standardised Approach.

ING Bank 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.

REGULATORY CAPITAL REQUIREMENTS

Regulatory capital requirements	2011	2010
Credit risk		
Portfolios subject to standardised approach	**2.455**	2.812
Portfolios subject to advanced IRB approach		
– Central governments and central banks	**234**	107
– Institutions	**1.277**	1.412
– Corporate	**8.664**	8.823
– Residential mortgages	**4.798**	4.799
– Other retail	**1.303**	1.235
Total portfolios subject to advanced IRB approach	**16.276**	16.376
Securitisation exposures	**1.489**	1.227
Equity portfolios in the banking book under the simple risk weight approach	**207**	310
Other Non-Credit Obligation Assets (ONCOA)*	**2.046**	1.727
Total credit risk	**22.473**	22.452
Market risk		
Standardised approach	**34**	137
Internal models approach - trading book	**1.090**	227
Total market risk	**1.125**	364
Operational risk		
Advanced measurement approach	**2.836**	2.872
Total Basel II required Regulatory Capital	**26.434**	25.688
Basel I floor**	**31.107**	29.870
Additional capital requirement (due to floor)	**4.670**	4.182

* Includes the securitisation benefits of the SA, AIRB and securitisation portfolios, amounting to €22 million for 2011.
** 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 2011 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 4.670 million for 2011 (EUR 4.182 million in 2010).

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.

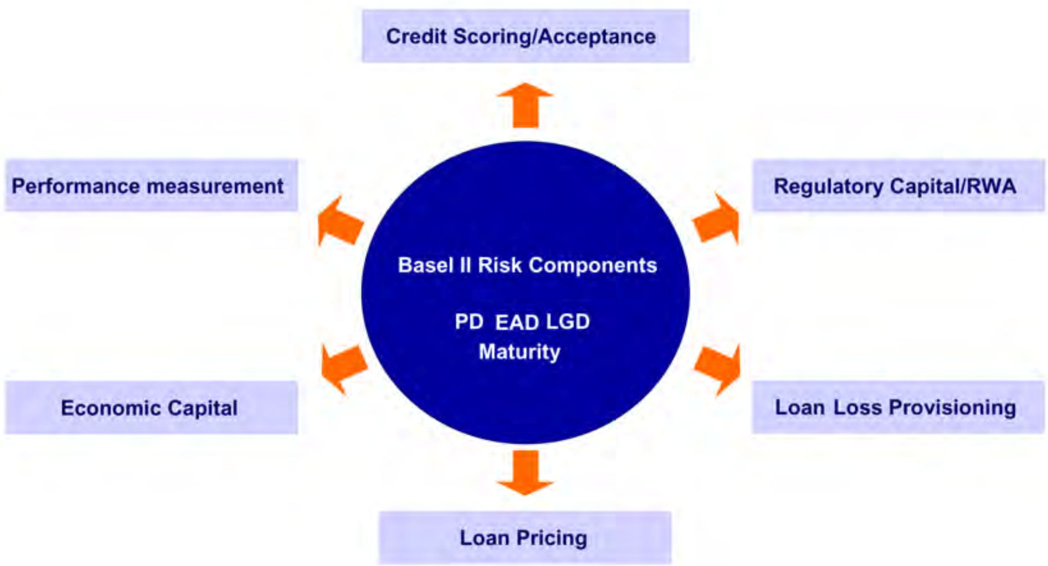
The amounts presented in this section relate to amounts used for credit risk management purposes, which follow ING Bank's interpretation of the definitions as prescribed under the Basel II accords. Therefore, the numbers are different than the accounting numbers as reported in the annual accounts under 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 activities are generally the nominal amounts, while amounts associated with Investment and Lending 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'.
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 Bank 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.

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



RISK MEASUREMENT AND REPORTING
ING Bank 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.

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 Bank has applied the following definitions to determine Exposure Classes:

Governments include Sovereign Government entities, Central Banks and Basel II recognised Local / Regional Authorities as well as Supranational Organisations;

Institutions include all Commercial Banks, non-Bank Financial Institutions, such as 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 2011	Total 2010
Standardised Approach	**3.505**	**1.915**	**14.184**	**11.627**	**11.696**	**42.927**	52.229
Advanced IRB Approach	**107.640**	**100.507**	**272.415**	**339.266**	**37.474**	**857.302**	815.408
Total	**111.145**	**102.422**	**286.599**	**350.893**	**49.170**	**900.229**	867.637

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

The figures presented in the table below 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 Bank’s transfer risk positions and economic country risk exposure can be found in risk management section, including their corresponding definitions.

Gross credit risk exposures (EAD) by geographic area

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
Netherlands	**36.922**	**2.857**	**74.631**	**147.158**	**18.375**	**279.943**	262.701
Belgium	**13.589**	**5.930**	**32.228**	**27.794**	**10.257**	**89.798**	81.296
Other Europe	**44.321**	**63.877**	**105.205**	**85.707**	**18.743**	**317.853**	316.932
Americas	**10.429**	**10.149**	**45.859**	**54.257**	**1.023**	**121.717**	116.255
Asia / Pacific	**5.540**	**19.024**	**27.659**	**35.019**	**752**	**87.994**	87.700
ROW	**344**	**585**	**1.017**	**958**	**20**	**2.924**	2.753
Total	**111.145**	**102.422**	**286.599**	**350.893**	**49.170**	**900.229**	867.637

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

The figures presented below 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 Bank uses a common industry classification methodology based on the NAICS system (North American Industry Classification System). This methodology has over 1.500 detailed industry descriptions, which are aggregated into 22 industry classes at the highest level. Certain countries require ING Bank to report locally based on other industry classification methodologies, which are generally derived from the NAICS classifications presented here. Residential mortgages are generally only extended to private individuals.

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 **2011**	Total 2010
Private Individuals		**4**	**366**	**350.893**	**18.567**	**369.830**	348.401
Commercial Banks	**2.189**	**80.135**	**1.514**		**30**	**83.868**	89.434
Central Governments	**56.292**	**8**	**0**		**926**	**57.226**	62.716
Real Estate		**75**	**53.913**		**3.148**	**57.136**	58.807
Non-Bank Financial Institutions		**10.846**	**44.980**		**844**	**56.670**	65.861
Central Banks	**42.638**	**0**			**1**	**42.639**	19.558
Natural Resources		**0**	**40.951**		**698**	**41.649**	37.115
Services	**0**	**22**	**17.166**		**6.066**	**23.254**	22.550
Transportation & Logistics			**23.770**		**1.645**	**25.415**	23.075
General Industries			**17.029**		**3.277**	**20.306**	18.871
Lower Public Administration	**9.996**	**10.281**	**9**		**105**	**20.391**	22.828
Food, Beverages & Personal Care		**0**	**17.349**		**3.133**	**20.482**	19.704
Builders & Contractors		**0**	**14.042**		**3.193**	**17.235**	16.496
Chemicals, Health & Pharmaceuticals	**0**	**197**	**13.645**		**1.457**	**15.299**	15.101
Other	**30**	**854**	**41.865**		**6.080**	**48.829**	47.117
Total	**111.145**	**102.422**	**286.599**	**350.893**	**49.170**	**900.229**	867.634

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

Basel II does not include a cash flow methodology that would look at future portfolio runoff. The table below, 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.

Outstandings by Tenor Bucket (based on credit risk outstandings)

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total **2011**	Total 2010
Current Outstandings	**108.176**	**102.111**	**243.461**	**338.171**	**36.650**	**828.569**	793.230
1 month	**105.034**	**101.350**	**239.136**	**337.763**	**36.074**	**819.358**	779.117
3 month	**78.032**	**87.499**	**226.594**	**337.577**	**35.821**	**765.521**	726.881
6 month	**57.886**	**72.221**	**211.026**	**335.982**	**34.263**	**711.378**	704.255
1 year	**49.736**	**65.983**	**175.297**	**332.056**	**24.973**	**648.046**	645.977
2 years	**44.236**	**54.281**	**144.051**	**325.936**	**22.183**	**590.686**	585.740
3 years	**41.187**	**46.108**	**116.301**	**317.741**	**19.079**	**540.416**	537.145
5 years	**33.933**	**34.478**	**75.578**	**292.371**	**14.018**	**450.378**	442.294
7 years	**28.667**	**26.075**	**53.736**	**280.705**	**10.787**	**399.969**	387.148
10 years	**9.395**	**13.731**	**42.375**	**250.232**	**8.112**	**323.845**	305.657

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

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 Bank's estimates of future interest rates and foreign exchange rates, as well as potential changes in future obligations that may be triggered by such events. Generally, credit risk outstandings are lower than 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. 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, individualised 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 million 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 Bank has not yet determined or recognised. These provisions are based on a modified expected loss methodology. The primary modification is that the PD time horizon (12 months) is shortened to periods of 3, 6, or 9 months, depending on the type of obligor. Generally, the larger the obligor, the shorter the PD time horizon. IBNR provisions are calculated centrally using a common tool across ING Bank.
- Individually Not Significant Financial Asset (INSFA) Provisions: are made for acknowledged problem loans (ratings 20-22) that are below the threshold amount. Due to their small size, the IFRS-EU rules permit a statistical approach to measuring these provisions. Therefore, the calculation is based on the same statistical formula that is used to determine IBNR Provisions and is also calculated centrally using a common tool across ING Bank.

Economic sectors not shown in below table have cumulative provisions of less than EUR 50 million, and are grouped under Other.

Cumulative Provisions by economic sector

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2011	2010
Private Individuals			**3**	**1.238**	**364**	**1.605**	1.549
Real Estate		**0**	**729**		**35**	**764**	571
General Industries	**0**		**399**		**60**	**459**	464
Transportation & Logistics		**0**	**398**		**44**	**442**	316
Food, Beverages & Personal Care			**336**		**88**	**424**	397
Builders & Contractors		**0**	**310**		**84**	**394**	394
Services	**0**	**0**	**274**		**92**	**366**	340
Non-Bank Financial Institutions	**0**	**7**	**220**		**16**	**243**	283
Retail	**0**		**124**		**59**	**183**	185
Natural Resources			**143**		**9**	**152**	167
Automotive			**104**		**21**	**125**	123
Chemicals, Health & Pharmaceuticals	**0**	**0**	**102**		**14**	**116**	104
Telecom			**85**		**2**	**87**	49
Media	**0**	**0**	**55**		**19**	**74**	125
Other	**4**	**31**	**28**		**36**	**99**	128
Total	**4**	**38**	**3.310**	**1.238**	**943**	**5.533**	5.195

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

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

Additional Pillar 3 information continued

Cumulative Provisions by geographic area	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
Netherlands	1	0	1.003	172	333	1.509	1.324
Belgium	0	0	323	48	187	558	479
Other Europe	1	19	1.287	401	364	2.072	2.063
Americas	0	4	353	579	4	940	961
Asia / Pacific	1	14	343	36	54	448	362
Rest of World	1	1	1	2	1	6	6
Total	4	38	3.310	1.238	943	5.533	5.195

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

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 below table have past due loans of less than EUR 150 million, and are grouped under Other.

Past due loans by economic sector (based on outstandings)	Residential mortgages	Other Retail	Total 2011	Total 2010
Private Individuals	6.098	270	6.368	5.371
Other		281	281	267
Total	6.098	551	6.649	5.638

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

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

Past due loans by geographic area (based on outstandings)	Residential mortgages	Other Retail	Total 2011	Total 2010
Netherlands	2.054	1	2.055	1.795
Belgium	1.238	262	1.500	1.227
Other Europe	435	241	676	685
Americas	464	1	465	510
Asia / Pacific	1.884	46	1.930	1.407
Rest of World	23	0	23	14
Total	6.098	551	6.649	5.638

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

ING Bank considers past due loans to be those loans where any payment of interest or principal is more than one day past due. The methodology is principally extended to loans to private individuals, such as residential mortgage loans, car loans, and other consumer loans. For business loans (governments, institutions, corporates), ING Bank has adopted a policy to classify the obligor as a problem loan as quickly as possible upon the occurrence of a payment default. 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 31 December 2011, the loan loss provision shortfall (before tax) was: EUR 1.436 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) before and after risk mitigation

	Exposure before risk mitigation	Exposure after risk mitigation	Exposure before risk mitigation	Exposure after risk mitigation
		2011		2010
Risk buckets used:				
0%	**497**	**497**	6.281	6.281
10%				
20%	**148**	**148**	7.628	7.628
35%	**11.090**	**11.090**	7.565	7.565
50%	**6.370**	**6.369**	9.312	9.312
75%	**16.608**	**16.390**	17.961	17.357
100%	**23.672**	**23.502**	33.930	33.686
150%	**565**	**565**	704	704
200%				
1250%				

* Includes only the SA portfolios; excludes securitisations, equities and ONCOA.
* Excludes revaluations made directly through the equity account.

Under the standardised 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 Bank has developed a series of statistical, expert and hybrid models based on ING Bank’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 stand-alone 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 Bank uses a combination of statistical, expert and hybrid models to estimate the Exposure at Default. With the exception of guarantees and letters of credit, the EAD is always equal to or higher than the associated credit risk outstandings, under the assumption that 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 Bank will lose when liquidating collateral pledged in association with a given loan or financial obligation, or alternatively, liquidating the company as a whole, as part of a workout process. LGD models are based on cover types, estimated recovery rates given orderly liquidation, and (in)direct cost of liquidation.

- **Maturity (M):** The fourth element is the time to the maturity of the underlying financial obligation. Basel II caps the maturity element at five years, despite the fact that many obligations extend longer than five years.

- **Expected Loss (EL):** The expected loss provides a measure of the value of the credit losses that ING Bank may reasonably expect to incur on its portfolio. ING Bank must hold a reserve (as part of its capital base) to cover the expected losses in its credit portfolio. In its basic form, the expected loss can be represented as:

$$EL = PD * EAD * LGD$$

Unexpected Loss (UL): Additionally, ING Bank must also maintain a capital buffer against unexpected losses in order to protect itself against credit losses associated with unusual market events outside of the statistical norms.

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 Bank 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 Bank 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 Bank 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.

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

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 in the CRD, the DNB Supervisory Rules and CEBS guidelines. This concerns all Obligor Types and Segments, including Countries.

ING Bank's Probability of Default (PD) rating models are based on a 1-22 scale, which roughly corresponds to the same rating grades that are assigned by external rating agencies, such as Standard & Poor's and Fitch. For example, an ING Bank rating of 1 would correspond to an S&P/Fitch rating of AAA; an ING Bank 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 Bank IT systems with internally developed models based on data either manually or automatically fed. Under certain conditions, the outcome of a manually-fed model can be challenged through 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 Bank has invested are leading.

Risk ratings assigned to customers are regularly reviewed, and the performance of the underlying models regularly monitored.

The figures presented below are the EAD-weighted average PD per asset class per rating class.

EAD-weighted average PD by PD grade under the advanced IRB approach

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
AAA	**0.01%**	**0.04%**	**0.04%**	**0.03%**	**0.03%**	**0.02%**	0.02%
AA	**0.02%**	**0.04%**	**0.04%**	**0.03%**	**0.03%**	**0.03%**	0.05%
A	**0.06%**	**0.07%**	**0.08%**	**0.07%**	**0.09%**	**0.07%**	0.07%
BBB	**0.30%**	**0.24%**	**0.30%**	**0.25%**	**0.36%**	**0.27%**	0.27%
BB	**0.76%**	**0.83%**	**1.19%**	**0.90%**	**1.43%**	**1.05%**	1.10%
B	**4.24%**	**5.16%**	**5.17%**	**5.72%**	**6.98%**	**5.51%**	5.50%
CCC & Problem Grade	**24.93%**	**84.03%**	**61.44%**	**54.59%**	**59.66%**	**59.28%**	62.54%
Total	**0.09%**	**1.00%**	**4.51%**	**2.62%**	**6.76%**	**2.89%**	3.02%

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

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

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

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
AAA	**22.202**	**3.662**	**670**	**4.982**	**1.143**	**32.659**	23.276
AA	**71.594**	**16.718**	**13.673**	**4.991**	**440**	**107.416**	95.019
A	**10.022**	**49.540**	**39.415**	**36.655**	**2.608**	**138.240**	136.827
BBB	**1.866**	**22.931**	**91.940**	**157.203**	**12.710**	**286.650**	277.112
BB	**1.496**	**6.091**	**81.956**	**99.713**	**13.435**	**202.691**	195.124
B	**284**	**575**	**29.349**	**24.433**	**3.733**	**58.374**	58.175
CCC & Problem Grade	**176**	**990**	**15.412**	**11.289**	**3.405**	**31.272**	29.875
Total	**107.640**	**100.507**	**272.415**	**339.266**	**37.474**	**857.302**	815.408

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

Over 95% of ING Bank's credit risks have been rated using one of the in-house developed PD rating models. Within the AIRB Portfolio, the level of Basel II ratings exceeds 99% coverage by exposure. Bankwide, ING Bank 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 Corporates, Commercial Banks, Insurance Companies, Central Governments, Local Governments, Funds, Fund Managers, Project Finance, and Leveraged Companies. While other models are more regional or country specific, such as PD models for SME companies in Central Europe, the Netherlands, Belgium, Luxembourg, and the United Kingdom, as well as residential mortgage and consumer loan models in the various retail markets.

Rating Models for retail 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 to increase or decrease together with risk rating migration without a significant change in the size of the underlying financial assets, in terms of financial accounting. As such, rating migrations are closely monitored within ING Bank. The table below shows the RWA per asset class per rating class.

RWA by PD grade under the advanced IRB approach

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
AAA	211	249	39	117	96	712	664
AA	41	1.576	1.703	95	37	3.452	4.093
A	782	5.464	8.351	1.143	287	16.027	14.057
BBB	462	4.240	28.246	12.022	2.800	47.770	46.135
BB	973	3.258	36.856	17.836	6.140	65.063	63.198
B	49	690	18.358	17.024	2.804	38.925	41.767
CCC & Problem Grade	406	489	14.745	11.732	4.123	31.495	34.783
Total	2.924	15.966	108.298	59.969	16.287	203.444	204.699

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

The table below 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 22%, while the weighted average LGD for a BBB rated Corporate is 26%. 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.

Average LGD by PD Grade under the advanced IRB approach

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
AAA	21%	15%	22%	24%	80%	23%	22%
AA	20%	20%	29%	19%	76%	21%	22%
A	20%	19%	32%	17%	56%	23%	23%
BBB	22%	17%	26%	16%	41%	20%	21%
BB	47%	31%	20%	15%	40%	19%	19%
B	4%	39%	17%	19%	45%	20%	22%
CCC & Problem Grade	39%	10%	23%	21%	41%	24%	25%
Total	21%	19%	24%	16%	44%	21%	21%

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

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).

These figures below represent the potential exposure that may be drawn by ING Bank's obligors under committed facilities. In most cases, the obligors have the right to make use of these facilities unless an event of default has occurred, or another defined event within the associated credit risk agreement has occurred. In most cases, the obligor pays a commitment fee to ING Bank on the unused portion of these facilities. Pre-Settlement, Money Market and Investment limits are generally not committed.

If all of the unused commitments were called upon at the same time, ING Bank's credit risks (in terms of outstandings) would increase by 11%. As part of its Exposure at Default (EAD) models, ING Bank makes an estimate of how much of these unused commitments would be drawn under normal circumstances. The effect is included in the calculation of RWA, together with a similar effect applied to uncommitted facilities, albeit at a lower rate.

Undrawn Commitments

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
Standardised Approach	2	92	812	620	5.899	7.425	8.414
Advanced IRB Approach	273	1.804	58.489	10.807	12.141	83.514	78.157
Total	275	1.897	59.301	11.427	18.040	90.939	86.571

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

From time to time, ING Bank extends loans for which it receives a specific financial guarantee from a non-related counterparty or obligor. The figures in the table below represent the 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 below. 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 below do include amounts that are guaranteed through an unfunded risk participation construction.

Exposures secured by third party guarantees received

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
Standardised Approach			1.156		6	1.162	1.488
Advanced IRB Approach	2.726	9.082	29.481	503	4.013	45.805	40.919
Total	2.726	9.082	30.637	503	4.019	46.967	42.407

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

The following 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. This methodology allows ING Bank to classify virtually all of its derivatives exposures under the AIRB approach.

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

In order to determine the amount of credit risk applicable, ING Bank first matches the trades with similar characteristics to determine their eligibility for offsetting. This offsetting effect is called 'compensation'. Subsequently, ING Bank reduces the amount by any legal netting that may be permitted under various types of Master Agreements, such as ISDAs, GMRAs, GMSLAs, etc. Lastly, the amount is further reduced by any collateral that is held by ING Bank under CSAs or other similar agreements.

Additional Pillar 3 information continued

Counterparty credit risk outstandings from derivatives (SA and AIRB)	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total **2011**	Total 2010
Credit Derivatives	**21**	**444**	**336**		**0**	**801**	1.290
Derivatives		**89**	**151**			**240**	68
Equity Derivatives		**853**	**1.331**		**13**	**2.197**	2.463
Foreign Exchange Derivatives	**308**	**2.454**	**2.387**		**6**	**5.155**	4.140
Interest Rate Derivatives	**917**	**14.824**	**9.228**		**55**	**25.024**	21.429
Commodity derivative		**79**	**192**		**1**	**272**	92
Exchange Traded Products			**2.852**			**2.852**	9.338
Total	**1.246**	**18.743**	**16.477**		**75**	**36.541**	38.820

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

Counterparty credit risk outstandings from derivatives (SA and AIRB)	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total **2011**	Total 2010
Gross positive MTM before netting and collateral	**4.315**	**66.984**	**52.113**		**75**	**123.487**	101.156
Mark to market (MTM) after netting	**1.246**	**18.743**	**16.477**		**75**	**36.541**	38.820
MTM after netting and collateral	**1.225**	**13.451**	**15.178**		**75**	**29.929**	34.546

* 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 **2011**	Total 2010
Bond Financing Given	**1.253**	**3.083**	**1.840**			**6.176**	4.008
Equity Financing Given		**1.654**	**3.212**			**4.866**	4.753
Bond Financing Taken	**134**	**219**	**1.794**			**2.147**	2.070
Equity Financing Taken		**638**	**972**			**1.610**	2.312
Total	**1.387**	**5.594**	**7.818**			**14.799**	13.143

* 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 **2011**	Total 2010
Gross positive MTM before netting and collateral	**2.315**	**14.671**	**20.707**			**37.693**	32.775
Mark to market (MTM) after netting	**1.387**	**5.594**	**7.818**			**14.799**	13.143
MTM after netting and collateral	**1.387**	**2.434**	**5.416**			**9.237**	8.970

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

CREDIT RISK MITIGATION

ING Bank actively participates in the credit risk derivative (CDS) trading market, as a net purchaser of credit risk protection from other counterparties. ING Bank has purchased a small amount of credit risk protection for hedging purposes, usually in order to reduce concentration on certain 'legal one obligor groups' without having to reduce ING Bank's relationship banking activities. ING Bank does not actively sell credit default swaps for hedging or investment purposes. Although Basel II rules permit a reduction of credit risk capital under certain circumstances where ING Bank has purchased CDS protection, ING Bank does not currently make use of this provision in determining its Basel II capital base.

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

Credit default swaps		
	2011	2010
Credit derivatives used for hedging purposes		
– credit protection bought	**897**	849
– credit protection sold		
Credit derivatives used for trading activities		
– credit protection bought	**23.729**	29.389
– credit protection sold	**24.338**	27.944

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

LOAN TO VALUE RESIDENTIAL MORTGAGES

Loan-to-Value Residential Mortgages per country		
	2011	2010
Netherlands	**81%**	80%
Germany	**71%**	70%
Australia	**67%**	65%
Belgium, Luxembourg	**75%**	75%
United States of America	**75%**	74%
Canada	**73%**	75%
Spain	**61%**	58%
Italy	**52%**	51%
United Kingdom	**60%**	58%
Poland	**69%**	68%
Turkey	**48%**	50%
Romania	**55%**	55%
India	**67%**	67%
Total	**75%**	74%

* Netherlands includes Domestic Bank NL and Westland Utrecht.
  LTV for the Netherlands is based on market values. Based on foreclosure values, LTV would be 92% in 2011 and 91% in 2010.
* Includes both AIRB and SA portfolios

The table above shows the weighted average Loan to Value (LTV) ratio of the ING Bank residential mortgage portfolio per country. This ratio relates the total loan amount to the market value of the collateral. The market value is the registered value as adopted from the valuation report of a qualified appraiser or valuer. ING Bank has a team of specialists for the valuation of real estate, which is supplemented with external and desk top valuation. As an exception, the LTV of The Netherlands is based on foreclosure value. Conformity to the new Dutch mortgage code of conduct mortgage LTV's will be expressed in terms of market value in the future. In some countries residential mortgages are covered by governmental or commercial insurers. For example the Nationale Hypotheek Garantie (NHG) in The Netherlands guarantees the repayment of a loan in case of a forced property sale. The LTV in The Netherlands is relatively high, but is partially compensated by the NHG guaranteed portfolio and other secondary covers, such as life insurance policies, savings and investment products.

When available, indexation is applied to revaluate the collateral to the present value. In the LTV calculation the following property covers are included: residential and industrial/commercial properties, land and applicable other fixed assets. All other covers are excluded.

ING Bank's residential mortgage portfolio outstandings amount to EUR 341 billion, making up 39% of the total ING Bank credit risk outstandings. The average LTV of the total residential mortgage portfolio amounts to 75% (2010: 74%).

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 31 January 2010. It includes qualitative and quantitative disclosures addressing both the exposure securitised as well as securitisations positions held. While quantitative disclosures are limited to those securitisations that are used for the purpose of calculating the regulatory capital requirements under the CRD, qualitative information have a broader scope and give a view on ING Bank's entire securitisation activity.

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

Valuation and accounting policies

ING Bank's activities regarding securitisations are described in Note 24 '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 Bank's own originated securitisation programmes are 'Derecognition of financial assets' and 'Consolidation'. Where ING Bank acts as investor in securitisation positions, the most relevant accounting policy is 'Classification of financial instruments'.

Regulatory capital method used and Rating Agencies

ING Bank has implemented the AIRB approach for credit risk. As a consequence, ING Bank uses the Rating Based Approach (RBA) for investments in tranches of asset-backed securities (ABS) and mortgage-backed securities (MBS) which have been rated by external rating agencies. Rating agencies which are used by ING Bank under the RBA include: Standard & Poor's, Fitch, Moody's and DBRS.

Under the RBA, the risk-weighted assets (RWA) are determined by multiplying the amount of the exposure by the appropriate regulatory risk weights, which depend on:

- The external rating or an available inferred rating;
- The seniority of the position; and
- The granularity of the position.

ING Bank uses the Internal Assessment Approach (IAA) for the support facilities it provides to Asset Backed Commercial Paper (ABCP) conduit Mont Blanc Capital Corp., based on externally published rating agency methodologies.

ING Bank as Investor

ING Direct has been the primary investor in securitisation transactions within ING Bank.

ING Direct's core strategy is gathering customer deposits and providing lending products to its retail customers. The savings product is typically the first product to be launched in a country followed by mortgages and other retail products (current accounts, unsecured loans, credit cards etc). The difference between retail liabilities and own originated retail assets is invested in high quality bonds and when appropriate in certain internal assets originated by other ING Bank entities. The execution of this business model in a cost-efficient manner is ING Direct's competitive advantage. Given ING Direct's business model as a liability driven operation with a focus on cost efficiency, ING Direct invests with a view to minimise credit risk, while ensuring sufficient liquidity. Hence, ING Direct accumulates highly rated debt securities with minimal credit risk thereby capitalising on its economies of scale.

At ING Direct, the investment policies define eligible product types, minimum ratings, maximum tenors and exposure caps, both at issuer level as well as for portfolios. Under Basel III most Securitisations no longer qualify as high quality liquid assets for the liquidity buffer and are hence no longer eligible assets under the investment policies. The ING Direct units no longer invest in Securitisations and have not been investing in Securitisations during 2011. The dominant product classes in the existing investment portfolio are Government Bonds, Covered Bonds, Agency RMBS, RMBS and Senior Unsecured Debt. Prior to purchase, each investment proposal from a Treasury Centre is analysed by Credit Risk Management and decided upon by authorised mandate holders pursuant to the signatory approval process in place at ING Bank. In 2011, ING Direct did not purchase any new ABS or MBS, other than Agency MBS.

Current Securitisation Exposures

The following table gives the break down of current 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.

Current exposures per risk weight band (ING Bank as Investor)		
	2011	2010
Risk weight band 1 <= 10%	**11.888**	19.607
Risk weight band 2 >10% and <= 18%	**16.680**	13.761
Risk weight band 3 >18% and <= 35%	**2.053**	1.029
Risk weight band 4 >35% and <= 75%	**143**	343
Risk weight band 5 >75% and <1250%	**2.408**	2.371
Risk weight 1250%	**547**	353
Total	**33.719**	37.464

ING Bank as Originator

ING Bank originates own securitisation transactions for economic and regulatory capital purposes, as well as liquidity and funding purposes.

- **Economic and Regulatory Capital** - Seven synthetic securitisations of mortgages, small and medium enterprise (SME) and corporate exposures have been issued since ING Bank began actively undertaking the securitisation of its own assets in 2003. Upon the closer alignment of transfer and regulatory capital solvency rules at year end 2007, the most senior tranches of ING Bank's own securitisations have been called and are now retained by ING Bank. Except for Memphis 2005, ING Bank has also hedged the first loss tranches in 2009. The mezzanine tranches are still transferred to third parties.

  The first transactions (Moon and Memphis 2003) were repaid in 2008 with no loss for the investors. Mars 2004 repaid in 2009 with no loss to investors either. As of 31 December 2011, four transactions totalling approximately EUR 11.7 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 are used to obtain funding and improve liquidity. To be eligible as collateral for central banks securitised exposures must be sold to a Special Purpose Vehicle (SPV) which, in turn, issues securitisation notes ('traditional securitisations') in two tranches, one subordinated tranche and one senior tranche, rated AAA by a rating agency. The AAA tranche can then be used by ING Bank as collateral in the money market for secured borrowings.

  ING Bank has created a number of these securitisations with a 31 December 2011 position of approximately EUR 101.4 billion of AAA rated notes and unrated subordinated notes. The underlying exposures are residential mortgages in the Netherlands, Germany, Belgium, Spain, Italy and Australia.

  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.

Exposures securitised						
2011	**Cut-off Date**	**Initial Pool**	**Outstan-dings**	**Credit Events**	**Past due Assets**	**Losses**
Residential Mortgages						
Memphis 2005	31-Oct-11	**3.000**	**2.403**	**2**	**50**	**1**
Memphis 2006	31-Oct-11	**4.000**	**3.904**	**12**	**196**	**7**
		7.000	**6.307**			
SME						
Mars 2006	30-Sep-11	**4.500**	**4.354**	**25**	**31**	**13**
BEL SME 2006	30-Nov-11	**2.500**	**1.043**	**15**	**5**	**3**
Total		**7.000**	**5.397**			

Exposures securitised						
2010	Cut-off Date	Initial Pool	Outstan-dings	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			

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 Bank'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 Bank’s own assets include the most senior tranches and the equity piece (first loss) of Memphis 2005. Economically, on a total of about EUR 11.7 billion underlying exposures in the four transactions mentioned above, ING Bank has retained approximately EUR 7.4 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 treated for RWA purposes as if it was not securitised.

ING Bank as Sponsor

In the normal course of business, ING Bank structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients’ receivables or other financial assets to an SPV. The transactions are funded by the ING Bank administered multi seller Asset Backed Commercial Paper (ABCP) conduit Mont Blanc Capital Corp. (rated A-1/P-1). Despite the conditions in the international money markets Mont Blanc Capital Corp. continues to fund itself externally in the ABCP markets.

In its role as administrative agent, ING Bank facilitates these transactions by providing structuring, accounting, funding and operations services. ING Bank also provides support facilities (liquidity and program wide enhancement) backing the transactions funded by the conduit.

The types of asset currently in the Mont Blanc Conduit include trade receivables, consumer finance receivables, credit card receivables, auto loans and RMBS.

Exposures Securitised as Sponsor

The total liquidity facilities, including programme wide enhancements, provided to the Mont Blanc conduit are EUR 3,607 million. The total drawn liquidity amount as of 31 December 2011 is EUR 327 million.

Securitisation in the trading book

Per 31 December 2011 there are no securitisation exposures in the trading portfolio.

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 2011 is EUR 2.046 million (2010: EUR 1.727 million).

ING GROUP RISK MANAGEMENT

Taking measured risks is part of ING Group's business. As a financial services company active in banking, investments, life and non-life insurance and retirement services, ING Group is naturally exposed to a variety of risks.
To ensure measured risk-taking throughout the organisation, ING Group operates through a comprehensive risk management framework, integrated risk management in its daily business activities and strategic planning. This ensures the identification, measurement and control of risks at all levels of the organisation so that ING Group's financial strength is safeguarded.

Risk Management assists the various management boards 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, 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.

ING has completed the divestment of its Latin American pensions, life insurance and investment management operations. This transaction is the first major step in the divestment of ING's insurance and investment management activities.

Both ING Bank and ING Insurance need to prepare for significant changes in the regulatory requirements. For ING Bank the most important one is the implementation of Basel III, while ING Insurance runs an extensive program to allow the implementation of Solvency II (which is the fundamental reform of European insurance solvency and risk governance legislation; announced to be effective as of 1 January 2013 but delays in legislation imply that it will not be effective before 1 January 2014). Additionally, both in Bank and Insurance, ING continued its stress testing efforts, with stress testing becoming more important and more embedded in the risk culture.

MISSION AND OBJECTIVES

The mission of ING Group's risk management function is to 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; and
- Transparent communication to internal and external stakeholders on risk management.

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.

GROUP RISK MANAGEMENT FUNCTION

The ING Group CRO is supported by the Risk functions of ING Group and by the Group functions Corporate Legal and the Functional Controller Insurance. As a result of the decision to manage ING Bank and ING Insurance separately, ING Group Chief Risk Office has delegated day-to-day Risk Management within ING Bank, ING Insurance Eurasia and ING Insurance US to the respective (deputy) CROs. The Risk functions of ING Group have been delegated to the CRO of ING Bank.

Further details on the Risk Governance and Risk Profile in the three entities, is given in the following sections.

ING Group uses an integrated risk management approach for both its banking activities and for its Insurance activities. With the operational separation of ING Bank and ING Insurance, the focus of ING's risk management practices is now located in the bank and insurance companies. The remainder of this risk paragraph discusses these practices for ING Group, ING Bank, ING Insurance Eurasia and ING Insurance US respectively.
Risk 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.

RISK DEVELOPMENTS IN 2011

During 2011, ING continued to actively deleverage and de-risk its balance sheet. The ING Group bond portfolio decreased from EUR 294.5 billion at year-end 2010 to EUR 263.5 billion at year-end of 2011, excluding ING Direct USA. The size of the ING Direct USA bond portfolio is EUR 23.0 billion. The change is mainly caused by changes in the government, financial institutions and ABS and CMBS bond portfolio.

The debt securities revaluation reserve after tax, excluding ING Direct USA, improved in 2011 to EUR 5.743 million compared to EUR 1.620 million in 2010, due to interest rates developments and the spread widening that took place during 2011 as a result of the debt crisis in Europe. More details on the Investments can be found in Note 4 'Investments' of the Annual Accounts.

ABS portfolio

The RMBS and ABS portfolio changed from EUR 51.2 billion at year-end 2010 to 31.5 billion, excluding ING Direct USA. The RMBS and ABS exposure of ING Direct USA is EUR 15.0 billion ING Group continued to manage its asset-backed securities (ABS) portfolio downwards in 2011 and reduced the exposure on the ABS portfolio. With the sale of ING Direct USA, the ING Group exposure to ABS is drastically reduced and going forward we will not report them as pressurised assets in our financial reporting. The revaluation reserve on the ABS portfolio deteriorated and is still negative. ING Group still recognised further impairments of EUR 203 million, though for a smaller amount than in the previous year (2010: EUR 541 million). Further details are included in Note 4 'Investments' of the Annual Accounts.

Greece, Italy, Ireland, Portugal and Spain

In the first half of 2010 concerns arose regarding the creditworthiness of several southern European countries, which later spread to a few other European countries. As a result of these concerns the fair value of sovereign debt decreased and those exposures were being monitored more closely. With regard to troubled European countries, ING's main focus is on Greece, Italy, Ireland, Portugal and Spain as these countries have either applied for support from the European Financial Stability Fund ('EFSF') or receive support from the ECB via government bond purchases in the secondary market. Within these countries, ING's main focus is on exposure to Government bonds and Unsecured Financial institutions' bonds. Further details are included in Note 4 'Investments'.

The table below provides information on ING's risk exposure with regard to Greece, Italy, Ireland, Portugal and Spain. Unless otherwise indicated, the amounts represent risk exposure values and exposures are included based on the country of residence. CDS exposures in all countries are mostly to financial institutions.

Risk management in 2011

Greece, Italy, Ireland, Portugal and Spain - Total risk exposures [1) 2) 5)]						
2011	**Greece**	**Italy**	**Ireland**	**Portugal**	**Spain**	**Total**
Residential mortgages and other consumer lending	14	7.027	4	3	9.176	**16.224**
Corporate Lending	307	9.156	575	996	7.131	**18.165**
Financial Institutions Lending	6	853	135	139	2.038	**3.171**
Government Lending	0	195	0	0	55	**250**
Total Lending	**327**	**17.231**	**714**	**1.138**	**18.400**	**37.810**
RMBS	**96**	**1.313**	**1.603**	**245**	**4.131**	**7.388**
CMBS	**0**	**0**	**310**	**0**	**0**	**310**
Other ABS	**0**	**400**	**467**	**0**	**169**	**1.036**
Corporate Bonds	**0**	**495**	**346**	**68**	**475**	**1.384**
Covered Bonds	**0**	**236**	**350**	**0**	**16.835**	**17.421**
Financial institutions Bonds (unsecured)	**0**	**819**	**291**	**336**	**396**	**1.842**
Government Bonds	**254**	**2.557**	**54**	**809**	**1.508**	**5.182**
Total Debt Securities	**350**	**5.820**	**3.421**	**1.458**	**23.514**	**34.563**
Trading[3)]	**-5**	**519**	**40**	**11**	**316**	**881**
Real Estate[4)]	**36**	**496**	**0**	**319**	**632**	**1.483**
Off balance (Undrawn committed facilities)	**411**	**1.229**	**523**	**140**	**2.302**	**4.605**
Credit protection (CDS)						
Credit protection bought (notional)	**112**	**640**	**131**	**43**	**479**	**1.405**
Credit protection sold (notional)	**107**	**617**	**136**	**43**	**530**	**1.433**
Net CDS positions	**5**	**23**	**-5**	**0**	**-51**	**-28**

(1) The exposures reported are credit, market and real estate exposures based on source systems and measurement criteria that can differ from those of similar exposures reported in Note 4 'Investments' of the Annual Accounts.
(2) More information on the risk management definitions and practices can be found in the remainder of this section.
(3) Trading exposure also includes netted CDS exposure, of which details are provided at the bottom of this table.
(4) Real Estate includes Real Estate Development, Real Estate Investments and Property in Own Use; it does not include (indirect) exposure through Real Estate Finance, which is reflected in Total Lending and Total Debt Securities.
(5) These are Group risk exposures of which the Insurance component is netted for impairments, as well as Bank Greek Government exposure.

Greece

Total Lending exposure is reported in the Balance sheet at amortised cost. Cumulative provisions/impairments recognised on lending exposures amount to approximately EUR 1 million.
Debt securities - RMBS are reported in the balance sheet at amortised cost. Debt securities - Government bonds are reported in the balance sheet at fair value (available-for-sale). Cumulative provisions/impairments recognised on debt securities amount to EUR 978 million and fully relate to government bonds.
ING Bank does not have a bank operation in Greece but does serve a limited number of mostly international companies which have their domicile in Greece. Many of these companies are dependant on cash flows that are based outside Greece. ING Insurance Eurasia has direct Greek exposure given the presence of the Greek based insurance entity.

Italy

Total Lending exposure is reported in the balance sheet at amortised cost. Cumulative provisions/impairments recognised on lending exposures amount to approximately EUR 113 million.
Debt securities – RMBS and Other ABS are largely reported in the balance sheet at amortised cost. Other debt securities are reported in the balance sheet at fair value (available-for-sale). No significant provisions/impairments have been recognised. ING Bank does not have a bank operation in Italy but does serve a limited number of mostly international companies which have their domicile in Italy. Many of these companies are dependant on cash flows that are based outside Italy.
ING Insurance Eurasia has direct Italian exposure given the presence of the Italian based insurance entity.

Ireland

Total Lending exposure is reported in the balance sheet at amortised cost. No provisions/impairments have been recognised.
Approximately 80% of Total Debt securities is reported in the balance sheet at amortised cost. Approximately 20% is reported in the balance sheet at fair value (available-for-sale). Cumulative provisions/impairments recognised on debt securities amount to EUR 270 million and relate to subordinated debt from Irish banks (EUR 189 million), RMBS (EUR 2 million) and Other ABS (EUR 88 million).
In addition to the above exposures on Ireland, ING Insurance has Irish reinsurance exposure of EUR 1.345 million. This mainly includes reinsurance through an Irish subsidiary of a large European Reinsurance group.

Portugal
Total Lending exposure is reported in the balance sheet at amortised cost. Cumulative provisions/impairments recognised on lending exposures amount to approximately EUR 7 million.
Debt securities – RMBS are largely reported in the balance sheet at amortised cost. Other debt securities are reported in the balance sheet at fair value (available-for-sale). Cumulative provisions/impairments recognised are less than EUR 1 million.

Spain
Total Lending exposure is reported in the balance sheet at amortised cost. Cumulative provisions/impairments recognised on lending exposures amount to approximately EUR 351 million, of which EUR 319 million relates to Corporate lending and EUR 32 million relates to Residential mortgages and other consumer lending.
Debt securities – RMBS, Other ABS and Covered bonds are largely reported in the balance sheet at amortised cost. Other debt securities are reported in the balance sheet largely at fair value (available-for-sale). No significant provisions/impairments have been recognised.
Debt securities – Covered bonds are backed by mortgage collateral. From the total exposure of EUR 16.8 billion, EUR 14.9 billion is reported in the balance sheet at amortised cost (EUR 11.0 billion Loans and EUR 3.9 billion Held-to-maturity) and EUR 1.9 billion is reported in the balance sheet at fair value (Available-for-sale). No significant provisions/impairments have been recognised. Almost the entire portfolio is investment grade.

Derivatives
In these countries, ING Bank has limited derivative exposure and largely enters derivative transactions to help clients reduce exposure to interest and currency movements. Many of these transactions are covered either via CSA agreements or as part of the collateral of the underlying financing. The key credit risk ING Bank faces in these derivative transactions is movements in markets creating an uncollateralised exposure to a counterparty or that the collateral is not sufficient. ING monitors these mark to market movements on a daily basis. At December 31, 2011 ING Bank had no material, uncollateralised exposure to counterparties in these countries.

ING Insurance does not have material derivatives exposures in these countries.

Monitoring exposures and Current developments
The problems in the Eurozone have been a top priority for risk management throughout 2011, and will continue to be a top priority in 2012. ING closely monitors the exposures in debt securities, lending and credit derivatives in the involved countries, and regularly assesses whether the positions still fit with its risk appetite. This assessment is supported by internal stress tests.

Throughout 2011 ING has reduced its positions in especially government bonds for some of the weaker countries as a result of these risk analyses.

Several European countries have been downgraded but there have also been some positive developments related to the Eurozone crisis. Financial markets rallied due to amongst others the Long-term Refinancing Operations from the ECB and better than expected economic data. Credit spreads for some of the involved countries tightened significantly. Furthermore, a new Greek bail-out plan was approved in February 2012.

Nevertheless, despite these positive signs the Eurozone is not yet out of the doldrums, as many of the fundamental problems still remain. There is no guarantee that the weaker countries will succeed in making their economies more competitive, which is a prerequisite for long-term debt sustainability. Risks and concerns about the debt crisis in Europe, as well as the possible exit from the Eurozone of one or more European states and/or the replacement of the Euro by one or more successor currencies, could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these European countries and the financial condition of European financial institutions, including ING.

On 21 February 2012 a new common understanding on key terms of a voluntary exchange of privately held Greek government bonds was reached. The programme is expected to be implemented in March 2012 and did not have an impact on the 2011 results.

Liquidity risk
Under the volatile market circumstances in 2011, funding and liquidity risk remains an important topic on the agenda of senior management and Asset and Liability Committee Bank (ALCO), that requires continuous monitoring and management. External market and regulatory developments and internal financial developments are closely monitored. Regular stress testing and measurement of early warning indicators are, among others, used to provide additional management information. In 2011 the funding and liquidity risk appetite were updated. The appetite statement is set and allocated throughout ING Bank. In addition, funding and liquidity usage is steered by means of funds transfer pricing thus embedding funding and liquidity risk management in the total organisation. ING Group continued to maintain its liquidity position within conservative internal targets.

In 2011, new frameworks for the funding and liquidity risk management as well as the organisational Assets and Liability Management (ALM) that reflects the evolved importance of funding and liquidity risk was developed. Both of these frameworks will be implemented in 2012.

ING Insurance defines different levels of Liquidity Management; short-term liquidity or cash management, long-term liquidity management, and stress liquidity management. Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios.

Like to most insurance companies, in normal circumstances liquidity risk is quite remote to ING Insurance. Also under the current challenging market circumstances ING insurance liquidity position is comfortable.

ING BANK

To ensure measured risk-taking throughout the organisation, ING Bank 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 Bank's financial strength is safeguarded.

ING Bank uses risk assessment and 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 compliance with business and regulatory requirements, via a clear assignment of responsibility and accountability.

Nevertheless, 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 Bank continues to develop, recalibrate and refine the various models that support risk metrics, which may result in changes to the risk metrics as disclosed.

MISSION AND OBJECTIVES

The mission of ING Bank'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 Bank'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 Bank's risk profile is transparent, managed to avoid surprises, and is consistent with delegated authorities;
- Delegated authorities are consistent with the overall Bank strategy and risk appetite; and
- Transparent communication to internal and external stakeholders on risk management and value creation.

Risk Management benefits ING Bank 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 Bank's businesses more competitive in their markets.

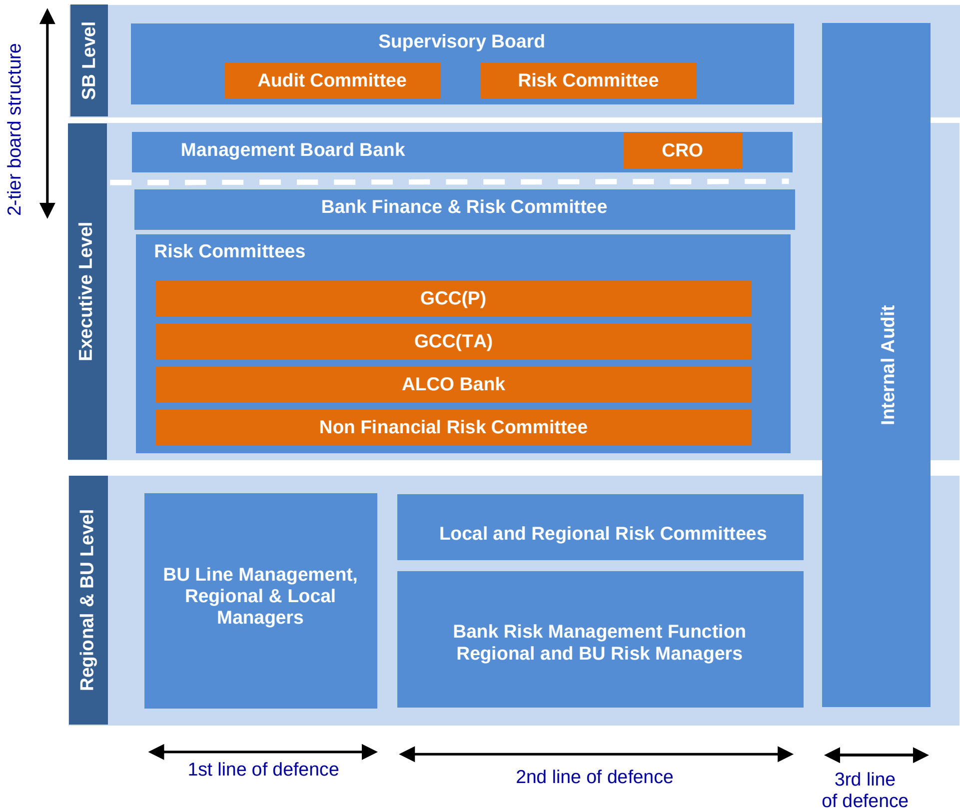
ING BANK RISK GOVERNANCE

ING Bank'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 Board Bank (and ratified by the Supervisory Board) and is cascaded throughout ING Bank.

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 bank 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.

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.



Board level risk oversight
ING Bank has a two-tier board structure consisting of the Management Board Bank and the Supervisory Board; both tiers play an important role in managing and monitoring the risk management framework.

- The Supervisory Board is responsible for supervising the policy of the Management Board Bank, the general course of affairs of the Company and its business (including its financial policies and corporate structure). For the risk management purposes the Supervisory Board is assisted by two sub-committees:
  - The Audit Committee, which assists the Supervisory Board in reviewing and assessing ING Bank's major risk exposures and the operation of internal risk management and control systems, as well as policies and procedures regarding compliance with applicable laws and regulations; and
  - The Risk Committee, which assists the Supervisory Board on matters related to risk governance, risk policies and risk appetite setting.
- The Management Board Bank (MBB) is responsible for managing risks associated with the activities of ING Bank. The MBB's responsibilities include ensuring that internal risk management and control systems are effective and that ING Bank complies with relevant legislation and regulations. On a regular basis, the MBB reports on these issues and discusses the internal risk management and control systems with the Supervisory Board. On a quarterly basis, the MBB reports on the Bank's risk profile versus its risk appetite to the Audit Committee, explaining changes in the risk profile.

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

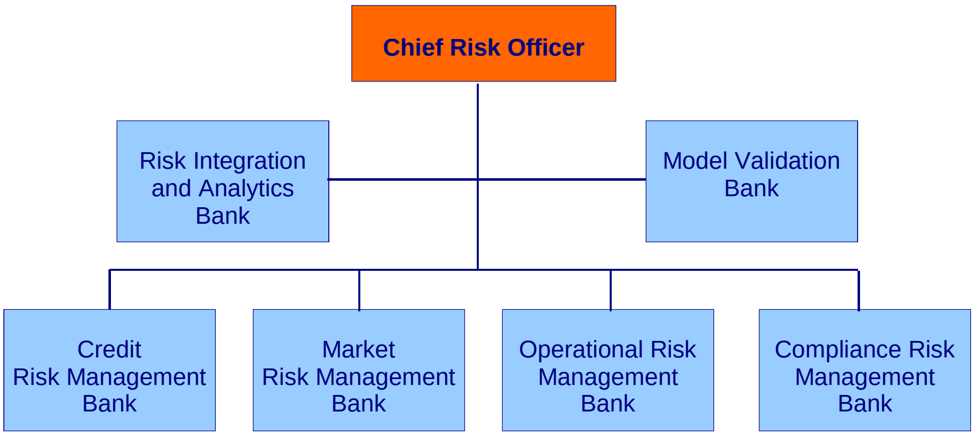
As part of the integration of risk management into the annual strategic planning process, the MBB issues a Planning Letter which provides the organisation with the corporate strategic direction, and addresses key risk issues. Based on the Planning Letter, the business lines and business units develop their business plans which align with the Bank's strategic direction. The process includes a qualitative and quantitative assessment of the risks involved. As part of the process strategic limits and risk appetite levels are explicitly discussed. Based on the business plans, the Management Board Bank formulates the Strategic Plan which is submitted to the Supervisory Board for approval.

Executive Level
The risk committees described below act within the overall risk policy and delegated authorities granted by the Management Board Bank:

- The Finance and Risk Committee (F&RC) is a platform for the CRO and the Chief Financial Officer (CFO), along with their respective direct reports, to discuss and decide on issues that relate to both the finance and risk domains. The primary responsibility of the F&RC is to co-ordinate, on a high level, the finance and risk decisions that have an impact on internal and/or external reporting;
- ING Bank Credit Committee – Policy (GCC(P)): Discusses and approves policies, methodologies and procedures related to credit, country and reputation risks within ING Bank. The GCC(P) meets on a monthly basis;
- ING Bank Credit Committee – Transaction Approval (GCC(TA)): Discusses and approves transactions which entail taking credit risk (including issuer investment risk). The GCC(TA) meets twice a week;
- Asset and Liability Committee ING Bank (ALCO Bank): Discusses and approves on a monthly basis the overall risk profile of all ING Bank's market risks that occur in its Commercial Banking and Retail & Direct Banking activities. ALCO Bank defines the policy regarding funding, liquidity, interest rate mismatch and solvency for ING Bank; and
- Non Financial Risk Committee Bank (NFRC Bank): Accountable for the design and maintenance of the Risk Management Framework including the ORM, Compliance and Legal policies, minimum standards, procedures and guidelines; the NFRC structure; development of tools, methods and key parameters (incl. major changes) for risk identification, measurement and monitoring/ reporting.

Risk Management Function
The risk management function is embedded in all levels of ING Bank organisation.
The Chief Risk Officer, who is a MBB member, bears primary overall responsibility for the Risk management function. The CRO is responsible for the management and control of risk on a consolidated level to ensure that ING Bank's risk profile is consistent with its financial resources and the risk appetite. The CRO is also responsible for establishing and maintaining a robust organisational basis for the management of risk throughout the organisation.

The organisation chart below illustrates the functional reporting lines within ING Bank risk organisation.



The heads of these departments (Risk General Managers) report to the CRO and bear direct responsibility for risk (mitigating) decisions at the Bank level. The Risk General Managers and the CRO are responsible for the harmonisation and standardisation of risk management practices.

From December 2011, the reporting lines have been changed. As of then the CCO reports to the new appointed Head of Non-Financial Risk ING Bank who in his turn reports to the Chief Risk Officer.

In addition two staff departments report to the CRO:

- Risk Integration and Analytics (RI&A), which is responsible for inter-risk aggregation processes and for providing bank-wide risk information to the CRO and Management Board Bank; and
- Model Validation (MV), which carries out periodic validations of all material risk models used by ING Bank. To ensure independence from the business and other risk departments, the department head reports directly to the CRO.

Risk policies
ING Bank has a framework of risk management policies, procedures and standards in place to create consistency throughout the organisation, and to define minimum requirements that are binding to all business units. The governance framework of the business units aligns with the Bank's level framework and meets local (regulatory) requirements. Senior Management is responsible to ensure policies, procedures and standards are implemented and adhered to. Policies, procedures and standards are regularly reviewed and updated via the relevant risk committees to reflect changes in markets, products and emerging best practices.

ING BANK RISK PROFILE

ING Bank 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.

Nevertheless, 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 Bank continues to develop, recalibrate and refine the various models that support risk metrics, which may result in changes to the risk metrics as disclosed.

Risk types

ING Bank 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 Bank's debtors (including bond issuers) or trading counterparties;
- Market risk: the risk of potential loss due to adverse movements in market variables. Market risks include interest rate, equity, real estate, implied volatility, credit spread, and foreign exchange risks;
- Liquidity risk: the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions;
- 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;
- Compliance risk: is the risk of impairment of ING Bank's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, ING Bank policies and standards as in ING Bank Business Principles; and
- 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.

ING Bank Risk Appetite Framework

ING Bank uses an integrated risk management approach for its banking activities. The MBB uses the risk appetite frameworks to monitor and manage the actual risk profile in relation to the risk appetite, which is derived from ING Bank rating ambition to be in the range of AA rating. It enables the MBB to identify possible risk concentrations and to support strategic decision making. The risk appetite level is reported to the MBB on a quarterly basis and is subsequently presented to the Risk Committee.

The overall risk appetite is translated into specific limits which are cascaded down into the organisation, e.g.

- Credit risk limits;
- ALM/Value at Risk limits; and
- Liquidity risk limits.

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

ING Bank is engaged in selling a broad range of products, from which financial risks arise managed by the Credit and Market Risk departments. Operational (non-financial) risks are managed by the Operational Risk department.

Financial Risks

For financial risks, ING Bank 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 Bank 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 than the identified segments in Note 51 'Operating 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 (including ING Real Estate); and
- Bank Corporate Line coincides with the Corporate Line.

Non-Financial Risks

Policy implementation

To ensure robust non-financial risk management, ING Bank monitors the implementation of ING Bank's Risk Policies and Minimum Standards. Business units have to demonstrate that the appropriate steps have been taken to control their operational, compliance and legal risks. ING Bank applies scorecards to measure the quality of the internal controls within a business unit. Scoring is based on the ability to demonstrate that the required risk management processes are in place and effective within the business units.

Non-Financial Risk Dashboard

The Non-Financial Risk Dashboard (NFRD) is a report that is a fixed item on the agenda for the meetings of the MBB and the Risk Committee. NFRD provides management at all organisational levels with information on their key operational, compliance and legal Risks. NFRD is based on their risk tolerance within their business and a clear description of the risks and responses enabling management to prioritise and to manage operational, compliance and legal risks**.**

ING BANK ECONOMIC CAPITAL

Model Disclosure

This model disclosure section explains the methodologies and models used to determine Economic Capital (EC) the disclosed metrics. The risk models for the EC calculations are reviewed on a periodic basis and validated by the internal Model Validation department. The Economic Capital calculation is also used as part of the Basel II Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) that is performed regularly by the Dutch Central Bank.

Economic Capital is defined as the amount of capital that a transaction or business unit requires in order to support the economic risks it takes. In general EC is measured as the unexpected loss above the expected loss at a given confidence level. This Economic Capital definition is in line with the net market value (or surplus) definition. The process of EC modelling enables ING Bank to allocate Economic Capital to the business units and support risk-adjusted performance measurement (RAROC). The use of RAROC increases focus on risks versus rewards in the decision making process, and consequently stimulates the use of scarce capital in the most efficient way.

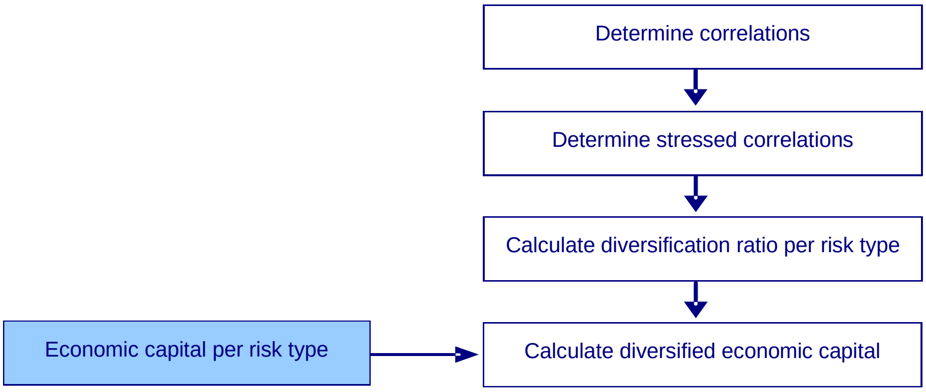
The following fundamental principles and definitions have been established for the model:

- ING Bank uses a one-sided confidence level of 99.95% - consistent with ING's target debt rating (AA) - and a one-year time horizon to calculate EC;
- It is assumed that all currently known measurable sources of risk are included;
- The best estimate risk assumptions are as objective as possible and based on proper analysis of statistical data. There is one set of best-estimate assumptions for each risk type to be used at ING Bank;
- The EC calculation is based on fair value principles. Where complete and efficient markets exist, fair value is equal to market value;
- The EC calculations reflect known embedded options and the influence of client behaviour in banking products;
- The EC calculations are on a pre-tax basis and do not consider the effect of regulatory accounting and solvency requirements on capital levels; and
- The framework does not include any franchise value of the business, discretionary management intervention or future business volumes and margins.

Specific measurement by risk type is described in greater detail in the separate risk type sections.

Aggregation model

The main processes executed in ING Bank Economic Capital aggregation model are depicted in the flowchart below. The white boxes show the processes performed by the model while the shaded box indicates inputs from other risk departments.



Correlation factors between risk types used for diversification are based on best estimate assumptions supported by statistical analysis of historical data, ING Bank risk expert judgement, external benchmark studies and common logic. As shown in the flow-chart, the correlation factors are stressed upwards where necessary to account for potential measurement inaccuracy in extreme events due to limited historic data observations. Expert opinion is used for aggregating business and operational risk.

The Economic Capital for ING Bank involves the aggregation of the underlying EC of five risk types, namely credit, transfer, market, operational and business risks. Model disclosures are given in the respective risk sections. These risk types are aggregated to provide a total diversified ING Bank Economic Capital by applying the variance-covariance approach with a 5 x 5 inter-risk correlation matrix.

For allocation of Economic Capital to units and products, diversification factors are calculated for each risk type. These factors are applied consistently throughout ING Bank. The level of diversification benefit is dependent on both the inter-risk correlations as well as the relative size of the undiversified EC exposure for each risk type.

Reporting Framework

For each business unit and product line, the gross Economic Capital for each risk type is delivered. The net Economic Capital figures are calculated by taking the product of the gross EC and one minus the diversification factor. Total Economic Capital is calculated as the sum of the net EC for each risk type at all reporting levels.

ING Bank Economic Capital and Regulatory Capital

Main risk management tools for ING Bank are Economic Capital (EC) and Regulatory Capital (RC). Both of these Capital metrics are used to determine the amount of capital that a transaction or business unit requires to support the economic risks it faces. RC is driven by methodologies prescribed by regulators whereas EC is driven by internally developed models (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. The EC figures shown reflect all diversification effects within ING Bank, including risk reduction between the risk categories; while for RC no diversification is taken into account. In 2010, Credit Risk Regulatory Capital still included Transfer Risk for an amount of EUR 202 million. Economic Capital is including Transfer Risk both in 2011 and 2010.

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

	Economic Capital		Regulatory Capital	
	2011	2010	**2011**	2010
Credit risk	**14.365**	15.245	**22.474**	22.452
Market risk	**8.262**	7.233	**1.124**	364
Business Risk	**2.448**	2.435		
Operational Risk	**1.683**	1.619	**2.836**	2.872
Total banking operations	**26.758**	26.532	**26.434**	25.688

Economic Capital (Bank diversified only) by business line combination

	Economic Capital		Regulatory Capital	
	2011	2010	**2011**	2010
Commercial Banking	**9.726**	10.695	**11.615**	11.395
Retail Banking Benelux	**4.445**	4.613	**5.552**	5.498
Retail Banking Direct & International	**9.475**	8.881	**8.783**	8.587
Corporate Line Bank (1)	**3.112**	2.343	**484**	208
Total banking operations	**26.758**	26.532	**26.434**	25.688

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

Differences between RC and EC are mainly due to:

- The credit risk EC is lower than RC. Economic Capital (EC) is defined as ING's own methodology for credit risk. It is the amount of capital that is needed at a minimum to cover for Unexpected Losses within a certain confidence level and a certain time horizon;
- The market risk Economic Capital is higher than the Regulatory Capital primarily due to the inclusion of the interest rate risk banking books in Economic Capital. The market risk RC includes a stressed VaR charge, while EC does not; the EC figures take the diversification across risk types into account;
- The EC figures include Business risk, while RC does not ; and

- A 99.95% confidence level is used for EC, while the confidence level is 99.9% for RC. Correcting for the difference in confidence level will lead to an EC figure that is lower than the RC figure.

Excluding ING Direct USA, the total EC would be EUR 25 billion and the total RC would be EUR 24.2 billion.

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. In 2011 the funding and liquidity risk statements have been updated.

ONGOING CHANGES IN THE REGULATORY ENVIRONMENT

After the turmoil in the financial markets over the last couple of years and the need for governments to provide aid to financial institutions, financial institutions have been under more scrutiny from the public, supervisors and regulators. The resulting revised regulations are intended to ensure that a crisis in the financial system can be avoided in the future.
To accomplish this, regulations focus primarily at the following issues:

- More stringently aligning risk taking with the capital position of financial institutions (Basel III proposal). The Basel III 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 difficult financial times when it is most scarce. Lastly, there is a proposal to introduce additional capital requirements for counterparty credit risk. In addition, the Basel Committee and Financial Stability Board (FSB) are currently considering measures that may have the effect of requiring higher loss absorbency capacity, liquidity surcharges, exposure limits and special resolution regimes for "systemically important financial institutions" (SIFIs) and so-called "Global" SIFIs (G-SIFI). 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 have on their holding companies. In the absence of a supranational harmonisation this leads to so-called trapped pools of liquidity, i.e. excess liquidity in a country that can not merely be transferred (unsecured) to a central treasury in another country.

ING BANK CREDIT RISK

ING Bank Credit Risk Management

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. Additionally a sixth category is determined: country risk, which can include or relate to the earlier mentioned other five risk categories.

Governance

Credit Risk Management (CRM) is responsible for the measurement and management of credit risk incurred by all ING Bank entities, including country-related risks. CRM is organised along the business lines of ING Bank. The CRM General Manager is functionally responsible for the global network of credit risk staff, and the heads of the credit risk management functions for the business lines 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. CRM creates consistency throughout the credit risk organisation by providing common credit risk policies, methodologies, manuals and tools across the Bank.

ING Bank's credit policy is to maintain an internationally diversified loan and bond portfolio, while avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of 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. Sophisticated RAROC-based tools are used internally to ensure a proper balance of risk and reward within the portfolio and concentration parameters. ING Bank's credit analysts make use of publicly available information in combination with in-house analysis based on information provided by the customer, peer group comparisons, industry comparisons and other quantitative techniques.

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'.

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

Model Disclosure: ING Bank Economic Capital for Credit and Transfer Risk
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.

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 Bank 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 Bank 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.

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 Bank'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.

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

	Economic Capital		Regulatory Capital	
	2011	2010	**2011**	2010
Credit risk	**14.365**	15.245	**22.473**	22.452

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.

ING Bank Risk categories for credit risk

Lending risk

Lending risk arises when ING Bank 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 Bank, 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 Bank's investments in bonds, commercial paper, securitisations, and other similar publicly traded securities. Investment risk arises when ING Bank 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 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.

Money market risk

Money market risk arises when ING Bank places short-term deposits with a counterparty in order to manage excess liquidity, as such, money market deposits tend to be short-term in nature (1-7 days is common). In the event of a counterparty default, ING Bank 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 Bank has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk (potential or expected risk) is the cost of ING Bank replacing a trade in the market. This credit risk category is associated with dealing room products such as options, swaps, and securities financing transactions. Where there is a mutual exchange of value, the amount of credit risk outstanding is generally based on the replacement value (mark-to-market) plus a potential future volatility concept, using a 3-7 year historical time horizon and a 97.5% (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 Bank has paid or delivered its side of the trade. The risk is that ING Bank 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 Bank 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 Bank 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 Bank 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 Bank or its counterparties to meet their respective foreign currency obligations due to a specific country event.

In countries where ING Bank 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 Bank'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 Bank 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 Bank. ING Bank uses different credit risk mitigation techniques, of which entering into Master Agreements, Collateral Agreements and CDS contracts are the main techniques used.

Compensation and master agreements

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

ING Bank matches trades with similar characteristics to determine their eligibility for offsetting. This offsetting effect is called 'compensation'. Subsequently, ING Bank reduces the amount by any legal netting that may be permitted under various types of Master Agreements, such as ISDAs, GMRAs, GMSLAs, etc. Lastly, the amount is further reduced by any collateral that is held by ING Bank under CSAs or other similar agreements.

Collateral policies

During the assessment process of creating new loans, trading limits, or making investments, as well as reviewing existing loans trading positions and investments, ING Bank determines the amount and type of collateral, if any, that a customer may be required to pledge to ING Bank. Generally, the lower the perceived creditworthiness of a borrower or financial counterparty, the more collateral the customer or counterparty will have to provide. Within counterparty trading activities, ING Bank actively enters into various legal arrangements whereby ING Bank and/or counterparties may have to post collateral to one another to cover market fluctuations of their relative positions. Laws in various jurisdictions also affect the type and amount of collateral that ING Bank can receive or pledge. The type of collateral which is held as security is determined by the structure of the loan or position. Consequently, since ING Bank's portfolio is diversified, the profile of collateral it receives is also diversified in nature and does not reflect any particular collateral type more than others.

As part of its securities financing business, ING Bank entities actively enter into agreements to sell and buy back marketable securities. These transactions can take many legal forms. Repurchase and reverse repurchase agreements, buy/sellback and sell/buyback agreements, and securities borrowing and lending agreements are the most common. The amount of marketable securities that ING Bank held as collateral under these types of agreements was EUR 74.0 billion at 31 December 2011 and EUR 92.0 billion at 31 December 2010. The decrease is commensurate with the overall decrease in open securities financing trades at year end 2011 compared to year end 2010. These amounts exclude the cash leg of the respective transactions, as well as any pledges of securities under Tri-Party agreements (as the underlying is not directly pledged to or owned by ING Bank). As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or repledged in other (similar) transactions. ING Bank is obliged to return equivalent securities in such cases.

Repossession policy

It is ING Bank's general policy not to take possession of assets of defaulted debtors. Rather, ING Bank attempts to sell the assets from within the legal entity that has pledged these assets to ING Bank, in accordance with the respective collateral or pledge agreements signed with the obligors. In those cases where ING Bank does take possession of the collateral, ING Bank generally attempts to sell the assets as quickly as possible to prospective buyers. Based on internal assessments to determine the highest and quickest return for ING Bank, the sale of repossessed assets could be the sale of the obligor's business as a whole (or at least all of its assets), or the assets could be sold piecemeal. With regard to the various mortgage portfolios, ING Bank often has to take possession of the underlying collateral but also tries to reduce the amount of time until resale.

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.

Credit quality: ING Bank portfolio, outstandings

	2011	2010
Neither past due nor impaired	849.283	822.445
Past due but not impaired (1-90 days) (1)	6.649	5.638
Impaired (2)	13.382	13.779
Total	869.314	841.862

(1) Based on lending (consumer loans and residential mortgages only).
(2) Based on credit risk measurement contained in lending and investment activities.

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	
		2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
1	(AAA)	**3.0%**	3.0%	**0.0%**	0.0%	**9.6%**	14.4%	**4.5%**	6.3%
2-4	(AA)	**19.4%**	14.3%	**4.2%**	4.0%	**16.0%**	12.1%	**13.8%**	10.6%
5-7	(A)	**20.2%**	24.0%	**5.1%**	5.3%	**17.8%**	18.8%	**15.0%**	16.8%
8-10	(BBB)	**23.7%**	22.9%	**42.8%**	42.0%	**29.3%**	28.9%	**31.3%**	30.4%
11-13	(BB)	**21.9%**	22.8%	**37.3%**	37.7%	**15.9%**	15.5%	**24.1%**	24.4%
14-16	(B)	**8.1%**	8.8%	**5.4%**	6.2%	**8.0%**	7.2%	**7.3%**	7.5%
17-22	(CCC & Problem Grade)	**3.7%**	4.2%	**5.2%**	4.8%	**3.4%**	3.1%	**4.0%**	4.0%
		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.
[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.

Within the Lending portfolio, there was an upward shift from the highest end investment grade in 2011 as a result of increased outstandings to local German governments. In the Investment portfolio we saw a reversed trend, from AAA to AA, mainly the result of downgraded exposures linked to sovereigns and also driven by the US dollar appreciation. The investment grade counterparty risks (pre-settlement) did not materially change. Related to these counterparties risks are increasing applications of collateral and netting agreements with these counterparties. Where such agreements are in place the credit risks are lowered due to the benefit of collateral and netting agreements. The increase in the AA bucket for Money Market is directly related to deposits given to central banks.

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

		Lending		Investment		Money Market		Pre-settlement		Total ING Bank	
		2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
1	(AAA)	**1.6%**	0.8%	**18.9%**	30.8%	**1.4%**	1.2%	**2.9%**	3.5%	**4.5%**	6.3%
2-4	(AA)	**5.2%**	6.0%	**38.3%**	25.0%	**71.6%**	22.0%	**17.0%**	18.2%	**13.8%**	10.6%
5-7	(A)	**9.4%**	9.5%	**23.9%**	27.1%	**19.3%**	62.3%	**50.9%**	50.8%	**15.0%**	16.8%
8-10	(BBB)	**37.8%**	36.9%	**13.3%**	12.5%	**2.7%**	6.8%	**18.5%**	17.2%	**31.3%**	30.4%
11-13	(BB)	**31.5%**	32.0%	**2.2%**	2.0%	**4.9%**	7.4%	**8.2%**	7.3%	**24.1%**	24.4%
14-16	(B)	**9.7%**	9.9%	**0.4%**	0.6%	**0.1%**	0.1%	**1.7%**	1.8%	**7.3%**	7.5%
17-22	(CCC & Problem Grade)	**4.8%**	4.9%	**3.0%**	2.0%	**0.0%**	0.2%	**0.8%**	1.2%	**4.0%**	4.0%
		100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

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

Risk concentration

As part of the focus on core clients, ING Bank further reduced its relative exposure to governments and the financial sector while growing the private individual and corporate portfolios. The industry Central Banks was above the threshold of 2.0% in 2011, as a result of the deposits given to various central banks.

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

	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International		Total ING Bank	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Private Individuals	**0.0%**	0.1%	**75.3%**	74.8%	**55.1%**	51.6%	**41.3%**	40.0%
Commercial Banks	**16.2%**	17.9%	**0.2%**	0.3%	**11.1%**	13.2%	**9.8%**	11.2%
Non-Bank Financial Institutions	**10.7%**	13.3%	**1.1%**	1.2%	**14.5%**	16.8%	**9.4%**	11.1%
Central Governments	**10.7%**	11.7%	**0.9%**	1.0%	**6.6%**	8.0%	**6.5%**	7.3%
Real Estate	**13.0%**	13.6%	**4.5%**	4.5%	**0.9%**	0.9%	**6.2%**	6.4%
Central Banks	**9.6%**	4.0%	**0.1%**	0.1%	**3.3%**	1.2%	**4.6%**	1.8%
Natural Resources	**10.9%**	10.3%	**0.4%**	0.4%	**0.4%**	0.4%	**4.1%**	3.9%
Transportation & Logistics	**5.9%**	5.7%	**1.3%**	1.4%	**0.2%**	0.2%	**2.5%**	2.5%
Services	**3.3%**	3.3%	**3.3%**	3.3%	**0.3%**	0.3%	**2.2%**	2.2%
Lower Public Administration	**0.4%**	0.5%	**1.4%**	1.3%	**4.4%**	4.3%	**2.1%**	2.1%
Other	**19.3%**	19.6%	**11.5%**	11.7%	**3.2%**	3.1%	**11.3%**	11.5%
	100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

[1] Based on the total amount of credit risk in the respective column using ING Bank's internal credit risk measurement methodologies.
[2] Economic sectors below 2% are not shown separately but grouped in Other.

ING Bank Lending portfolio
The largest relative geographic area of growth was Belgium, especially in the residential mortgage portfolio. The Americas was the second region in terms of growth which corresponds with the region's economic recovery in 2011. Exchange rate effects had further impact on the regional division.

In line with ING Bank'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, Canadian 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. Excluding ING Direct USA, Retail Banking Direct and International showed a marginal increase, mainly as the result of currency effects.

Largest economic exposures: ING Bank lending portfolio, by geographic area [1]

	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International		Total ING Bank	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Netherlands	**21.3%**	20.7%	**73.8%**	74.8%	**3.5%**	4.8%	**30.7%**	31.2%
Belgium	**8.0%**	7.7%	**24.3%**	23.2%	**0.3%**	0.2%	**10.2%**	9.6%
Rest of Europe	**44.1%**	45.2%	**1.2%**	1.3%	**53.3%**	53.3%	**34.4%**	35.0%
Americas	**14.9%**	14.8%	**0.2%**	0.2%	**27.6%**	26.4%	**15.1%**	14.6%
Asia/Pacific	**11.2%**	11.2%	**0.1%**	0.1%	**15.3%**	15.3%	**9.3%**	9.4%
Rest of World	**0.5%**	0.4%	**0.4%**	0.4%	**0.0%**	0.0%	**0.3%**	0.2%
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.

Credit Covers
At ING Bank, cover is a term which is defined as any security, lien, mortgage, or collateral interest in an asset or guarantee, indemnification or undertaking received (either by contract and/or by law) that is intended to reduce the losses incurred subsequent to an event of default on an obligation (usually financial in nature) a customer may have towards ING Bank. Within ING Bank, covers are subdivided into two distinct groups, called collateral and promises. Reference is made to credit risk management classification as included in the accounting policies for the consolidated annual accounts for a reconciliation between credit risk outstandings categories and financial assets.

Collateral
Collateral is a security interest in assets. If the customer defaults on its promised performance, the asset is given as collateral or security for that obligation is liquidated, such that the proceeds can be applied towards full or partial compensation of the pledgor's (financial) obligation to ING Bank. Assets have monetary value and are generally owned by the person or organisation, which gives them as collateral to ING Bank. An asset may be tangible, like plant & machinery, buildings, bonds, receivables etc. or intangible like patents, copyrights and trademarks.

In the table below the residential mortgage portfolio and the mortgage collateral amount are shown. Please note that the figures shown are based on credit collateral amounts, meaning the market values of these properties after haircuts.

Promises
Promises are defined as a legally binding declaration by persons or organisations that give ING Bank the right to expect and claim from those persons or organisations if ING Bank's customer fails on its obligations to ING Bank. Common examples are guarantees received and letters of credit.

The following tables show the credit risk outstandings and cover values per line of business: Retail Banking (comprising both Benelux, Direct & International) and Commercial Banking. Outstandings for Retail Banking are reported for the most relevant retail product being Residential Mortgages while the remaining outstandings are classified as Other Lending.

Outstandings for Commercial Banking are reported for the most relevant categories being Financial Institutions, Corporates and Governments, while the remaining outstandings are classified as Other. Credit risk outstandings are inclusive of both on balance and off balance sheet outstandings, and of all risk categories.

For each product or category, the cover amounts are then reported for the most relevant collateral categories being Mortgages and Cash, and for the most relevant Promises category being Guarantees. The remaining collaterals and promises are included in the category Other.

Performing Assets – Cover values*** including guarantees received****

	Outstandings*	Mortgages***	Cash	Guarantees**	Other	Total Credit Covers ****
						31 December 2011
Retail						
Residential Mortgages	**336.876**	**538.692**				**538.692**
Other Lending	**13.529**	**3.104**				**3.104**
Total Retail	**350.405**	**541.796**				**541.796**
Commercial						
Financial Institutions	**162.590**	**3.421**	**1.331**	**9.982**	**3.281**	**18.015**
Corporates	**225.848**	**73.916**	**4.819**	**21.642**	**54.161**	**154.538**
Governments	**75.762**	**89**	**12**	**3.365**	**1.373**	**4.839**
Other	**41.327**	**4.274**	**61**	**63**	**242**	**4.640**
Total Commercial	**505.527**	**81.700**	**6.223**	**35.052**	**59.057**	**182.032**
Total	**855.932**	**623.496**	**6.223**	**35.052**	**59.057**	**723.828**

Performing Assets – Cover values*** including guarantees received****

	Outstandings*	Mortgages***	Cash	Guarantees**	Other	Total Credit Covers ****
						31 December 2010
Retail						
Residential Mortgages	315.226	523.195				523.195
Other Lending	12.439	2.787				2.787
Total Retail	327.665	525.982				525.982
Commercial						
Financial Institutions	157.834	4.199	1.119	8.174	3.962	17.454
Corporates	218.554	67.796	4.106	26.490	45.094	143.486
Governments	80.087	62	2	3.401	1.571	5.036
Other	43.943	3.310	65	102	497	3.974
Total Commercial	500.418	75.367	5.292	38.167	51.124	169.950
Total	828.083	601.349	5.292	38.167	51.124	695.932

* Excluding intercompany positions
** Guarantees received can be additional to pledges and not necessarily replace covers
*** The used valuations methods for the underlying covers may vary per cover
**** Credit covers are the sum of all existing covers. Excess cover amounts on specific loans cannot be put in place for loans without covers. Therefore, the figures shown in the table should not be used for netting calculation purposes

The cover tables show a break down of ING Bank's retail and commercial portfolios. The Residential Mortgages portfolio relates to private individuals. The growth in this portfolio was mainly driven by United Kingdom, Germany and Belgium. The Financial Institutions portfolio is comprised of commercial banks, central banks and non-bank financial institutions. The increase in this portfolio was mainly driven by The Netherlands. Corporates range from large enterprises to small and medium sized companies. Governments consist of all governmental layers, from local to national.

Loan-to-Value (LTV)

The LTV ratio relates the total loan amount to the market value of the collateral. The market value is the registered value as adopted from the valuation report of a qualified appraiser or valuer. ING Bank has a team of specialists for the valuation of real estate, which is supplemented with external and desk top valuation. In some countries residential mortgages are covered by governmental or commercial insurers. For example the Nationale Hypotheek Garantie (NHG) in The Netherlands, which guarantees the repayment of a loan in case of a forced property sale. The LTV in The Netherlands is relatively high, but is partially compensated by the NHG guaranteed portfolio and other secondary covers, such as life insurance policies, savings and investment products. The average LTV in the Netherlands is 81% (2010: 80%).

When available, indexation is applied to revaluate the collateral to the present value. In the LTV calculation the following property covers are included: residential and industrial/commercial properties, land and applicable other fixed assets. All other covers are excluded. The ING Bank's total residential mortgage portfolio amounts to EUR 341 billion, making up 39% of the ING Bank's total credit risk outstandings. The average Loan to Value (LTV) of the total residential mortgage portfolio amounts to 75% (2010: 74%).

Problem loans

Past-due obligations

ING Bank continually measures its portfolio in terms of payment arrears. Particularly the retail portfolios are closely monitored on a monthly basis to determine if there are any significant changes in the level of arrears. Generally, an obligation is considered 'past-due' if a payment of interest or principal is more than one day late. In practice, the first 5-7 days after an obligation becomes past due are considered to be operational in nature for retail loans and small businesses portfolios. After this period, letters are sent to the obligor reminding the obligor of its (past due) payment obligations. If the arrear still exists after 90 days, the obligation is transferred to one of the 'problem loan' units. In order to reduce the number of arrears, ING banking units encourage their obligors to set up automatic debits from their (current) accounts to ensure timely payments.

Aging analysis (past due but not impaired): ING Bank portfolio, outstandings [1] [2]

	2011	2010
Past due for 1-30 days	**5.455**	4.565
Past due for 31-60 days	**1.111**	973
Past due for 61-90 days	**83**	100
Total	**6.649**	5.638

[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.

Impaired loans and provisions

The credit portfolio is under constant review. Generally, all loans with past due financial obligations of more than 90 days are automatically reclassified as impaired. For the wholesale lending portfolios and securities obligations, there are generally reasons for declaring a loan impaired prior to being 90 days past due. These include, but are not limited to, ING Bank's assessment of the customer's perceived inability to meet its financial obligations, or the customer filing for bankruptcy or bankruptcy protection. In some cases, a material breach of financial covenants will also trigger a reclassification of a loan to the impaired category. ING Bank identifies as impaired loans those loans for which it is probable, based on current information and events that the principal and interest amounts contractually due will not be collected in accordance with the contractual terms of the loan agreements.

A formal analysis takes place quarterly to determine the provisions for possible bad debts, using a bottom-up approach. Conclusions are discussed by the ING Provisioning Committee (IPC) Bank, which advises the MBB on specific provisioning levels.

The table below represents the economic sector breakdown of credit risk outstandings (including impaired amounts) for loans and positions that have been classified as problem loans and for which provisions have been made.

Impaired Loans: ING Bank portfolio, outstandings by economic sector[1]

	2011	2010
Private Individuals	**4.790**	4.838
Real Estate	**2.671**	2.777
General Industries	**819**	858
Transportation & Logistics	**797**	818
Food, Beverages & Personal Care	**784**	837
Builders & Contractors	**774**	792
Services	**718**	582
Non-Bank Financial Institutions	**368**	527
Other	**1.661**	1.750
Total	**13.382**	13.779

[1] Economic sectors below EUR 500 million in both years are not shown separately but grouped in Other.

ING Bank holds specific and collective provisions of EUR 3.040 million and EUR 1.133 million, respectively (2010: EUR 2.697 million and EUR 1.404 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 777 million (2010: EUR 1.094 million) in provisions against the performing portfolio. The 2010 figures are including ING Direct USA.

Provisions: ING Bank portfolio[1]

	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International		Total ING Bank	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Opening balance	**1.855**	1.628	**1.641**	1.290	**1.699**	1.481	**5.195**	4.399
Changes in the composition of the group	**-3**						**-3**	
Write-offs	**-373**	-337	**-494**	-454	**-437**	-375	**-1.304**	-1.166
Recoveries	**66**	36	**37**	58	**9**	11	**112**	105
Increase/(decrease) in loan loss provision	**479**	497	**603**	721	**588**	533	**1.670**	1.751
Exchange differences	**15**	65	**0**	8	**-98**	82	**-83**	155
Other changes		-34	**-36**	18	**-601**	-33	**-637**	-49
Closing balance	**2.039**	1.855	**1.751**	1.641	**1.160**	1.699	**4.950**	5.195

(1) The 2011 figures are excluding ING Direct USA.

The risk costs development in the first half of 2011 was relatively favourable, however, since mid 2011, the economic climate deteriorated. On balance, risk costs for the full year 2011 were in line with 2010 risk costs levels.

Credit Covers Problem Assets

The table hereunder shows the cover values per credit risk category classified based on Retail and Commercial Banking products. In the ING Bank master scale which ranges from 1 being the best rating to 22 being the worst rating, Problem Assets are the Assets with ratings in the range 18-22. All other are called Performing Assets and are shown in the tables above.

Problem Assets – Cover values*** including guarantees received****

		31 December 2011				
	Outstandings*	Mortgages***	Cash	Guarantees**	Other	Total Credit Covers ****
Retail						
Residential Mortgages	**4.070**	**4.987**				**4.987**
Other Lending	**569**	**145**				**145**
Total Retail	**4.639**	**5.132**				**5.132**
Commercial						
Financial Institutions	**457**	**63**	**1**	**51**	**22**	**137**
Corporates	**8.090**	**2.913**	**335**	**242**	**1.063**	**4.553**
Governments	**9**			**0**	**0**	**0**
Other	**187**	**105**	**0**	**1**	**2**	**108**
Total Commercial	**8.743**	**3.081**	**336**	**294**	**1.087**	**4.798**
Total	**13.382**	**8.213**	**336**	**294**	**1.087**	**9.930**

Problem Assets – Cover values*** including guarantees received****

	Outstandings*	Mortgages***	Cash	Guarantees**	Other	Total Credit Covers ****
						31 December 2010
Retail						
Residential Mortgages	4.026	4.975				4.975
Other Lending	671	154				154
Total Retail	4.697	5.129				5.129
Commercial						
Financial Institutions	366	4		56	23	83
Corporates	8.542	2.761	23	343	882	4.009
Governments	1					
Other	173	59		2	5	66
Total Commercial	9.082	2.824	23	401	910	4.158
Total	13.779	7.953	23	401	910	9.287

* Excluding intercompany positions
** Guarantees received can be additional to pledges and not necessarily replace collaterals
*** The used valuations methods for the underlying collaterals may vary per collateral
**** Credit covers are the sum of all existing covers. Excess cover amounts on specific loans cannot be put in place for loans without covers. Therefore, the figures shown in the table should not be used for netting calculation purposes

ING BANK MARKET RISK

ING Bank Market Risk Management

Market risk is the risk that movements in market variables, such as interest rates, equity prices, foreign exchange rates, credit spreads and real estate prices, negatively impact the bank's earnings, market value or liquidity position. Market risk either arises through positions in trading books or through the banking 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.

Governance

Within ING Bank, market risk (including liquidity risk) falls under the supervision of the ALCO function with ALCO Bank as the highest approval authority. ALCO Bank determines the overall risk appetite for market risk. The ALCO function is regionally organised 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 Market Risk Management department (MRM) is the designated independent department that is responsible for the design and execution of the bank's market risk management functions in support of the ALCO function. The MRM structure recognises that risk taking and risk management to a large extent occurs at the regional/local level. Bottom-up reporting allows each management level to fully assess the market risk relevant at the respective levels.

MRM is responsible for determining adequate policies and procedures for managing market risk and for monitoring the compliance with these guidelines. An important element of the market risk management function is the assessment of market risk in new products and businesses. Furthermore MRM maintains an adequate limit framework in line with ING Bank's risk appetite. The businesses are responsible for adhering to the limits that ultimately are approved by ALCO Bank. Limit breaches are reported to senior management on a timely basis and the business is required to take the appropriate actions to reduce the risk position.

Model Disclosure: ING Bank Economic Capital for Market Risk

Economic Capital for market risk is the Economic Capital necessary to withstand unexpected value movements due to changes in market variables. Economic Capital for market risk is calculated for exposures both in trading portfolios and non-trading portfolios and includes real estate risk, foreign exchange rate risk, equity price risk, interest rate risk and model risks. Economic capital for market risk is calculated using internally developed methodologies with a 99.95% confidence interval and a horizon of one year, which represents extreme events and ING's target rating.

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

Economic Capital for market risk for the mortgage portfolios within ING Retail Banking (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.

Real estate price risk includes 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.

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

The nature of market risk Economic Capital, evaluating the impact of extreme stress with a 99.95% confidence level, can sometimes be difficult to evidence in a statistical sound manner with the available historical data. The Economic Capital figures disclosed by ING Bank are a best effort estimate based on available data and expert opinions.

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

	Economic Capital [1]		Regulatory Capital	
	2011	2010	**2011**	2010
Market risk	**8.262**	7.233	**1.124**	364

[1] this includes model risk

The market risk Economic Capital is higher than the Regulatory Capital primarily due to the inclusion of the interest rate risk banking books in Economic Capital. The market risk Regulatory Capital includes a stressed VaR charge, while Economic Capital does not. The main drivers for the increase in market risk Economic Capital are methodology updates. The increase in market risk Regulatory Capital is due to the new market risk framework Basel 2.5 containing an additional capital charge for Stressed VaR and Incremental Risk.

ING Bank Market Risk in Trading Books

Governance

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, foreign exchange rates and credit spreads.

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

With respect to the trading portfolios, MRM focuses on the management of market risks of Commercial Banking (mainly Financial Markets) as this is the only business line where trading activities take place. Trading activities include facilitation of client business, market making and proprietary position taking in cash and derivatives markets. MRM is responsible for the development and implementation of trading risk policies and risk measurement methodologies, the reporting and monitoring of risk exposures against approved trading limits and the validation of pricing models. MRM also reviews trading mandates and limits, and performs the gatekeeper role in the product review process. The management of trading market risk is performed at various organisational levels, from MRM overall down to specific business areas and trading offices.

Model Disclosure

Value at Risk

MRM uses the historical simulation Value at Risk (VaR) methodology as its primary risk measure. The VaR for market risk quantifies, with a one-sided confidence level of 99%, the maximum overnight loss that could occur due to changes in risk factors (e.g. interest rates, equity prices, foreign exchange rates, credit spreads, implied volatilities) if positions remain unchanged for a time period of one day. Next to general market movements in these risk factors, VaR also takes into account market data movements for specific moves in e.g. the underlying issuer of securities. The impact of historical market movements on today's portfolio is estimated, based on equally weighted observed market movements of the previous year. ING Bank uses VaR with a 1-day horizon for internal risk measurement, control and back testing, and VaR with a 10-day horizon for determining regulatory capital.

Limitations
VaR 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 capital calculations) assumes that all positions in the portfolio can be liquidated or hedged in one day. In periods of illiquidity or market events, this assumption may not hold true. Also, the use of 99% confidence level means that VaR does not take into account any losses that occur beyond this confidence level. Parts of these limitations are mitigated by the Basel 2.5 regulation (Stressed VaR and Incremental Risk Charges).

Back testing
Back testing 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 back test, the actual daily result is compared with the 1-day VaR. In addition to using actual results for back testing, ING Bank also uses hypothetical results, which measure results excluding the effect of intraday trading, fees and commissions. When the actual or hypothetical loss exceeds the VaR an 'outlier' occurs. Based on ING Bank's one-sided confidence level of 99% an outlier is expected once in every 100 business days. In 2011, like in 2010, there was no occurrence where a daily trading loss exceeded the daily consolidated VaR of ING Commercial Banking. ING Bank reports the results of this back testing to DNB on a quarterly basis.

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 Bank uses structured stress tests for monitoring the market risk under these extreme conditions. Stress scenarios are based on historical as well as hypothetical extreme events. The result of the stress 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 Bank'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 Bank 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. Furthermore, ING participates in bank-wide stress testing as well as in ad hoc stress testing exercises as requested by the DNB or EBA.

Other trading controls
VaR and event risk limits are the most important limits to control the trading portfolios. Furthermore, ING Bank 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 complex derivatives trading. The market risk of these products is controlled by product specific limits and constraints.

Basel 2.5 / CRD 3
The Basel Committee has proposed to supplement the current VaR regulatory capital framework for trading exposures with Incremental Risk Charge and Stressed VaR to cover for the shortcomings of the existing regulatory risk framework. The Basel requirements on the Incremental Risk Charge and stressed VaR have come into force in European legislation (CRD 3) as of 31 December 2011 and are included in the regulatory capital as of Q4 2011.

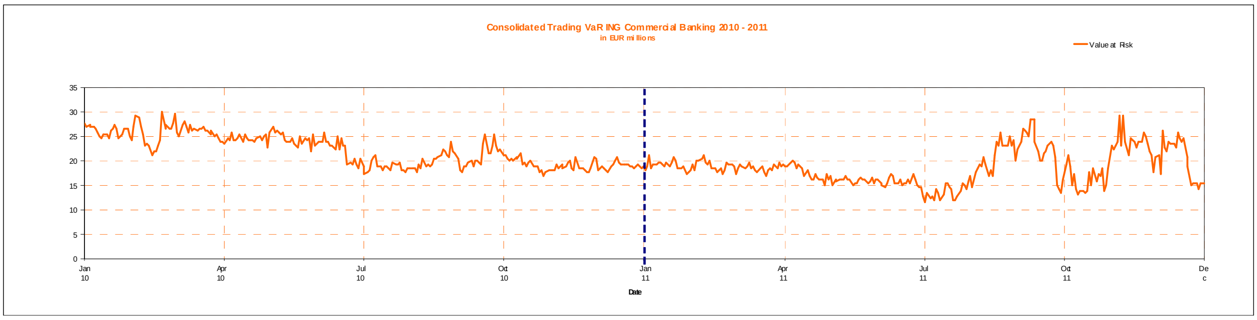
Stressed VaR
The Stressed VaR (SVaR) is intended to replicate a VaR calculation that would be generated on the bank's current portfolio with inputs calibrated to the historical data from a continuous 12-month period of significant financial stress relevant to the bank's portfolio. To calculate SVaR, ING Bank uses the same model that is used for VaR (historical simulation). The historical data period used includes the height of the credit crisis around the fall of Lehman brothers, and is reviewed regularly.

Incremental Risk Charge
With the Incremental Risk Charge (IRC) ING Bank calculates an estimate of default and migration risk for unsecuritised credit products in the trading book over a one-year capital horizon at a 99.9% confidence level. For the calculation of IRC ING Bank performs a Monte Carlo simulation based on a Gaussian copula model. For all issuers the rating is simulated over the different liquidity horizons (time required to liquidate the position or hedge all material risks) within one year. The financial impact is then determined based on the migration to default (based on LGD), or migration to a different rating category (based on credit spread changes).

The liquidity horizon has been set to the regulatory minimum of three months for all positions in scope. Given the types of products in ING Bank's trading portfolio ING considers this horizon to be conservative. We have demonstrated that ING Bank could still actively trade its positions that are significant for IRC under stressed market circumstances, allowing ING Bank to fully redeem its positions within three months.

Risk Profile

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 2010 and 2011**.** Several banking books are internally 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 2011 the overnight VaR for the ING Commercial Banking trading portfolio ranged from EUR 12 million to EUR 29 million.

More details on the VaR of the ING Commercial Banking trading portfolio for 2011 and 2010 are provided in the table below.

Consolidated VaR trading books: ING Commercial Bank

	Minimum		Maximum		Average		Year end	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Interest rate (1)	**9**	18	**21**	29	**15**	22	**12**	20
Equity	**1**	1	**18**	9	**7**	4	**7**	3
Foreign exchange	**1**	1	**4**	9	**2**	2	**2**	4
Credit spread (1)	**6**	n/a	**8**	n/a	**7**	n/a	**6**	n/a
Diversification (2)					**-12**	-6	**-12**	-8
Total VaR	**12**	17	**29**	30	**19**	22	**15**	19

(1) Credit spreads are introduced as a separate risk category as of Q4 2011. Minimum, maximum and average values for the risk category Credit spread are calculated on Q4 only. The 2010 credit spreads are consolidated in the interest rate risk category.
(2) 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.

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 the first half of 2011, continuing the decreasing trend of 2010. Halfway the year, VaR levels increased due to increased market volatility. The equity VaR increased due to the integration of implied correlation and dividend risk, new risk measures added to the VaR framework. The average consolidated VaR over 2011 was lower than over 2010 (average VaR 2011: EUR 19 million and average VaR 2010: EUR 22 million).

The risk figures in the table below only relate to the CAD2 trading books for which the internal model approach is applied.

Risk measures for Internal Model Approach Portfolios

				2011	Year end
	Minimum	**Maximum**	**Average**	**2011**	2010
Interest rate VaR (1)	**8**	**22**	**14**	**11**	18
Equity VaR	**1**	**18**	**7**	**7**	3
Foreign exchange VaR	**1**	**4**	**2**	**2**	4
Credit Spread VaR (1)	**6**	**8**	**7**	**6**	n/a
Diversification effect (2)			**-12**	**-11**	–8
Total VaR Internal Model Approach (1-day, 99%)	**11**	**28**	**18**	**15**	17
Stressed VaR (10-day, 99%)(3)	**104**	**182**	**139**	**117**	n/a
Incremental Risk Charge (1-year, 99.9%)(3)	**363**	**545**	**445**	**368**	n/a

(1) Credit spreads are introduced as a separate risk category as of Q4 2011. Minimum, maximum and average values for the risk category Credit spread are calculated on Q4 only. The 2010 credit spreads are consolidated in the interest rate risk category.
(2) 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.
(3) Stressed VaR and Incremental Risk Charge figures are based on Q4 2011

Regulatory Capital
According to the Dutch regulation, regulatory capital for trading portfolios can be calculated using the standardised approach or an internal model approach. ING Bank received approval from the DNB to use an internal Value-at-Risk (VAR) model to determine the regulatory capital for the market risk in most trading books of ING Bank. Market risk capital of CAD2 trading books is calculated according to the 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. In 2011, capital on all trading books is performed under the Internal Model Approach. Mismatches in FX risk from the banking books are incorporated under the Standardised Approach. Market risk regulatory capital is calculated under the new market risk framework Basel 2.5 containing a capital charge for Stressed VaR and Incremental Risk, as approved by DNB.

Regulatory Capital

			2011	2010[(1)]
	SVaR	**VaR**	**Total**	**Total**
Interest rate / Credit spread	**327**	**157**	**484**	172
Equity	**80**	**62**	**142**	40
Foreign exchange	**15**	**12**	**27**	15
Incremental Risk Charge			**437**	n/a
Total Internal Model Approach			**1,090**	227
Standardised model			**34**	137
Total			**1.124**	364

(1) 2010 capital figures do not include Stressed VaR

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 2011)

	2011		2010
Foreign exchange		**Foreign exchange**	
Chinese yuan	**356**	US dollar	–457
US dollar	**-283**	Taiwan dollar	155
Czech koruna	**-154**	Chinese yuan	83
Taiwan dollar	**-44**	South Korean won	68
Bulgarian lev	**-43**	Bulgarian lev	–57

Most important interest rate and credit spread sensitivities (year-end 2011)

amounts in thousands of euros	**2011**		2010
Interest Rate (BPV [(1)])		**Interest Rate (BPV [(1)])**	
United States	**331**	Eurozone	–377
UK	**-163**	United States	167
Mexico	**-120**	Mexico	–147
Russia	**-96**	Japan	141
Japan	**-86**	Russia	–73
Credit Spread (BPV [(1)])		**Credit Spread (BPV [(1)])**	
Eurozone	**-287**	Eurozone	–596
UK	**-50**	Sweden	–67
United States	**-31**	Hong Kong	–47
Mexico	**-31**	UK	–47
Norway	**-25**	United States	–42

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

Credit spread sensitivities per risk class and sector (year-end 2011)

amounts in thousands of euros **Credit Spread (BPV [(1)])**	**2011** **Corporate**	 **Financial Institutions**	2010 Corporate	 Financial Institutions
Risk classes				
1 (AAA)	**-5**	**-16**	–8	–211
2-4 (AA)	**-12**	**-49**	–25	–212
5-7 (A)	**15**	**-256**	–32	–257
8-10 (BBB)	**-49**	**-42**	–77	–102
11-13 (BB)	**-14**	**-24**	–11	–47
14-16 (B)	**-18**	**-8**	–30	–8
17-22 (CCC and Problem Grade)	**2**	**-21**	–24	–33
Not rated	**-1**	**0**		
Total	**-82**	**-416**	–207	–870

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

ING Bank Market risk in Banking Books

ING Bank 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.

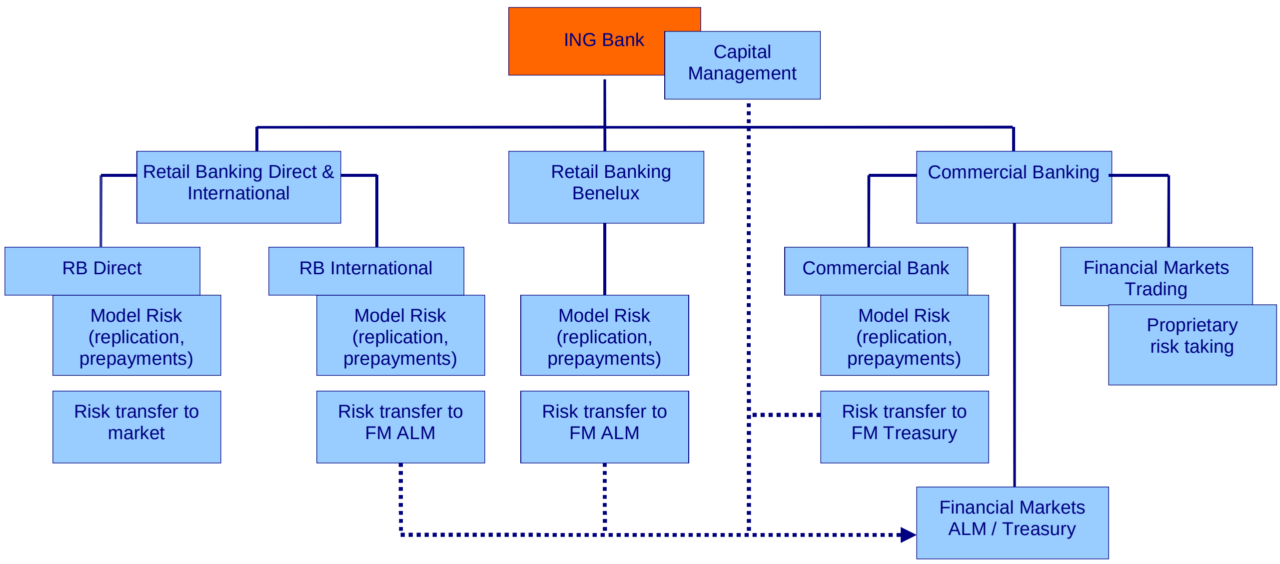
Interest Rate Risk in Banking Book

Interest rate risk in the banking books is defined as the potential negative impact that changing interest rates may have on earnings or market value.

Governance: ALM framework

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 Bank 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), more information can be found in the Capital Management section. Capital is invested for longer periods, targeting to maximise return, while keeping it stable at the same time.

Commercial activities 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.

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 MRM, 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 results 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 Bank uses risk measures based on both an earnings and a value perspective. Earnings Sensitivity (ES) is used to provide the earnings perspective and the Net Present Value (NPV)-at-Risk and Basis Point Value (BPV) figures provide the value perspective. 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’.

Risk Profile

Earnings Sensitivity (ES)

ES measures the impact of changing interest rates on (pre tax) IFRS-EU earnings. The ES figures in the table below reflect an instantaneous shock up of 1% and a time horizon of one year. Management interventions are not incorporated in these calculations but balance sheet dynamics (e.g. new business) are significant.

The ES is mainly influenced by the sensitivity of savings to interest rate movements. The investment of own funds only impacts the ES marginally, as only a relative small part has to be (re)invested within the 1-year horizon.

Earnings Sensitivity banking books (1% instantaneous upward shock to interest rates)

	2011	2010
By currency		
Euro	**32**	–237
US dollar	**-76**	–114
Pound sterling	**-10**	–15
Other	**10**	50
Total	**-44**	–316

Excluding ING Direct USA earnings sensitivity is approximately 0. In 2011 short-term interest rates remained at low levels in both the Eurozone and the US. Earnings sensitivity for an upward shock decreased to a small negative figure. This indicates that when rates go up the increase in interest paid on liabilities only slightly exceeds the increase in interest received on assets. Earnings are therefore relatively insensitive to rate changes.

Net Present Value (NPV) at Risk

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

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

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

NPV-at-Risk banking books (1% instantaneous upward shock to interest rates)		
	2011	2010
By currency		
Euro	**-1.828**	–2.446
US dollar	**376**	–205
Pound sterling	**-25**	–19
Other	**52**	48
Total	**-1.425**	–2.622

NPV-at-Risk in 2011 excluding ING Direct USA is –EUR 1.914 million. In the course of 2011 NPV-at-Risk decreased substantially. This was mainly due to more expected prepayments of mortgages as a consequence of the low interest rate environment. This decreased the expected duration of mortgages and subsequently the value sensitivity to a rate increase. Furthermore investments were shortened, leading to a lower duration of assets. Finally the outright position in the strategic interest rate portfolio was reduced. This also contributed to the decrease of the NPV sensitivity.

Basis Point Value (BPV)

BPV measures the impact of a 1 basis point increase in interest rates on value. To a large extent the BPV and NPV at Risk reflect the same risk – the difference being that BPV does not reflect convexity risk, given the small shift in interest rates.

In line with NPV-at-Risk, the bank's overall BPV position is dominated by the long-term investment of capital, as the present value of this position is significantly impacted if interest rates move up by 1 basis point.

BPV per currency banking books		
amounts in thousands of euros	**2011**	2010
By currency		
Euro	**-15.545**	–21.760
US dollar	**4.551**	–548
Pound sterling	**-136**	–284
Other	**879**	175
Total	**-10.251**	–22.417

The total BPV in 2011 excluding ING Direct USA is –EUR 16 million. The total BPV decreased substantially mainly on the back of a lower expected duration of mortgages leading as more prepayments are expected due to the low interest rate environment in the US and the Eurozone. Next to that the bank's strategic interest rate position turned to more neutral.

ING Bank Foreign exchange (FX) risk in banking books

FX exposures in banking books result from core banking business activities (business units doing business in other currencies than their base currency), foreign currency investments in subsidiaries (including realised net profit and loss) and strategic equity stakes in foreign currencies. The policy regarding these exposures is briefly explained below.

Governance – Core banking business

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

Governance – FX Translation result

ING Bank's strategy is to protect the target core Tier 1 ratio against FX rate fluctuations, whilst limiting the volatility in the profit and loss account. Protecting the core Tier 1 ratio is achieved by deliberately taking foreign currency positions equal to certain target positions, such that the target core Tier 1 capital and risk-weighted assets are equally sensitive in relative terms to changing FX rates.

Risk profile – FX Translation result

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	
	2011	2010	**2011**	2010	**2011**	2010
US dollar	**7.641**	7.275	**-2.677**	–606	**4.964**	6.669
Pound sterling	**-997**	–993	**1.048**	1.144	**51**	151
Polish zloty	**1.404**	1.371	**-628**	–643	**776**	728
Australian dollar	**3.165**	2.908	**-2.459**	–2.056	**706**	852
Turkish lira	**1.830**	1.891	**-425**	–444	**1.405**	1.447
Other currency	**6.934**	7.160	**-4.172**	–4.028	**2.762**	3.132
Total	**19.977**	19.612	**-9.313**	–6.633	**10.664**	12.979

The US dollar Net Exposure decreased significantly in 2011. Anticipating on the announced sale of ING Direct USA, the risk-weighted assets will decrease and therefore, a lower Net Exposure is required. This is then achieved by increasing the hedge. The 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 around 20%, decreasing the Chinese renmimbi currency exposure.

In order to measure the remaining sensitivity of the target core Tier 1 ratio against FX rate fluctuations, the core Tier 1 ratio at Risk (cTaR) measure is used. It measures the drop in the core Tier 1 ratio from the target when stressing a certain FX rate. The stress scenarios for the FX rates that are used for calculating the cTaR, are presented in the last two columns. Only the scenarios that negatively impact the target core Tier 1 ratio are presented: depending on whether the actual foreign currency position is above or below the target position, the worst case scenario is either a negative or positive movement. A positive stress scenario means that the foreign currency appreciates against the Euro. For the US dollar this means that at the end of 2011 the target core Tier 1 ratio would decrease by 0.12% in absolute terms (e.g. from 9.12% to 9.00%) if the US dollar appreciates by 15%. The US dollar cTaR excluding ING Direct USA (not shown in the table below) is significantly lower at 0.01%, which shows that the core Tier 1 ratio excluding ING Direct USA is well protected. Back testing shows that the strategy was effective in 2011; the core Tier 1 ratio was hardly affected by changing FX rates.

Core Tier 1 ratio sensitivity ING Bank	cTaR		Stress Scenario	
	2011	2010	**2011**	2010
Currency				
US dollar	**0.12%**		**15%**	15%
Pound sterling	**0.04%**	0.02%	**15%**	15%
Polish zloty	**0.01%**	0.01%	**-15%**	–15%
Australian dollar	**0.00%**	0.01%	**20%**	–20%
Turkish lira	**0.00%**		**25%**	25%

ING Bank Equity price risk in banking books

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments whose value reacts similarly to a particular security, a defined basket of securities, or a securities index. ING Bank maintains a strategic portfolio with substantial equity exposure in its banking books. This equity exposure mainly consists of the investments in associates of EUR 827 million (2010: EUR 1.494 million) and equity securities held in the available-for-sale (AFS) portfolio of EUR 2.466 million (2010: EUR 2.741 million). The value of equity securities held in the available-for-sale portfolio is directly linked to equity security prices with increases/decreases being recognised (except in the case of impairment) in the revaluation reserve. During the year ended 31 December 2011 the revaluation reserve relating to equity securities held in the Available-for-Sale portfolio fluctuated between a month-end low amount of EUR 1.226 million (2010: EUR 1.723 million) and a high amount of EUR 1.706 million (2010: EUR 2.370 million). Investments in associates are measured in accordance with the equity method of accounting and the balance sheet value and therefore not directly linked to equity security prices.

Equities Unrealised Gains and Losses in the AFS portfolio	**2011**	2010
Gross unrealised gains	**1.292**	1.728
Gross unrealised losses	**-45**	–1
Total	**1.247**	1.727

Total capital requirement for equity price risk under the Simple Risk Weight Approach at 31 December 2011 results in EUR 207 million (2010: EUR 310 million).

ING Bank Real Estate price risk in banking books

Real estate price risk arises from the possibility that real estate prices fluctuate. This affects both the value of real estate assets and earnings related to real estate activities.

ING Bank has three main 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 included in the Real Estate Investment Portfolio (REIM). 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. Please note that exposures mentioned in this paragraph are shown from a risk perspective, which excludes interests of third parties.

ING Bank's real estate exposure (i.e. including leverage) is EUR 4.0 billion of which EUR 0.9 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 1.1 billion mainly as a result of divestments in REIM (EUR –0.7 billion) and Real Estate Development (EUR –0.2 billion).

ING Bank's real estate exposure revaluing through P&L decreased significantly mainly caused by sales of American and Australian funds (EUR –0.7 billion) and assets being revalued through equity instead (EUR –0.4 billion); the latter is a result of the fact that ING REIM is not the manager of the real estate funds anymore.

For risk management purposes, the total real estate exposure amounts to EUR 4.0 billion since property from foreclosures and third party interests is excluded. A split up on the real estate exposures per continent and sector is seen below.

Real Estate Exposure banking books recorded as fair value through P&L (by geographic area and sector type)

	2011	2010		2011	2010
Continent			**Sector**		
Europe	**462**	662	Residential	**70**	207
Americas	**28**	812	Office	**150**	385
Australia	**20**	189	Retail	**510**	620
Asia	**380**	349	Industrial	**113**	516
Other	**0**	14	Other	**46**	298
Total	**890**	2,026	Total	**889**	2,026

ING Bank's real estate exposure not revaluing through P&L has not been affected much. This is because divestments and impairments in Real Estate Development (EUR –450 million) were compensated by the inclusion of assets in the REIM portfolio previously revalued through P&L.

Real Estate Exposure banking books not revalued through P&L (by geographic area and sector type)

	2011	2010		2011	2010
Continent			**Sector**		
Europe	2.456	2,772	Residential	**512**	614
Americas	306	70	Office	**1.350**	1.456
Australia	176	204	Retail	**896**	874
Asia			Industrial	**44**	43
Other	147	99	Other	**283**	158
Total	3.085	3,145	Total	**3.085**	3.145

ING BANK - LIQUIDITY RISK

Liquidity risk is the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions.

Liquidity Risk Management

MRM is responsible for determining adequate policies and procedures for managing liquidity risk and for monitoring the compliance with these guidelines. In addition it is also responsible for performing liquidity risk stress testing. In accordance with Dutch Central Bank guidelines, ING Bank's liquidity positions are stress tested on a monthly basis under a scenario that is a mix between a market event and an ING Bank specific event. Additional stress testing exercises are undertaken on consolidated and local level on a periodic and ad-hoc basis.

Governance

As with other bank market risks, liquidity risk falls under the supervision of the ALCO function within ING Bank, with ALCO Bank as the highest approval authority. ALCO Bank determines the liquidity risk (limit) framework and appetite after which this is cascaded down in the organisation under the responsibility of the regional and local ALCOs. The main objective of ING Bank's liquidity risk framework is to ascertain – by means of proper risk appetite limits – that sufficient liquidity is maintained in order to ensure safe and sound operations under a variety of circumstances. 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.

Risk profile

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.

This committee which consists of key representatives from MRM, 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 marketable/(E)CB eligible collateral position before any haircut amounts to EUR 194 billion (MtM);
- Management of liquidity gaps, taking into account the asset mix and both the secured and unsecured funding opportunities of ING Bank; and
- Maintaining a funds transfer pricing mechanism 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), translated into an LtD target of below 1.2. Ultimo 2011 the LtD ratio (excluding securities at amortised costs and IABF receivable) equals 1.14. In 2011, uncertainty with regard to economic developments in both Europe and USA, led to US MM Funds being more restrictive in funding European counterparties. As ING Bank manages its balance sheet prudently, whereby short-term funding is primarily utilised for short-term assets, a decrease of these type of funding sources is manageable. The table below shows the funding mix.

ING Bank Funding Mix

	2011	2010
Funding type		
Retail deposits	**42%**	46%
Corporate & other deposits	**20%**	19%
Interbank (incl. central bank)	**9%**	8%
Lending/repurchase agreement	**7%**	7%
Public debt	**19%**	17%
Subordinated debt	**3%**	3%
Total	**100%**	100%

The funding mix remained well diversified and according to targets set. Deposits accounted for 63% 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 Bank, for contingency purposes, a specific crisis team – consisting of key Board Members, representatives from Staff 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 Bank specific event.

New developments

All financial institutions have been confronted with a large number of new regulatory requirements. In 2011 ING Bank updated its framework for funding and liquidity risk management so that it provides for an integral approach of liquidity risk management and complies with the changed regulatory rules (CRDII, ILAAP). The framework contains, among others, the annual setting of a funding and liquidity risk appetite related to the ING Bank strategy, a continuous cycle of identification, assessment, control, monitoring and reporting of funding and liquidity risk, a policy covering all legal and regulatory rules, crisis planning and stress testing. The framework will be implemented in 2012.

ING BANK 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 ORM policy house.

Clear and accessible policies and minimum standards are embedded in ING Bank 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 Bank uses this knowledge (including lessons learned from incidents) to improve the control of key risks.

Governance

At all levels in the organisation Non Financial Risk Committees (NFRC's) are established that identify, measure and monitor the operational, compliance and legal 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. NFRC's, chaired by the CEO of the entity, steer the risk management activities of the first and second line of defence in their entities.

The General Manager Operational Risk Management (ORM) is responsible for monitoring operational risks and developing and establishing the Operational Risk Framework within ING Bank. The General Manager ORM also establishes and approves the policies and minimum standards, supports the business line ORM staff, monitors the quality of operational risk management and assists and supports the Management Board Bank in managing ING Bank's operational risks. The NFRC is the primary approval and oversight committee. The Non-Financial Risk dashboard (NFRD) enables management to focus on the ten operational risk areas through the quarterly report on regional, divisional and Bank level.

The ORM 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.

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 Bank 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).

The operational risk appetite within ING Bank 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 Bank 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 Bank, e.g. risk & control self assessments, scenario analysis, external events inventories, internal incident analysis (e.g. lessons learned based on information from incident reporting), key risk indicator events and threat scans.

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

Based on the results of the risk assessment, response measures must be determined for the identified risks beyond the risk appetite. Risk response actions balance the expected cost for implementing these measures with the expected benefits regarding the risk reduction. Risk response can be achieved through several combinations of mitigation strategies, for example reducing likelihood of occurrence, reducing impact, risk avoidance, risk acceptance or through the transfer of risk. Tracking takes place through ING Bank's central risk management system.

The yearly objective setting process for both business management and ORM professionals aims to keep improving the management of operational risk throughout ING Bank to ensure that ING stays in control of its current and future operational risks. ING Bank'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.

Model disclosure

The Operational Risk Capital model of ING Bank 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 specific measured 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.

Loss Distribution approach

The main objective of the LDA approach is to derive an objective Operational Risk capital amount based on the risk profile of a bank and its business units. This approach estimates the distribution of operational risk losses for each combination of business line and loss event type.

Risk profile

The AMA capital for the fourth quarter of 2011 amounts EUR 2.836 million. This is slightly below the capital estimate of previous year. This is explained by a capital reduction resulting from the divestments of ING Car Lease and REIM Fee Business, which is partially offset by a capital increase resulting from the regular external incident data update.

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

	Economic Capital		Regulatory Capital	
	2011	2010	**2011**	2010
Operational Risk	**1.683**	1.619	**2.836**	2.872

Main developments in 2011

The AMA (Advance Measurement Approach) 2.0 program will elevate operational risk management to best practice levels by 2012. The AMA 2.0 program will enable the business to influence its capital charge through sound Operational Risk management:

- Business managers as the clear owners of their operational risks and their capital charge;
- More accurate and relevant risk data and insights available for operational risk management;
- Capital model more reflective of ING Bank risk profile to incentivise business to keep operational risks under control;
- More weighting to internal data sources in the capital model, which includes a set of business driven scenarios, risk assessments, audit data and internal loss information; and
- Major business decisions supported by accurate capital numbers that align to the Non Financial Risk Dashboard (NFRD).

AMA 2.0 program delivers an ambitious set of improvements in the management of operational risk

- Comprehensive, transparent and effective Non Financial Risk Committee (NFRC) hierarchy at top-of-the-house;
- Risk appetite statements for regions and divisions as anchor point for operational risk management;
- Key risk indicators for top risks at bank and Regional/ Function level to monitor the ING Bank risk profile;
- Set of key risk scenarios as capital model input and to prioritise risk management activities;
- Key Control Testing to justify capital levels and set a cost incentive to improve controls; and
- Capture of all material internal losses and share main lessons learned to avoid repetition inside the group.

The NFR Awareness Program is designed with the objective that all ING Bank employees are aware of the relevant risks, the potential impact, the appropriate mitigating measures and their personal role in applying those measures. The new approach significantly improves risk awareness by putting ING Bank's businesses in the lead, working closely with risk professionals. A tailored approach per target group, embedded activities in regular business planning and target setting and focus on desired behaviours and realistic ways of apply rules are the basic elements of the new approach. It also gives an overall structure to the many risk awareness activities carried out by ORM, Compliance and Legal and ensures that ING Bank's risk awareness activities are better focused on the key risks we face as a business.

ING Bank has further improved its IT risk profile through IT security control implementations and IT process improvements. Specific focus in 2011 was given to further improvements around IT security monitoring, IT platform security and IT user access while specific anti-cybercrime measures were also effectuated.

ING BANK COMPLIANCE RISK

Compliance Risk is defined as the risk of impairment of ING Bank's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, ING Bank policies and standards and the ING Bank Business Principles. In addition to reputational damage, failure to effectively manage Compliance Risk could expose ING Bank to fines, civil and criminal penalties, and payment of damages, court orders and suspension or revocation of licenses, which would adversely impact customers, staff and shareholders of ING.

ING Bank believes that fully embedded Compliance Risk Management Controls preserves and enhances the trust of its customers, staff and shareholders. Being trusted is essential to building sustainable businesses. ING Bank's Business Principles set the foundation for the high ethical standards ING Bank expects of all our business activities. ING Bank'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 Bank business processes in all Business Lines. Systems are in place to enable management to track current and emerging Compliance Risk issues, to communicate these to internal and external stakeholders, and to drive continuous improvement. ING Bank 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.

Governance

The Compliance Risk Management function

The Chief Compliance Officer (CCO) is the General Manager of Compliance Risk Management and is responsible for developing and establishing the Bank-wide Compliance Risk Management Charter & Framework, establishes the Minimum Standards for managing Compliance Risks and assists and supports the Management Board Bank in managing ING Bank's Compliance Risks.

ING Bank uses a functional approach Lines to ensure systematic and consistent implementation of the Bank-wide Charter & Framework, policies, Minimum Standards and related procedures. The Local Compliance Officer has the responsibility to assist local management in managing Compliance Risk within that business unit. The Regional or Universal Bank Compliance Officer has a management and supervisory role over all functional activities of the Compliance Officers in the respective region or Universal Bank. The CCO and the Bank Compliance Risk Management team provide overall direction to the Regional or Universal Bank Compliance Officers.

To avoid potential conflicts of interest, it is imperative that the Compliance Officers are impartial and objective when advising business management on Compliance Risk in their business unit, region, country or entity. To facilitate this, a 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.

Scope

The Compliance Risk Management function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry. The Compliance Risk Management function actively educates and supports the business in managing compliance risks including anti-money laundering, preventing terrorist financing, conflicts of interest, proper sales and trading conduct and protection of customer interest.

ING Bank separates Compliance Risk into four conduct-related integrity risk areas: client conduct, personal conduct, organisational conduct as well as financial conduct. ING Bank has a Whistleblower procedure which encourages staff to speak up if they know of or suspect a breach of external regulations or internal policies or Business Principles.

Compliance Risk Management Framework

The Framework consists of three key components:

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 Internal Events Reporting and Response).

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.

Extra-territorial regulations
Financial institutions continue to be closely scrutinised by regulatory authorities, governmental bodies, shareholders, rating agencies, customers and others to ensure they comply with the relevant laws, regulations, standards and expectations. Bank regulators and other supervisory authorities in Europe, the US and elsewhere continue to oversee the activities of financial institutions to ensure that they operate with integrity and conduct business in an efficient, orderly and transparent manner. ING Bank 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 Bank to meet applicable standards in these areas could result in, among other things, suspension or revocation of ING Bank's licenses, cease and desist orders, fines, civil or criminal penalties and other disciplinary action which could materially damage ING Bank's reputation and financial condition, and accordingly ING Bank's primary focus is to support good business practice through its Business Principles and policies.

ING's continued actions to mature its compliance risk management programme will ensure that ING continues to comply appropriately with international standards and laws. ING has an on-going objective to continuously strengthen the Financial Economic Crime (FEC) controls related to:
- managing Anti-Money Laundering (AML);
- Combat Terrorist Financing (CTF); and
- Export Trade and Sanction risks.

As a result of our frequent evaluation of all businesses from economic, strategic and risk perspectives ING Bank continues to believe that for business reasons doing business involving certain specified countries should be discontinued, which includes that ING Bank 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 is subject to a variety of EU, US and other sanctions regimes. Cuba, Iran, Sudan, and Syria are identified by the US as state sponsors of terrorism and are subject to US economic sanctions and export controls.

Regulatory measures and law enforcement agencies investigations
ING Bank N.V. has continued discussions with its Dutch bank regulator De Nederlandsche Bank (DNB) related to transactions involving persons in countries subject to sanctions by the EU, the US and other authorities and its earlier review of transactions involving sanctioned parties. ING Bank completed the global implementation of enhanced compliance and risk management procedures, and continues working to further strengthen the Financial Economic Crime controls as agreed with DNB.

ING Bank remains in discussions with authorities in the US concerning these matters, including ING Bank's compliance with Office of Foreign Asset Control requirements. ING Bank has received requests for information from US Government agencies including the US Department of Justice and the New York County District Attorney's Office. ING Bank is cooperating fully with the ongoing investigations and is engaged in discussions to resolve these matters with the US authorities; however, it is not yet possible to reliably estimate the timing or amount of any potential settlement, which could be significant.

Main developments in 2011
- **Regulator relationships** - Bank Compliance Risk Management continued to invest in pro-active relationships with regulators in the jurisdictions where ING Bank operates, striving for an open approach and cooperation in identifying and mitigating compliance risks for ING Bank.
- **Promoting Integrity Programme** - Bank Compliance Risk Management, together with Human Resources and Corporate Communications & Affairs, continued with the roll-out of the Promoting Integrity Programme (PIP), a global employee education programme focusing on ING Bank's values (including the ING Bank Business Principles) and the role they play in the business and workplace. Short e-modules were developed on Customer Trust and Anti-Fraud and were followed by manager-led dialogue sessions, where employees discussed what integrity means for them and how the Business Principles and ING Bank Policies and standards can be applied in their daily work.
- **Ongoing enhancement of Financial Economic Crime controls** – ING Bank 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 including business with sanctioned parties.

- **Gifts, Entertainment and Anti-Bribery Policy** – ING Bank issued a revised Gifts, Entertainment and Anti-Bribery Policy to align with the changing regulatory landscape in respect of anti-bribery which provides for severe penalties in case of bribery offences and with new extra-territorial anti-bribery legislation, such as the UK Bribery Act.
- **Learning –** Continuous global education and awareness training was provided through face-to-face training sessions and learning tools on topics such as Ultra High Risk Countries & Export Trade, Financial Economic Crime, and Gifts, Entertainment and Anti-Bribery. Compliance Risk Management also continued its mandatory global Compliance Officer Training programme for all compliance officers new to ING Bank.

ING BANK BUSINESS RISK

Business Risk for ING Bank has been defined as the exposure to value loss due to fluctuations in volumes, margins and costs, as well as 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.

ING INSURANCE

ING INSURANCE RISK MANAGEMENT GOVERNANCE

ING is engaged in selling a broad range of life and non-life insurance products. Risks from these products arise with respect to the adequacy of insurance premium rate levels and provisions for insurance liabilities, earnings and capital position, as well as uncertainty as to the future returns on investments of the insurance premiums. Financial risks include Investment Risk, Asset and Liability Management and surplus and capital issues. Insurance product risks include Insurance risks (actuarial and underwriting) and interest rate sensitivity. Compliance risk, legal risk, reputation risk and operational risk are classified as Non-Financial Risks.

The Management Board Insurance Eurasia consists of 6 members, including the members of the ING Group Executive Board, and is responsible for managing risks associated with the insurance activities in Europe and Asia. The Board ING America Holdings consists of 7 members, including the members of the ING Group Executive Board, and is responsible for managing risks associated with the insurance activities in the United States (ING Insurance US). Risks associated with certain ING Insurance activities that will not be disposed of through the divestments of the Latin American, Asian, European and US business (“Insurance Investments”) are directly managed by the Executive Board.

In anticipation of the intended divestment of the insurance activities, to a large extent risk management has been delegated to ING Insurance Eurasia and ING Insurance US with an oversight role at Group level.

ING has completed the divestment of its Latin American pensions, life insurance and investment management operations. This transaction is the first major step in the divestment of ING’s insurance and investment management activities.

Governance

Risk management within ING is the primary responsibility of the ING Group Chief Risk Officer. The ING Group Chief Risk Officer has a direct functional line with the Deputy Chief Risk Officer of ING Insurance Eurasia and with the Chief Risk officer of ING Insurance US via the ING Insurance US Chief Financial Officer. The General Manager of Insurance Investments is responsible for winding down the activities within Insurance Investments. The ING Group CRO is supported by the Risk functions of ING Group and by the Group functions Corporate Legal and the Functional Controller Insurance.

ONGOING CHANGES IN THE REGULATORY ENVIRONMENT

- The most important regulatory issue for the insurance industry is the continued development by the European Union of the Solvency II capital adequacy framework. Solvency II is intended to be based on economic, risk-based and market-consistent principles whereby capital requirements across Europe are directly dependent on an insurer’s assets and liabilities. However, some of the proposed measures currently under discussion are considered unduly conservative and deviate from economic principles. It is therefore very important that the Solvency II framework, as originally envisaged, will become market-based, avoids pro-cyclicality and should be able to withstand market volatility. The EU politicians and regulators drafting the framework should therefore ensure that the measures to be implemented are robust enough throughout the cycle. ING Insurance Eurasia is working actively with its colleagues in the insurance industry to advise EU politicians and regulators come up with concrete proposals that further these objectives.
- The insurance business is sensitive to regulatory action, for instance regulations affecting taxes, pension regulation and customer protection. In the first quarter, the European Court of Justice ruled that price differentiation based on gender for any insurance products sold in the European Union from 21 December 2012 onwards. This will only impact new business and exclude repricing and extensions. Pension fund law changes in Poland were approved and signed at the end of March 2011. These changes are expected to negatively impact future earnings.

- The Dodd-Frank Act, its implementing regulations and other financial regulatory reform initiatives could have adverse consequences for the financial services industry, including ING Insurance US and/or materially affect the results of operations, financial condition and liquidity. The 2010 Dodd-Frank Act directs existing and newly-created government agencies and bodies to conduct certain studies and promulgate a multitude of regulations implementing the law, a process that is underway and is expected to continue over the next few years. While some studies have already been completed and the rule-making process has begun, there continues to be significant uncertainty regarding the results of ongoing studies and the ultimate requirements of those regulations that have not yet been adopted. Until final regulations are promulgated pursuant to the Dodd-Frank Act, the full impact of the Dodd-Frank Act on the businesses, products, results of operation and financial condition will remain unclear.
- State insurance regulators and the National Association of Insurance Commissioners (NAIC) regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and could have a material adverse effect on the financial condition and results of operations. The NAIC continues to work on comprehensive reforms related to life insurance reserves and the accounting for such reserves, although the timing and extent of further changes to statutory reserves and reporting requirements are uncertain.

ING INSURANCE EURASIA

MISSION AND OBJECTIVES

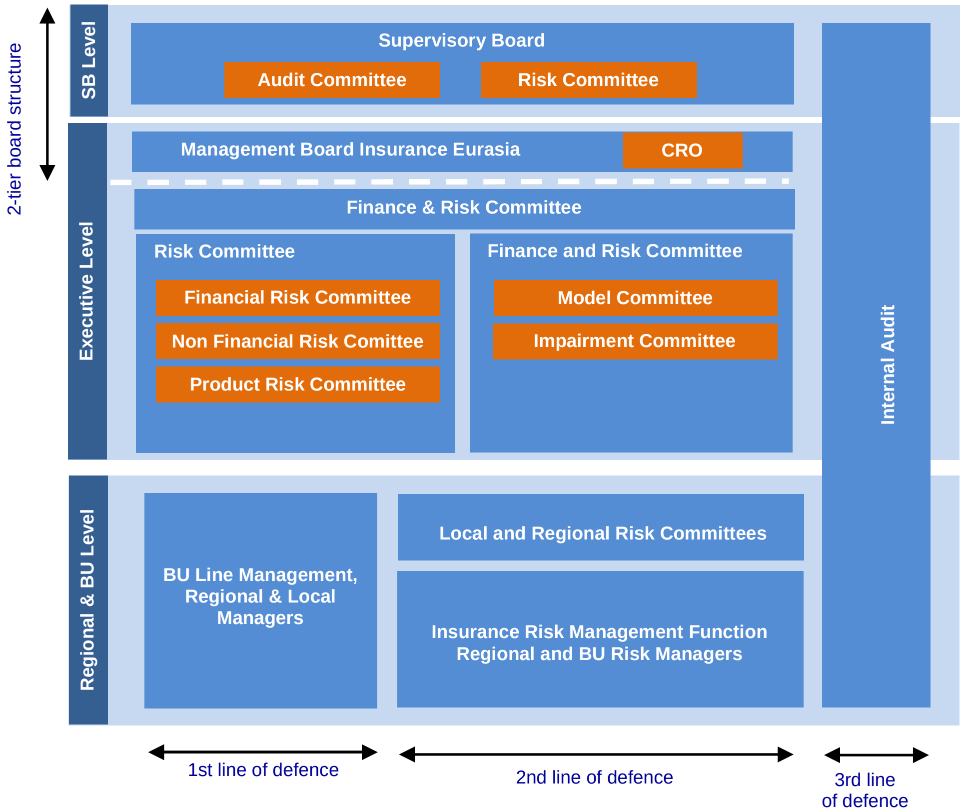
ING Insurance Eurasia is naturally exposed to a variety of risks, being a financial services company that provides wealth management and protection products. The mission of risk management in ING Insurance Eurasia is to ensure that all risks run by the entity are well understood, accurately measured and pro-actively managed, in order to support efficient capital allocation, profitable growth, required returns on capital and predictability in earnings.

The following principles support this objective:

- Transparent communication to internal and external stakeholders on risk management and value creation;
- Compliance with internal and external rules and guidelines ;
- Products and portfolios are structured, underwritten, priced, approved and managed according to the guidelines;
- The risk profile of ING Insurance Eurasia is transparent, and is consistent with delegated authorities and the overall Insurance Eurasia strategy and risk appetite.

ING INSURANCE EURASIA RISK GOVERNANCE

ING Insurance Eurasia's risk framework is based on the 'three lines of defence' concept which ensures that risk is managed in line with the risk appetite as defined by the Management Board Insurance Eurasia (MBI Eurasia) and ratified by the Supervisory Board and is cascaded throughout ING Insurance Eurasia.



Board level risk oversight

ING Insurance Eurasia has a two-tier board structure consisting of the Management Board Insurance Eurasia (MBI Eurasia) and the Supervisory Board Insurance Eurasia.

The Supervisory Board is responsible for supervising the policy of the MBI Eurasia and the general course of affairs of the company and its businesses. For Risk Management purposes the Supervisory Board is assisted by two sub-committees:

- The Audit Committee assists the Supervisory Board in supervising and advising the MBI Eurasia with respect to the structure and operation of internal risk management and control systems, as well as compliance with legislation and regulations applicable to ING Insurance Eurasia and its subsidiaries;
- The Risk Committee assists the Supervisory Board in supervising and advising the MBI Eurasia with respect to ING Eurasia's strategy and its risk policies, including the risks inherent in its business activities.

To the extent that the committees do not determine otherwise, the Chief Risk Officer (CRO) attends the meetings of both committees.

The MBI Eurasia is responsible for managing the risks associated with the activities of ING Insurance Eurasia. The MBI Eurasia's responsibilities include ensuring the risk management and control systems are effective and ING Insurance Eurasia complies with legislation and regulations. The MBI Eurasia reports and discusses these topics on a regular basis with the Supervisory Board, and reports to the Risk Committee on a quarterly basis on ING Insurance Eurasia's risk profile versus its risk appetite.

As part of the integration of risk management into the strategic planning process, the MBI Eurasia annually issues a Planning Letter which provides the organisation with the corporate strategic planning, and addresses key risk issues. Based on this letter the business lines develop their own business plans, including qualitative and quantitative assessment of the risks involved. Risk appetite, risk tolerance levels and risk limits are explicitly discussed as part of the process. Based on the business plans the MBI Eurasia formulates the Strategic plan which is submitted to the Supervisory Board for approval.

Executive Level

The MBI Eurasia has delegated tasks to two committees with regards to risk:

- Finance and Risk Committee
  The primary responsibility of the committee is to align finance and risk decisions that have an impact on internal and/or external reporting of ING Insurance Eurasia. This includes advising on, (pre-)approving, reviewing and taking actions on issues that impact the financial condition of ING Insurance Eurasia. The Finance and Risk committee has two sub-committees dealing with different risk areas:
  - *Eurasia Model Committee* – The authority that approves methodologies, models and parameters used for measuring Risk, Economic Capital and Market-Consistent Valuations which are applied within ING Insurance Eurasia.
  - *Impairment Committee* – The authority where impairments for financial reporting purposes are approved (including loan loss provisions).

- Risk Committee MBI Eurasia
  The Risk Committee MBI Eurasia includes all MBI Eurasia members and heads of finance & risk staff departments. It discusses and decides on risk related items, approving limits and tolerance levels per risk category and approving and mandating action plans for specific financial, product and operational risk issues. The Risk Committee MBI Eurasia has three sub-committees dealing with different risk areas:
  - *Financial Risk Committee* – Oversees all financial risks within the ING Insurance Eurasia entities
  - *Product Risk Committee* – Oversees all insurance product risks within the ING Insurance Eurasia entities
  - *Non Financial Risk Committee* – Oversees all non-financial risks within ING Insurance Eurasia

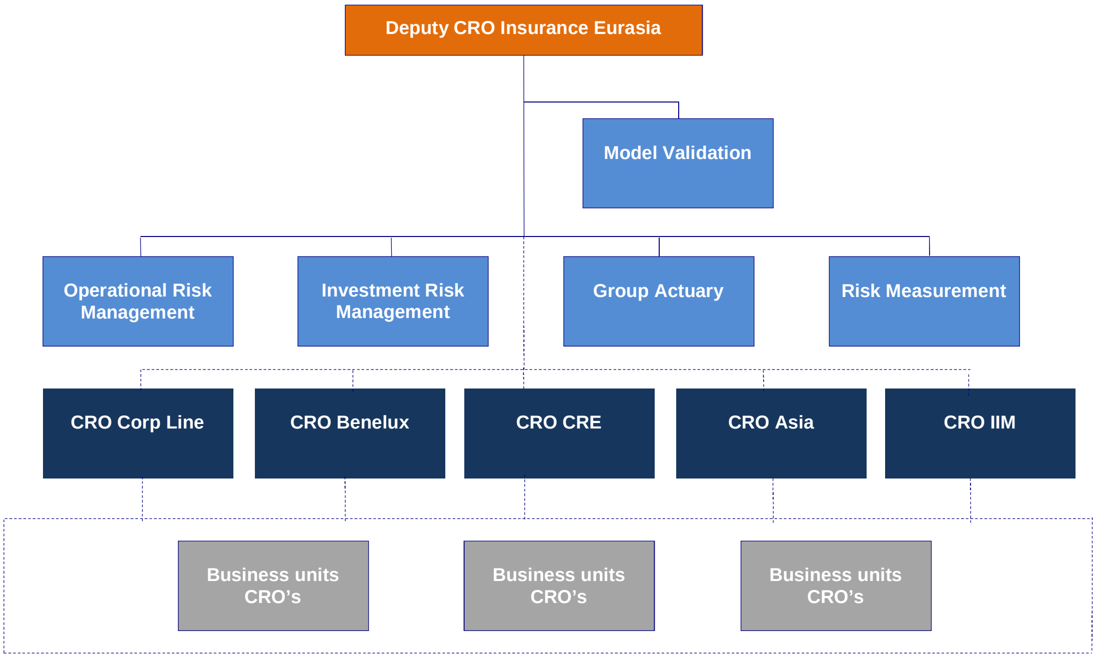
Risk Management Function

The CRO bears primary and overall responsibility for the risk management function within ING Insurance Eurasia, which identifies, measures, monitors and reports risk within ING Insurance Eurasia. The risk function maintains and updates the policy framework, develops risk methodologies and advises on the risk tolerance and risk profile. The CRO assures that both the Supervisory Board and MBI Eurasia are well informed and understand the material risks within ING Insurance Eurasia at all times.

The CRO delegates day-to-day Risk Management within ING Insurance Eurasia to the Deputy CRO. The Deputy CRO department consists of several risk functions that support the overall Risk Management function.

Risk Management continued

ING Insurance Eurasia



Regional level and business unit level have separate risk committees. The Regional CROs report functionally to the Deputy CRO, while the Business Units CROs in turn functionally report to the Regional CROs. Within ING Insurance Eurasia Compliance Risk Management is part of the Legal and Compliance function.

Product Approval and Review Process

A critical aspect of risk management is that all products are designed, underwritten and priced effectively. Within ING Insurance Eurasia this is safeguarded by the Product Approval and Review Process (PARP). This standard includes requirements to risk profile, value-oriented pricing metrics, targets and documentation. The PARP includes requirements to assess market risks, credit risk, insurance risk, compliance risk, legal risk, operational risk as well as the assessment of the administration and accounting aspects of the product. Requirements with respect to the customer suitability of insurance products are an integral part of the PARP.

New Investment class and investment mandate process

Complementing the PARP for insurance products, ING Insurance Eurasia maintains a New Investment Class Approval and Review Process (NICARP) for approving new investment classes. Each asset ING Insurance Eurasia invests in should be on the Global Asset List; the list of all approved investment classes. Each Business Unit maintains a Local Asset List that is a subset of the Global List. For a limited number of investment classes, a Group Investment Transaction Approval (GITA) is required for each new transaction. This requirement only applies when the level of complexity or diversity warrants Group approval for individual (programmes of) transaction(s). Actual investments are made based on Investment Mandates, a formal agreement between the owner of the investments and its asset manager. Business Units can only include investment classes in their Investment Mandates that are on their Local Asset List. Next to setting the allowed investment classes, the mandate also serves to agree the strategic asset allocation and asset, industry, regional, and credit concentration limits.

Reserve adequacy

The ING Insurance Eurasia Group Actuary instructs and supervises all ING Insurance Eurasia entities to ensure that the IFRS insurance liabilities of ING Insurance Eurasia are tested for adequacy taking into account the insurance premium rate levels and the uncertainty of future returns on investments. The reserve adequacy test is executed by evaluating insurance liabilities on current best estimate actuarial assumptions plus a risk margin, ensuring that the reserves remain adequate based on these assumptions. The assumed investment earnings are a combination of the run-off of portfolio yields on existing assets and new money and reinvestment rates. For short-term and reinvestments, new money rates are used. For other reinvestments, long-term best estimate assumptions are taken into account. For many products stochastic testing is required, taking the 90th percentile of results as the required level. In the case where deterministic testing is used, the 90% confidence level is achieved by subtracting risk margins of 20% from the best-estimate interest rates or one percent point, whichever is higher.

Policies

ING Insurance Eurasia has a comprehensive set of risk management policies in place, which are regularly updated to align with the best practices, regulations and change in business profile. Starting in 2011, ING Insurance Eurasia reviews all policies for compliance with emerging Solvency II and other regulations, for example Capital Requirements Directive III (CRD III).

Model governance

Models with regards to the disclosed metrics are approved by the ING Insurance Eurasia Model Committee (EMC). The EMC is responsible for policies, procedures, methodologies, models and parameters which are applied within ING Insurance Eurasia. Regional Model Committees are in place for the approval of regional models and parameters. Significant regional models and parameter changes are also subject to EMC approval. Furthermore, the Model Validation function carries out periodic validations of all internal models. To ensure independence from the business and other risk departments the department head reports directly to the Deputy CRO.

ING INSURANCE EURASIA RISK APPETITE FRAMEWORK

In order to manage risks on a day-to-day basis and balance value, earnings and capital decisions, ING Insurance Eurasia has implemented a risk limit framework, which follows a top down approach

	Description
Risk Appetite	A qualitative statement defining the playing field ING Insurance Eurasia wants to act in. Driven by ING Insurance Eurasia's business strategy.
Risk Tolerance	A quantitative boundary on the risks in which the risk taking should be within. Driven by Capital Rating targets and local capital restrictions and risk appetite for financial and non-financial risks.
Risk Limits	Limit setting to a granular level for business units throughout the organisation to constrain risk taking at the operational level within the business.

The risk appetite is managed by Available Financial Resources over Economic Capital Ratio (AFR/EC). This ratio is defined as the Available Financial Resources (AFR) over the amount of capital required for the current net asset value to absorb unexpected losses in a scenario based on a 99.5% confidence level with a one year time horizon. The confidence interval and horizon are aligned to Solvency II.

Financial Risks

For financial risks, the risk tolerance is translated into risk limits on several sensitivities assuming a moderate stress scenario. These limits are set on a regional and business unit level.

- AFR sensitivities - The potential reduction of the current net asset value (based on fair values) to a change in different risk factors;
- IFRS Earnings sensitivities - The sensitivity of realised pre tax earnings of the insurance operations to a change in different risk factors over a full year, using scenario analysis.

Other than the above mentioned sensitivities, several limit structures are put in place on corporate, regional and business unit level. Examples include, but are not limited to, the following:
- Regulatory capital sensitivities;
- Issuer concentration limits;
- Mortality concentration limi;ts
- Catastrophe and mortality exposure retention limits;
- Investment and derivatives guidelines and limits.

Financial Risk Management Report

The Financial Risk Management Report (FRMR) is discussed in the Risk Committee of the Supervisory board. The report contains information on the AFR/EC ratio as well as a qualitative summary of relevant risk topics in the regions and specific business units.

Actuarial Opinion

The Actuarial Opinion is a quarterly report to the Supervisory Board which highlights significant developments with respect to the adequacy of insurance liabilities, based on IFRS reserving principles. Developments that (could) have a significant impact on the IFRS P&L are also mentioned in the Actuarial Opinion. The Actuarial Opinion of the last quarter of the year is accompanied by an overview of the IFRS reserve adequacy test.

Financial Risk Dashboard

The Financial Risk Dashboard (FRD) is a report that is discussed quarterly in the Risk Committee of MBI Eurasia and in the Financial Risk Committee. The FRD provides an overview of the main financial risk metrics compared to the limits set by management in alignment with the risk appetite.

Investment Risk Dashboard

On a quarterly basis the Investment Risk Dashboard (IRD) is prepared for the general account of ING Insurance Eurasia. The IRD is reported to the Risk Committee and provides actionable management information on the portfolios. The IRD analyses how the portfolios developed over the quarter. It summarises market developments and provides several breakdowns of the portfolios to highlight (potential) risk concentrations in asset classes, industries, rating classes and individual names. Also given the crisis, the IRD was further adapted to reflect more details and new views on some of the risks in ING Insurance Eurasia's investment portfolios.

Non-Financial Risks

To ensure robust non-financial risk management, which is also reflected in the risk tolerance levels, ING Insurance Eurasia monitors the full implementation of risk policies, minimum standards and implementation guidelines. Business units have to demonstrate that the appropriate steps have been taken to control their operational and compliance risk. ING Insurance Eurasia 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 quarterly report that is discussed at the MBI Eurasia and Risk Committee and sent to the Supervisory Board for information. The NFRD provides management at all organisational levels information on their key operational, compliance and legal risks. The NFRD is based on defined risk tolerance within the business and gives a clear description of the risks and responses enabling management to prioritise and to manage operational, compliance and legal risks.

Stress Testing

ING Insurance Eurasia complements its regular risk reporting process for financial and non-financial risks with (ad hoc) stress tests. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of ING Insurance Eurasia. Stress testing can be initiated internally or by external parties such as the Dutch Central Bank (De Nederlandsche Bank - DNB) and the European Insurance and Occupational Pensions Authority (EIOPA).

ING INSURANCE EURASIA RISK PROFILE

Risk type description

ING Insurance Eurasia identifies the following main types of risk that are associated with its business:

- Insurance risk – risks such as mortality, morbidity, longevity and property and casualtyassociated with the claims under insurance policies it issues/underwrites; specifically, the risk that premium rate levels and provisions are not sufficient to cover insurance claims;
- Business risk – risk driven by the possibility that experience deviates from expectations with respect to policyholder behaviour, expenses and premium re-rating. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent in strategy decisions and internal efficiency, and as such strategic risk is included in business risk;
- Market risk – the risk of potential losses due to adverse movements in market variables. Market risks include interest rate, equity, real estate, implied volatility, credit spread including illiquidity premium, and foreign exchange risks;
- Credit risk – the risk of potential losses due to default by ING Insurance Eurasia debtors (including bond issuers) or trading counterparties;
- Liquidity risk – the risk that ING or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions;
- Operational risk – the risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk, as well as legal risk;
- Compliance risk – the risk of damage to ING Insurance Eurasia's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies, procedures and ethical standards.

ECONOMIC CAPITAL

Economic Capital (EC) within ING Insurance Eurasia is defined as the amount of additional assets to be held above the market value of liabilities in order to ensure a positive surplus in case of adverse movements. The Economic Capital model is based on a 99.5% level of confidence interval on a one-year time horizon.

Model disclosure

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

- Market risk – Assets and Liabilities are replicated by the business units using a finite 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. Each unit is provided with 300 risk neutral and 200 risk volatile scenarios which are created for multiple equity indices and exchange rates, consistent with a multi-currency dynamic term structure model. The 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. Local actuarial software uses these 500 scenarios to derive stochastic cash flows. Based on this a replicating portfolio is derived. The quality of the replication 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. By including equity options, FX options and swaptions in the replicating instruments ING Insurance Eurasia is able to incorporate implied volatility risk in the considered risk types. Credit spread risk is captured through credit-risk-bearing zero coupon bonds in the set of replicating instruments;

- Credit default risk capital – Calculated on all portfolios which contain credit or transfer risk, including investment portfolios. The EC is calculated based on the following seven drivers: Probability of Default (measure of the standalone creditworthiness of individual debtors), Exposure at Default (estimated size of the financial obligation at the moment of default in the future), Loss Given Default (estimated recovery value of the underlying collateral or guarantees received (if any) and the unsecured part), Industry of the debtor, Country of the debtor, Remaining tenor of the underlying transactions and Type of Assets;
- Insurance Risk – Calculated by the business unit for all sub-risks for Life, Morbidity and P&C Risk;
- Business Risk – Calculated by the business unit for Persistency, Expense and Premium-rerating Risk;
- Operational Risk – Calculated by a corporate risk model for all business units, in alignment with Solvency II Standard Formula.

EC Calculation and aggregation

For the EC calculation the risk system (ECAPS) uses 20.000 simulated scenarios of market risks, credit risk, business risk, operational risk, life risk, morbidity risks and P&C risk. Diversification between risks is taken into account by a Gaussian Copula, allowing for different marginal probability distributions at the risk driver level. To be more in line with Solvency II operational risk capital is treated as an add-on, it is not part of the diversification between risk types. The 20.000 scenarios are calibrated based on the 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. For each of the 20.000 scenarios the market value of assets and liabilities and the change in value of the Market Value Surplus (MVS) is recalculated. Sorting the results and selecting the 99.5% worst change in MVS result provides the Economic Capital for the given level of aggregation.

For EC calculation ING Insurance Eurasia uses a one-year time horizon. In practice, the EC model calculates instantaneous quarterly shocks, which are annualised to determine the annualised EC. The quarterly shock is used as this stabilises the results and the shocks are within a range that can be more credibly valued for assets and liabilities. A quarterly shock also proves to have more consistency in how correlations between risk factors are defined and therefore align closer to actual risk processes and reporting cycles.

Risk profile

The following table presents the reconciliation from the EC 2010 for Insurance excluding US as reported in the Annual Report 2010, to the comparable basis for ING Insurance Eurasia 2011. This reflects changes in scope and methodology. For the remainder of the risk management paragraph of ING Insurance Eurasia, the EC on a comparable basis to 2011 is used.

Economic Capital 2010 reconciliation

Amounts in billions of euros	2010
As reported for ING Insurance excluding US in 2010	**10.4**
Exclude non-ING Insurance Eurasia entities	-2.0
ING Insurance Eurasia 2010, before changes	**8.4**
Change pension funds fee business to statutory basis	-0.1
Change in models and methodology	3.0
ING Insurance Eurasia 2010, on a basis comparable to 2011	**11.3**

The exclusion of non-ING Insurance Eurasia entities mainly relates to the business in Latin America and the financial leverage of ING Insurance excluding US that was considered in last year's EC.

The fee-based pension funds business in Central and Eastern Europe is regulated by local sectoral rules rather than by Solvency II regulations for insurance entities. AFR and EC of the fee-based pensions administration business were previously calculated using market consistent valuation approach. This has been replaced by using the statutory net equity and required capital of the pension funds administration companies. The impact on EC is EUR 0.1 billion.

ING Insurance Eurasia has carried out a review of the internal model in the context of a Solvency II gap analysis. In that review we benchmarked our models against the Solvency II Standard Formula, the EIOPA consultation papers and comments of expert groups like CRO Forum and Group Consultatif. In the Annual Report 2010 it was estimated that these changes would result in a material increase of EC between EUR 1 billion and EUR 2 billion. During 2011 further refinements and analyses took place which on a comparable basis would lead to an increase in the EC of 2010 of EUR 3.0 billion. The changes are related to equity risk (EUR 0.6 billion), operational risk (EUR 0.1 billion), credit spread and illiquidity premium risk (EUR 1.3 billion), business risk (EUR 0.1 billion) and less diversification (EUR 0.9 billion). The Solvency II legislative process is still ongoing. In particular, aspects determining the valuation of the policyholder liabilities and thereby the sensitivity to market and other risk factors on the own funds are not yet settled. The Economic Capital model will continue to be updated to reflect most recent market data, developments in best practices, and Solvency II legislation.

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

ING Insurance Eurasia

Economic Capital break-down ING Insurance Eurasia (99.5%) by business line		
	2011	2010
Insurance Benelux	**3.988**	5.075
Insurance Central & Rest of Europe	**859**	1.126
Insurance Asia/Pacific	**2.919**	2.759
Corporate Line Insurance Eurasia [1]	**2.520**	2.358
Total insurance Eurasia	**10.286**	11.318

[1] Corporate Line Insurance Eurasia includes funding activities at ING Insurance Eurasia level, explicit internal transactions between business unit and Corporate Line Insurance Eurasia 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 across ING Insurance Eurasia businesses is calculated across business units. Total diversification between ING Insurance Eurasia's business units and the Corporate Line Insurance Eurasia is 34% (2010: 28%).

Economic Capital for ING Insurance Eurasia decreased from 2010 to 2011 primarily due to significant de-risking activities in the Benelux and overall lower market valuations, partly offset by increased interest rate risk in Asia Pacific as actual market rates have become closer to guarantees embedded in the insurance products.
The Economic Capital assigned to Corporate Line Insurance Eurasia primarily relates to foreign exchange translation risk of the market value surplus of the business units in non-euro countries to the euro.

The table below shows the breakdown of the Economic capital per risk type. Details can be found in the various risk type sections below.

Economic Capital break-down ING Insurance Eurasia (99.5%) by risk category		
	2011	2010
Insurance risk	**2.003**	1.833
Business risk	**3.011**	2.979
Market risk	**7.651**	9.411
Credit default risk	**606**	627
Operational risk	**640**	633
Diversification between risk types	**-3.625**	-4.165
Total insurance operations Eurasia	**10.286**	11.318

INSURANCE RISK

Insurance risks comprise of actuarial and underwriting risk such as mortality, longevity, morbidity and property & casualty risks which result from the pricing and acceptance of insurance contracts.

Model disclosure

The table below shows the main risk categories for insurance risks within ING Insurance Eurasia. IFRS Earnings sensitivities are defined on a shock scenario at the 90% confidence level, EC numbers are determined using a 99.5% confidence interval on a one-year horizon.

	Description	Key Drivers
Mortality	Mortality risk can be subdivided into: - Positive mortality risk occurs when claims are higher due to higher mortality experience e.g. term insurances - Negative mortality risk occurs when insured persons live longer than expected, for instance pension products. Longevity risk hits earnings gradually over time.	IFRS Earnings: Death claims in life business EC: Pension and annuity business mainly in the Netherlands
Morbidity	Morbidity or Health insurance covers insurance indemnifying or reimbursing losses (e.g. loss of income) caused by illness or disability, or for expenses of medical treatment necessitated by illness or disability.	IFRS Earnings & EC: Income protection in the Netherlands and Health riders in Korea and Malaysia
Property & Casualty	P&C insurance products cover various risks such as fire damage, car accidents, personal and professional liability, hurricanes etc.	IFRS Earnings & EC: Storms and third party liabilities in Benelux

ECONOMIC CAPITAL

Economic Capital ING Insurance Eurasia (99.5% undiversified) by Risk Category		
	2011	**2010**
Mortality	**1.203**	1.138
Morbidity	**591**	516
P&C	**209**	179
Total Insurance Risk	**2.003**	1.833

Sensitivities

IFRS Earnings sensitivities for Insurance risks		
	2011	2010
Mortality	**-34**	–30
Morbidity	**-123**	–99
P&C	**-76**	–49

Overall exposure to insurance risks did not change significantly during 2011. Annual review of actuarial assumptions for Insurance risk is reflected in the numbers.

Mitigation

In general, insurance risk cannot be (easily) hedged directly via the financial markets and are partially mitigated by diversification across large portfolios. They are therefore managed at the contract level through underwriting policies, product designs requirements, independent product approval processes and risk limitations related to insurance policy terms and conditions agreed with the client.

Risk not mitigated by diversification is managed through concentration and exposure limits and through reinsurance and/or securitisations:

- Tolerance limits for non-life insurance risk are set by line of business for catastrophic events and individual risk;
- Tolerance limits for life insurance risk are set per insured life and significant mortality events affecting multiple lives such as pandemics;
- Reinsurance is used to manage tolerance levels according to the ING Insurance Eurasia reinsurance credit risk policy. This is mainly done for property & casualty insurance business;
- Catastrophic losses resulting from events such as terrorism are considered to be uninsurable. ING participates in industry pools in various countries to mitigate this risk.

BUSINESS RISK

Business risk for insurance is essentially the risk that insurance operations accept as a consequence of participating in the insurance business. In practice this can be defined as the exposure to the possibility that experience differs from expectations with respect to expenses, the run-off of existing business (persistency/renewals), future premium rerating, etc.

Model disclosure

The table below shows the main risk categories for business risk within ING Insurance Eurasia. EC numbers are determined using a 99.5% confidence interval on a one-year horizon.

	Description	Key Drivers
Persistency	The risk that actual persistency in the future of existing business develops adversely compared to expected persistency of existing business	EC: Less surrenders of policies with in-the-money guarantees and higher surrender of policies with higher profitability in Asia
Expense	The risk that actual expenses in the future exceed the expected expenses	EC: Expense overruns in the Benelux
Premium re-rating	The risk that actual premium rate adjustments in the future are less than the expected premium adjustment	EC: Related to renewable heath riders in Malaysia

ECONOMIC CAPITAL

Economic Capital ING Insurance Eurasia (99.5% undiversified) by Risk Category		
	2011	2010
Business Risk	**3.011**	2.979

MARKET RISK

ING Insurance Eurasia is exposed to market risk to the extent the market value of surpluses can be adversely impacted due to movements in financial markets. Changes in financial market prices impact the market value of ING Insurance Eurasia's asset portfolio and hedging derivatives directly as well as through the calculated market value of the insurance liabilities.

Model disclosure

The table below shows the main risk categories for market risk within ING Insurance Eurasia. EC numbers are based on a 99.5% confidence interval on a one-year horizon. IFRS and AFR sensitivities measurement is described in the table below.

	Description	Key Drivers
Interest Rate	Impact of interest rate changes in assets and liabilities AFR & IFRS earnings sensitivities: - Measured by the impact of a 30% upwards and downwards shock relative to the ten year swap rate. Minimum shock is floored at 50 basis points and capped at maximum 150 basis points. Shocks are applied to forward rates up to the last available tenor of the interest rate curve	IFRS Earnings : Guaranteed separate account pension business in the Netherlands AFR & EC: Duration gap for Traditional Life products in Korea caused by non-availability of long duration assets and embedded options in the guaranteed separate account pension business in the Netherlands.
Equity	Impact of changes in equity prices which impacts direct equity exposure and loss of fee income from unit linked, Variable Annuity (VA), pension and fund business. AFR & IFRS earnings sensitivities: - Measured by the impact of a 25% drop in equity prices	IFRS Earnings, AFR & EC: Direct equity exposure and embedded options in guaranteed separate account pension business in the Netherlands and embedded options in VA business in Japan
FX	Impact of losses related to changes in exchange rates AFR & IFRS earnings sensitivities: - Measured by the impact of a 10% up and down movement of currencies compared to the euro	IFRS Earnings: Translation risk of IFRS earnings from non-Euro businesses AFR & EC: Translation risk of market value surplus from non-euro businesses
Implied Volatility (Equity & Interest Rate)	Impact of losses on assets and liabilities due to movements in the volatility implied from market option prices. AFR & IFRS earnings sensitivities: - For interest rate measured by the impact of a relative increase of 30% in implied volatilities - For Equity measured by the impact of a relative increase in implied volatilities based on tenor: 80% for tenors less than 1 year, up 30% for tenors between 1and 3 years, up 20% for tenors between 3-7 years and up 10% for tenors of 7 years and above. NOTE: this impact was not disclosed in 2010 for IFRS earnings as it was considered to be immaterial	IFRS Earnings, AFR & EC: Embedded options in: - traditional Life products in Korea - guaranteed separate account pension business in the Netherlands - VA business in Japan
Credit Spread	Impact of an increase in credit spreads on investments in fixed income securities offset by movements in the liquidity premium on the liabilities. AFR & IFRS earnings sensitivities: - Measured by the impact of a relative increase based on multiplying duration by a rating based shock (e.g. single A shock is 110 basis points). - AAA and AA rated government bonds and home government bonds in local currency (for example KRW government bonds in Korea) are excluded, exception only applicable to Greek bonds. - Shocks for structured credit are 50% higher than for corporate and government bonds. - Liquidity premium is shocked by 50 basis points up to a certain tenor depending on the currency (e.g. EURO 15 years, USD 30 years) In order to avoid double counting Credit Default Risk is only captured for IFRS earnings, while Credit Spread Risk is only measured for AFR. The only exception is impaired assets for which Credit Spread risk is measured for IFRS earnings.	IFRS: Impaired assets in Greece. AFR & EC: Debt securities in all regions. Liquidity premium offset primarily in the Benelux

	Description	Key Drivers
Real Estate Price Risk	Impact of the value of Real Estate assets because of a change in earnings related to Real Estate activities and/or a change in required investor yield AFR & IFRS earnings sensitivities: - For AFR this is measured by the impact of a 15% drop in real estate prices for all real estate holdings - For IFRS Earnings this is measured by the impact of a 15% drop in real estate prices only for the minority holdings and direct for all real estate revalued through P&L. Other holdings will be included in case of a possible impairments caused by the drop in prices	IFRS Earnings, AFR & EC : Real estate holdings in the Benelux

ECONOMIC CAPITAL

Economic Capital ING Insurance Eurasia (99.5% undiversified) by Risk Category

	2011	2010
Market Risk	**7.651**	9.411

Economic capital mainly reduced due to a decrease in equity risk caused by market conditions and additional hedges which were put in place for the direct equity holdings in the Benelux. In addition credit spread risk reduced as Southern European government bonds were replaced by Dutch, Japanese and German government bonds.

Sensitivities

Sensitivities for market risks

	AFR 2011	IFRS Earnings 2011	AFR 2010	IFRS Earnings 2010
Interest Rate Up	**746**	**-220**	601	-170
Interest Rate Down	**-1.601**	**405**	-1.462	251
Equity	**-823**	**308**	-1.720	-85
FX	**-972**	**-89**	-877	-113
Implied Volatility	**-432**	**-116**	-463	n/a
Credit Spread	**-180**	**-35**	-1.912	0
Real Estate	**-790**	**-782**	-798	-791

The Available Financial Resources are currently mainly sensitive to downward interest rates movements and declining equity and real estate prices. Compared to 2010 the downward interest rate sensitivity was reduced by hedges put in place in the Benelux. The sensitivity to equity prices was reduced because of hedges put in place in the Benelux to protect the direct equity exposure. Credit Spread reduced significantly compared to 2010 due to an increased offsetting effect of liquidity premium present in spreads.

The IFRS earnings are mainly sensitive to interest rate movements and a decline in real estate prices. During 2011 the sensitivities for Real Estate risk remained fairly stable. The Interest rates sensitivities compared to 2010 are mainly influenced by the additional hedges put in place in the Benelux. IFRS sensitivities for implied volatility of interest rates and of equity are disclosed since 2011.

REAL ESTATE

Real estate price risk arises from the possibility that the value of real estate assets fluctuates because of a change in earnings related to real estate activities and/or a change in required investor yield. Real estate exposure is mainly present in Europe, more specifically Benelux.

ING Insurance Eurasia has two different categories of real estate exposure on its insurance books. First, ING Insurance Eurasia owns buildings it occupies. Second, ING Insurance Eurasia has invested capital in several real estate funds and direct real estate assets. A decrease in real estate prices will cause the value of this capital to decrease and as such ING Insurance is exposed to real estate price shocks.

The second category can be divided on the one hand in stakes in real estate assets that are revalued through equity and on the other hand stakes in funds and direct real estate revalued through P&L. Only for the last category will real estate price shocks have a direct impact on reported net profit.

Real Estate Exposure Profile by Sector Type				
Sector	**Revalued through P&L 2011**	**Not revalued through P&L 2011**	Revalued through P&L 2010	Not revalued through P&L 2010
Residential	**109**	**967**	349	785
Office	**886**	**605**	1.321	199
Retail	**1.596**	**379**	1.933	0
Industrial	**440**	**0**	422	0
Other	**212**	**518**	166	502
Total	**3.243**	**2.469**	4.191	1.486

As at 31 December 2011, ING Insurance Eurasia has EUR 3.6 billion of real estate related investments (excluding leverage). ING Insurance Eurasia's real estate exposure (i.e. including leverage) is EUR 5.7 billion of which EUR 3.2 billion is recognised at fair value through P&L and EUR 2.5 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 increased by EUR 35 million, mainly as a result of positive fair value changes (EUR 22 million), net investments (EUR 126 million) and FX revaluation (EUR 8 million) offset by divestments (EUR 87 million) and impairments (EUR 34 million).

CREDIT RISK

The main credit risk for ING Insurance Eurasia stems from the bond portfolio. This risk is largely measured through the credit spread risk economic capital that is part of the market risk methodology. The spread risk captures differences in risk (and diversification) between rating classes and regions, but does not capture idiosyncratic risk. This name-specific risk is measured in the Credit Default model, using every bond issuer’s probability of default (PD) and stressed loss given default (LGD). For corporate bonds, the idiosyncratic risk is also managed with rating based issuer & lending limits that prevent large exposures in one (group of related) single name(s). An outright loss given default limit serves as the final backstop for corporate exposures. Government exposures are separately monitored. The credit risk profile is monitored and reported in the Investment Risk Dashboard.

Given the size of the portfolio, term loans (including private placements) are a much smaller source of credit risk for ING Insurance Eurasia. These exposures are also included in the issuer & lending limit monitoring. Residential mortgages and policy loans form the retail credit risk exposures of ING Insurance Eurasia. Credit risks are contained through underwriting criteria and the availability of collateral.

The third source of credit risk is the claims on counterparties from OTC derivatives, money market lending and reinsurance.

- Derivatives transactions are only allowed under an ISDA-master agreement with Credit Support Annex, ensuring that ING Insurance Eurasia receives collateral from its counterparty for the total positive marked-to-market value of all bilateral derivative contracts between ING Insurance Eurasia and that counterparty. In case the net marked-to-market is negative, collateral must be posted with the counterparty.
- Money market lending is only done with banks of good credit standing. ING Insurance Eurasia maintains money market limits for each of these banks. The counterparties are continuously monitored for developments that could warrant lowering the limit.
- Reinsurance credit risk is the risk that one of ING Insurance Eurasia’s reinsurers fails to pay timely, or fails to pay at all, valid claims that were reinsured by ING Insurance Eurasia with that reinsurer. ING Insurance Eurasia mitigates this risk by diversifying its reinsurance exposure over various well rated reinsurers, and by requiring collateral for reinsurance contracts that could lead to reinsurance exposures above a minimum threshold.

Within ING Insurance Eurasia, the goal is to maintain a low-risk, well diversified credit portfolio that meets or exceeds market based benchmark returns. ING Insurance Eurasia has a policy of maintaining a high quality investment grade portfolio while avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of top-down concentration limits for individual borrowers and certain asset classes.

Model disclosure

The table below shows the main risk categories for credit risk within ING Insurance Eurasia. EC numbers are based on a 99.5% confidence interval on a one-year horizon. IFRS and AFR sensitivities measurement is described in the table below.

ING Insurance Eurasia

	Description	Key Drivers
Credit Default	Impact of a default of counterparties on IFRS earnings IFRS earnings sensitivities [1]: - Measured by the impact of multiplying the Historical Cost, the Probability of Default, and the Loss Given Default (stressed by 15%). - Impaired assets are shocked as per the Credit Spread methodology.	IFRS Earnings and EC: General account assets in all regions, mostly bond investments and lending portfolio.
Credit Spread	See Market Risk section.	

[1] In order to avoid double counting Credit Default Risk is only captured for IFRS earnings, while Credit Spread Risk is only measured for AFR. This assumes Credit Default Risk for mortgages and concentration does not have a material Impact on the AFR.

ECONOMIC CAPITAL

Economic Capital ING Insurance Eurasia (99.5% undiversified) by Risk Category

	2011	2010
Credit Default Risk	**606**	627

Sensitivities

IFRS Earnings sensitivities for Insurance Credit Risks

	2011	2010
Credit Default	**–160**	–236

Risk Profile

ING Insurance Eurasia's goal is to maintain a low-risk, well diversified investment grade portfolio while avoiding large risk concentrations. To limit and diversify spread risk, ING Insurance Eurasia manages the credit portfolio's distribution over rating classes and industries. Both profiles also include the non-traded fixed income and money market products whose risks are measured with the Credit Default model. The specific risks are contained through the combined issuer and lending concentration limit framework and the separate money market and reinsurance limit frameworks. Please note that for all of the following tables, the figures exclude all ING intercompany exposures.

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

		2011	2010
1	(AAA)	**29.9%**	26.5%
2-4	(AA)	**16.3%**	15.3%
5-7	(A)	**28.0%**	31.3%
8-10	(BBB)	**8.7%**	9.2%
11-13	(BB)	**3.9%**	4.6%
14-16	(B)	**2.3%**	2.4%
17-22	(CCC, Unrated & Problem Grade)	**10.9%**	10.7%
		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 and are based on ultimate parent.

ING Insurance Eurasia rating class distribution remained fairly stable during 2011. The increase in the AAA class is mainly due to an increase in AAA government bonds. The CCC, Unrated and Problem Grade class which mainly contains bonds from unrated counterparties, private equity and real estate investments.

Risk Concentration: ING Insurance Eurasia portfolio, by economic sector [(1)] [(2)]	2011	2010
Non-Bank Financial Institutions	**17.2%**	17.4%
Central Governments	**43.6%**	41.3%
Commercial Banks	**10.7%**	12.9%
Private Individuals	**7.5%**	7.9%
Real Estate	**2.6%**	2.8%
Utilities	**2.8%**	2.5%
Natural Resources	**1.6%**	1.5%
Food, Beverages & Personal Care	**1.0%**	1.0%
Other	**13.0%**	12.7%
	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'.

Main shift in 2011 is an increase in central governments due to an increased exposure to European Central Governments, mainly Dutch, Japanese and German.

Largest economic exposures: ING Insurance Eurasia portfolio, by geographic area [(1)]	2011	2010
Netherlands	**21.7%**	21.3%
Belgium	**3.8%**	3.6%
Rest of Europe	**42.7%**	46.1%
Americas	**5.9%**	6.2%
Asia/Pacific	**25.0%**	21.7%
Rest of World	**0.9%**	1.1%
Total	**100.0%**	100.00%

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

The decrease in Rest of Europe is mainly due to decreased exposure to Central Governments of Southern European countries.

Security lending business

ING Insurance Eurasia entities can 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 Insurance Eurasia held as collateral under these types of agreements at 31 December 2011 was EUR 8.4 billion (2010: EUR 9.5 billion). The decrease was due to the reduced security lending activities. 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 Insurance Eurasia). As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or pledged in other (similar) transactions. ING is obliged to return equivalent securities in such cases.

Mitigation

ING Insurance Eurasia uses different credit risk mitigation techniques, of which the use of ISDA Master Agreements accompanied with Collateral Agreements for all OTC derivative-transactions is an important example. Other forms of cover are mortgages and guarantees, both are important to enhance the credit quality of ING Insurance Eurasia's mortgage portfolios.

Credit Covers

The table below shows the cover values per credit risk category. At ING Insurance Eurasia, cover is a term which is defined as any security, lien, mortgage, or collateral interest in an asset or guarantee, indemnification or undertaking received (either by contract and/or by law) that is intended to reduce the losses incurred subsequent to an event of default on an obligation (usually financial in nature) a customer may have towards ING Insurance Eurasia. Within ING Insurance Eurasia, covers are subdivided into two distinct groups, called collateral and promises. Reference is made to credit risk management classification as included in the accounting policies for the consolidated annual accounts for a reconciliation between credit risk outstandings categories and financial assets.

Collateral

Collateral is a security interest in assets. If the customer defaults on its promised performance, the asset is given as collateral or security for that obligation is liquidated, such that the proceeds can be applied towards full or partial compensation of the pledgor's (financial) obligation to ING Insurance Eurasia. Assets have monetary value and are generally owned by the person or organisation, who gives them as collateral to ING Insurance Eurasia. Examples of collateral are insurance policies or investment accounts of clients pledged to ING Insurance Eurasia as collateral for mortgage loans, or payables or funds withheld for reinsurance exposures.

Promises

Promises are defined as a legally binding declaration by persons or organisations that give ING Insurance Eurasia the right to expect and claim from those persons or organisations if an ING Insurance Eurasia's customer fails on its obligations to ING Insurance Eurasia. An example is the guarantee by the Dutch National Mortgage Guarantee scheme (NHG) for residential mortgage loans.

In the tables below the residential mortgage portfolio and the mortgage collateral amount are shown. Please note that the figures shown are based on credit collateral amounts, meaning the market values of these properties after haircuts.

Outstandings – Cover values including guarantees received

		31 December 2011					
		Outstandings	Mortgages	Cash	Guarantees	Other	Total Credit Covers
Investment	Financial Institutions	**20.670**				**183**	**183**
	Other	**61.334**				**3**	**3**
Lending	Residential Mortgages	**5.603**	**7.062**		**482**	**398**	**7.942**
	Financial Institutions Lending	**777**					
	Commercial Lending	**3.086**	**341**				**341**
	Government Lending	**280**					
	Other	**88**					
Reinsurance	Financial Institutions	**531**		**139**		**62**	**201**
Other	Financial Institutions	**5.889**		**77**		**45**	**122**
Total		**98.258**	**7.403**	**216**	**482**	**691**	**8.792**

Outstandings – Cover values including guarantees received

		31 December 2010					
		Outstandings	Mortgages	Cash	Guarantees	Other	Total Credit Covers
Investment	Financial Institutions	22.023	-	-	-	194	194
	Other	56.167	-	-	-	1	1
Lending	Residential Mortgages	5.835	7.197	-	475	491	8.163
	Financial Institutions Lending	260	-	-	-	-	-
	Commercial Lending	2.910	352	-	-	-	352
	Government Lending	326	-	-	-	-	-
	Other	-	-	-	-	-	-
Reinsurance	Financial Institutions	475	-	47	-	63	110
Other	Financial Institutions	6.059	-	-	-	10	10
Total		94.055	7.549	47	475	759	8.830

The credit covers in the above table represent the sum of all existing covers, however excess cover amounts on specific assets cannot be put in place for other assets without covers, or with a cover amount that is smaller than the underlying exposure. The valuation methods for covers may vary per cover.

In comparison to 2010 figures, the overall cover amount remained largely unchanged. The increase in cash collateral is due to the data quality improvements with regards to reinsurance exposures and bond repo positions in the Hong Kong life business. For residential mortgage lending, the total loan amount decreased nearly 4%, while the total cover amount for residential mortgages decreased approximately by 2%. The decrease was most notable in the category ‘other cover’ (which comprises of insurance policies received and pledged securities), mainly due to a decrease in the number of covers and the average cover value. The guaranteed value of the Dutch National Mortgage Guarantee scheme (NHG) is estimated to be EUR 1.6 billion. The estimated value of the guarantee can differ depending on the number and amount of rejected NHG claims under the scheme (rejection of claims can occur in case the lending institution does not fully comply with the NHG rules).

Loan-to-Value

The LTV ratio relates the total loan amount to the market value of the collateral. The market value is the registered value as adopted from the valuation report of a qualified appraiser or valuer. For example, the LTV of portfolio invested in The Netherlands is based on foreclosure value. When available, indexation is applied to revalue the collateral to the present value. In the LTV calculation the following property covers are included: residential and industrial/commercial properties, land and applicable other fixed assets. All other covers are excluded. In some countries residential mortgages are covered by governmental or commercial sponsors. For example the NHG (see previous section) in the Netherlands guarantees the repayment of a loan in case of a forced property sale. These covered mortgages are included in the calculation of the weighted average LTV. The ING Insurance Eurasia residential mortgage portfolio amounts to EUR 5.6 billion, making up 5% of the total ING Insurance Eurasia outstandings. The residential mortgage portfolio is for 97% concentrated in the Netherlands (Nationale-Nederlanden). The average LTV of the Dutch residential mortgage portfolio amounts to 86%.

Problem loans

At 31 December 2011 EUR 65 million was classified as a problem loan (2010: EUR 73 million).

Past-due obligations

ING Insurance Eurasia continually measures its portfolio in terms of payment arrears. Particularly the retail residential 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 15 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 60 days, the obligation is transferred to one of the departments that deals with these problem loans.

Aging analysis (past due but not impaired) outstandings (1) (2)

	2011	2010
Past due for 1-30 days	**82**	88
Past due for 31-60 days	**24**	28
Past due for 61-90 days	**17**	14
Total	**123**	130

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

Impaired loans and provisions

The credit portfolio is under constant review. Generally, all loans with past due financial obligations of more than 90 days are automatically reclassified as impaired. For the wholesale lending portfolios and securities obligations, there are generally reasons for declaring a loan impaired prior to being 90 days past due. These include, but are not limited to, ING Insurance Eurasia's assessment of the customer's perceived inability to meet its financial obligations, or the customer filing for bankruptcy or bankruptcy protection. In some cases, a material breach of financial covenants will also trigger a reclassification of a loan to the impaired category. ING Insurance Eurasia identifies those loans as impaired loans when it is likely that the principal and interest amounts contractually due will not be collected in accordance with the contractual terms of the loan agreements, based on current information and events. A formal analysis takes place quarterly to determine the provisions for possible bad debts, using a bottom-up approach. Conclusions are discussed in the Disclosure Committee, which advises the Management Board on specific provisioning levels.

During 2010 and 2011 there were no impairments for loans within ING Insurance Eurasia. Provisions reported here relate to personal loans and mortgages, and are mainly present in Benelux.

Provisions: ING Insurance Eurasia portfolio

	ING Insurance Eurasia	
	2011	2010
Opening balance	**73.0**	55.1
Write-offs	**-11.7**	-4.9
Recoveries	**1.9**	1.0
Increase/(decrease) in loan loss provision	**19.7**	21.6
Exchange differences	**-0.2**	0.2
Other changes	**0.5**	0.0
Closing balance	**83.2**	73.0

LIQUIDITY RISK

Liquidity risk refers to the risk that a company is unable to settle financial obligations when they fall due. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all commitments when due. ING Insurance Eurasia identifies two related liquidity risks: funding liquidity risk and market liquidity risk. Funding liquidity risk is the – primary – risk that ING Insurance Eurasia will not have the funds to meet its financial obligations when due. Market liquidity risk is the – secondary – risk that an asset cannot be sold without significant losses. The interrelation with funding liquidity stems from the fact that when payments are due, and not enough cash is available, investment positions need to be converted into cash. When Market liquidity is low, this would lead to a loss.

Similar to other market risks, liquidity risk falls under the supervision of the Risk Committee. ING Insurance Eurasia maintains a liquidity policy that defines liquidity limits in line with risk tolerances. The Liquidity Management Principles include the following:

- Interbank funding markets should be used to provide liquidity for day-to-day cash management purposes;
- A portion of assets must be invested in unencumbered marketable securities that can be used for collateralised borrowing or asset sales;
- Strategic asset allocation should reflect the expected and contingent liquidity needs of liabilities; and
- Adequate and up-to-date contingency liquidity plans should be in place to enable management to act effectively and efficiently in times of crisis.

ING Insurance Eurasia defines three levels of Liquidity Management. Short-term liquidity, or cash management covers the day-to-day cash requirements under normal business conditions and targets funding liquidity risk. Long-term liquidity management considers business conditions, in which market liquidity risk materialises. Stress liquidity management looks at the company's ability to respond to a potential crisis situation. Two types of crisis liquidity events can be distinguished: a market event and an ING Insurance Eurasia specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale. Depending on the type of event, the policy also defines the composition of the crisis teams.

Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios.

OPERATIONAL RISK

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the risk of reputational loss, as well as legal risk whereas strategic risks are not included. Operational risk also includes IT risk.

For Operational Risk ING Insurance Eurasia has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks. The framework is based on the elements of the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission). The Operational Risk capital calculation is described in the Economic capital section.

The Operational risk function works with the Operational Risk Management (ORM) Scorecard process to evaluate yearly the embedding level of the ORM Framework in each business. Policies and minimum standards governing the framework are kept in the policy house. During 2011 Operational Risk started with the implementation of this policy house in which the existing policies are kept in a well structured and easy to access manner.

Risk appetite is defined as the risk level management is prepared to tolerate. The operational risk appetite levels are set by the management team of ING Insurance Eurasia. Via Non Financial Risk Committees (NFRC's) it is ensured that responsible line managers mitigate the risks that are not within the risk appetite. Incidents and operational risks are tracked and reported on a quarterly basis to management in the Non-Financial Risk Dashboard.

Integrated risk assessments are performed at least once a year to determine the completeness of the risks in scope and the level of the risks. Mitigating actions are taken on those risks that are identified as risks beyond the risk appetite level. Status of the mitigating actions is tracked.

To ensure an independent Operational risk function and the possibility for the Operational risk officers to be impartial and objective when advising business management on Operational Risk in their Business Unit and Region, a dual reporting line, directly to Chief Risk Officer of their business and functionally to the next higher level Operational risk Officer, is in place. The head of Operational risk ultimately reports directly to the Deputy Chief Risk Officer.

ECONOMIC CAPITAL

Economic Capital ING Insurance Eurasia (99.5% undiversified) by Risk Category

	2011	2010
Operational Risk	**640**	633

COMPLIANCE RISK

Compliance Risk is defined as the risk of damage to ING Insurance Eurasia's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies, procedures and ethical standards. In addition to reputational damage, failure to effectively manage Compliance Risk could expose ING Insurance Eurasia to fines, civil and criminal penalties, and payment of damages, court orders and suspension or revocation of licenses, which would adversely impact customers, staff and shareholders of ING Insurance Eurasia.

ING Insurance Eurasia separates Compliance Risk into four conduct-related integrity risk areas: client conduct, personal conduct, organisational conduct as well as conduct required because of laws and regulations in the financial services industry. In addition to effective reporting systems, ING Insurance Eurasia has a Whistleblower procedure which encourages staff to speak up if they know of or suspect a breach of external regulations or internal policies or Business Principles.

As a result of frequent evaluation of all businesses from economic, strategic and risk perspectives, ING Insurance Eurasia continues to believe that doing businesses in Myanmar, North Korea, Sudan, Syria, Iran and Cuba should be discontinued. ING Insurance Eurasia 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.

ING Insurance Eurasia performs a due diligence process when developing products and invests considerably in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception by both the public at large and governmental authorities of acceptable market practices might influence client expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations, reported incidents and regulatory activity. As part of ING Insurance Eurasia's customer centric commitment, Compliance Risk Management and the business work closely together to optimise both products and services to meet the customers' needs.

ING Insurance Eurasia Compliance Risk Management has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting compliance risks. The Compliance function works with the ORM Scorecard process to evaluate yearly the level in which the Compliance Risk Management Framework is embedded in each business.

To ensure an independent compliance function and the possibility for the Compliance Officers to be impartial and objective when advising business management on Compliance Risk in their Business Unit and Region, a dual reporting line, directly to General Management of their business and functionally to the next higher level Compliance Officer, is in place.

Main developments in 2011

- Building Customer Trust – As part of ING Insurance Eurasia's customer centric commitment, Compliance Risk Management and the business worked closely together to optimise both products and services to meet the customers' needs.
- Learning – Continuous education and awareness training was provided through face-to-face training sessions and online learning tools.

ING INSURANCE US

MISSION AND OBJECTIVES

As a financial services company active in investments, life insurance and retirement services ING Insurance US is naturally exposed to a variety of risks. The mission of risk management in ING Insurance US is to build a sustainable and competitive advantage by fully integrating risk management into daily business activities and strategic planning.

The following principles support this objective:

- A transparent communication to internal and external stakeholders on risk management and value creation;
- Compliance with internal and external rules and guidelines is monitored;
- Products and portfolios are structured, underwritten, priced, approved and managed appropriately;
- The risk profile of ING Insurance US is transparent, managed to avoid surprises and is consistent with delegated authorities;
- Delegated authorities are consistent with the overall ING Insurance US strategy and risk appetite.

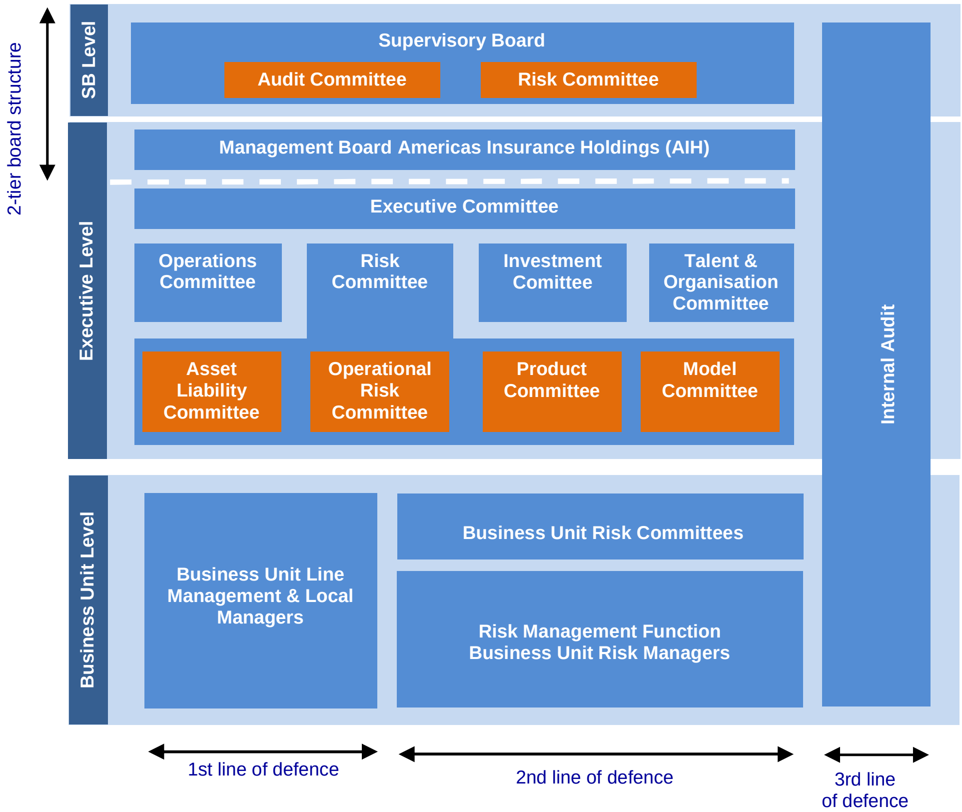
RISK GOVERNANCE

The risk governance is based on the “three lines of defence” framework which ensures that risk is managed in line with the risk appetite as defined by the Management Board AIH (MB AIH) and ratified by the Supervisory Board and is cascaded throughout ING Insurance US.

For most of 2011 ING Insurance US executive management delegated risk governance to a financial risk committee called “Business Line Insurance US & BL US Closed Block Variable Annuity Asset Liability Committee”, the BL ALCO, and a non-financial risk committee called “Operational Risk Committee”.

- BL ALCO
  Provided oversight on all financial risk related issues for ING Insurance US.
  Advised management on risk limits and appetites, approved investment mandates, oversaw assumption setting.
  Implemented and monitored ING Group risk policies ensuring consistency across business units.
- Operational Risk Committee
  Addressed bottoms up business unit operational risk matters.
  Coordinated across business units on issues including financial controls, business continuity, and information security.
  Implemented and monitored ING Group’s operational risk policies across business units.

In the last quarter of 2011, ING Insurance US transitioned to an expanded risk governance structure as described below.



Board level risk oversight
ING Insurance US has a two-tier board structure consisting of the Management Board AIH (MB AIH) and the Supervisory Board.

The Supervisory Board is responsible for supervising the policy of the MB AIH, the general course of affairs of the Company and its businesses. For Risk Management purposes the Supervisory Board is assisted by two sub-committees:

- The Audit Committee assists in reviewing and assessing ING Insurance US's major risks and the operation of internal risk management and control systems, as well as policies and procedures regarding compliance and its applicable laws and regulations;
- The Risk Committee assists in matters related to risk governance, risk policies and risk appetite setting.

The Chief Risk Officer (CRO) attends the meetings of both committees. The MB AIH is responsible for managing the risks associated with the activities of ING Insurance US. The MB AIH responsibilities include ensuring the risk management and control systems are effective and ING Insurance US complies with relevant legislation and regulations. The MB AIH reports and discusses these issues on a regular basis with the Supervisory Board, and reports to the Audit Committee on a quarterly basis on ING Insurance US's risk profile versus its risk appetite.

As part of the integration of risk management into the annual strategic planning process, the MB AIH issues a Planning Letter which provides the organisation with the corporate strategic planning, and addresses key risk issues. Based on this letter the business units develop their business plans, including qualitative and quantitative assessment of the risks involved. As part of the process strategic limits and risk appetite levels are explicitly discussed. Based on the business plans the Management Board formulates the Strategic Plan which is submitted to the Supervisory Board for approval.

Executive Level
As noted above, during 2011 ING Insurance US transitioned from a financial risk committee called "Business Line Insurance US & BL US Closed Block Variable Annuity Asset Liability Committee" and a non-financial risk committee called "Operational Risk Committee" to the expanded structure described below.

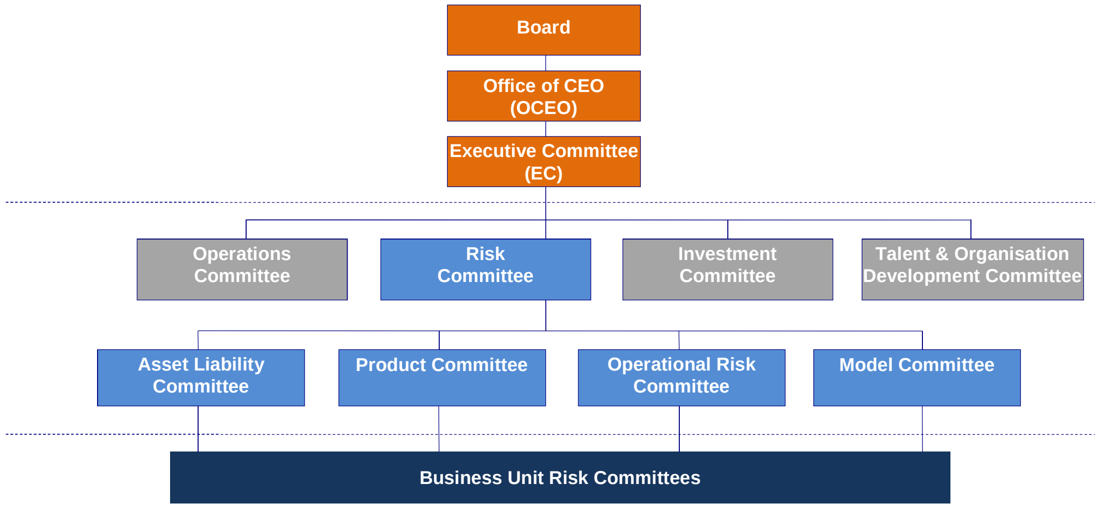
For risk related issues the MB AIH relies the Executive Committee which has delegated risk related tasks to the following committees:

- Risk Committee
  Assists the Executive Committee (EC) by focusing on ING Insurance US risk management and capital issues.
  Advises the EC with respect to financial, non-financial, product and model risk issues ("All Risks").
  Recommends, approves and reviews risk policies and determines risk appetite, tolerance and limits.
  The Risk Committee has a number of sub-committees focussing on different risk areas:

  - Product Committee
    Oversees all insurance product risk issues across ING Insurance US. These include insurance risks and interest rate sensitivity (interest guarantees, profit sharing to policyholders, lapse/surrender or increased exposure of products sold, and hedges).
    Responsible for preparation/approval on product risk items (e.g., product approval, actuarial assumption setting), monitoring underwriting and management of the product portfolio.
  - Operational Risk Committee
    Oversees all non-financial risk issues across ING Insurance US. This includes operational, compliance, legal and reputation risk.
    Responsible for preparation/pre-approval of non-financial risk items, oversight on non-financial risk issues, and deciding on reported risks and proposed accepted risk.
  - Model Committee
    Oversees all model and model validation risk issues across ING Insurance US.
    Responsible for preparation/pre-approval of model risk items and oversight on model validation.
  - Asset Liability Committee
    Reviews methods and techniques for calculating Asset Liability Management risk, advice about limits and check for breaches in the investment mandates.
    Addresses balance sheet management, Statutory Capital requirements, and liquidity needs and recommend to the Executive Committee.
    Oversees activities and initiatives related to ING Insurance US debt ratings and relationships with ratings agencies.
    Recommends capital and liquidity requirements to the Risk Committee.

Risk Management continued

ING Insurance US

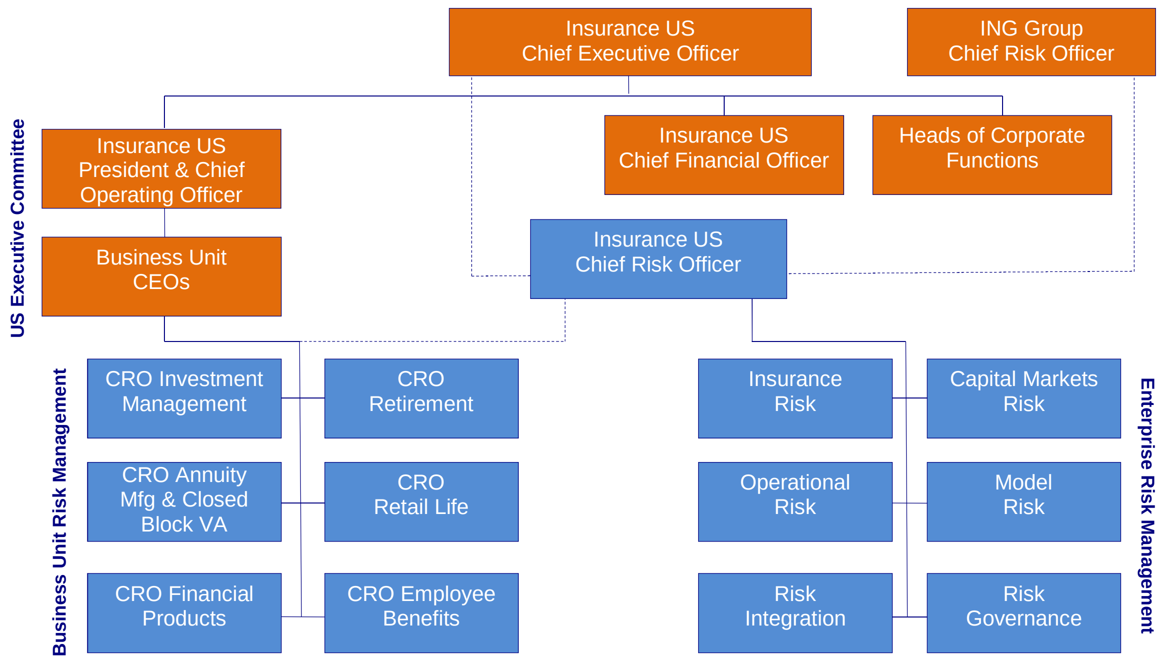


Risk Management Function

The Chief Risk Officer bears primary and overall responsibility for the risk management function within ING Insurance US, which identifies, measures, monitors and reports risk within ING Insurance US. The risk function maintains and updates the policy framework, develops and maintains risk methodologies and advises on the risk tolerance and risk profile. The CRO makes sure both the Supervisory Board and MB AIH are well informed and understand ING Insurance US's risk position at all times.

The ING Group CRO has delegated the day-to-day Risk Management within ING Insurance US to the ING Insurance US CRO. The ING Insurance US CRO's department (US Enterprise Risk Management) consists of several risk functions that support the overall business unit and ING Insurance US risk management activities.

Risk committees are established at the ING Insurance US and business unit levels. The Chief Risk Officers of the business units have a reporting line to the ING Insurance US CRO.



Product Approval and Review Process

A critical aspect of risk management is that all new products are designed, underwritten and priced appropriately. Within ING Insurance US this is safeguarded by the Product Approval and Review Process (PARP). This standard includes requirements to risk profile, traditional and value-oriented pricing metrics, targets and documentation. The PARP includes requirements to assess market risks, insurance risk, compliance risk, legal risk, credit risk, operational risk as well as assessment of the administration and accounting aspects of the product. Customer suitability is integral part of the PARP requirements.

Reserve adequacy

US ERM instructs and supervises all ING Insurance US entities to ensure that the total insurance liabilities of ING Insurance US are tested for adequacy taking into account the insurance premium rate levels and the uncertainty of future returns on investments. This is done by evaluating insurance liabilities 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 of the best-estimate scenario.

Policies

ING has a framework of risk policies, procedures, guidance and practice notes 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 Insurance level framework and meets local (regulatory) requirements. Senior Management is responsible to ensure policies, procedures and standards are implemented and adhered to. Policies, procedures, guidance and practice notes are regularly reviewed and updated via the relevant risk committees to reflect changes in markets, products, guidance and emerging best practices.

Model governance

During 2011 new models with regard to the disclosed metrics were approved by the Insurance Model Committee at the ING Group level. Under the new governance structure this will be the responsibility of the ING Insurance US Model Committee.

ING INSURANCE US RISK FRAMEWORK

In order to manage the risk on a day-to-day basis and balance value, earnings and capital decisions, ING Insurance US has implemented a risk limit framework. The risk limit framework follows a top down approach.

	Description
Risk Appetite	A qualitative measure defining the playing field ING Insurance US wants to act in. Driven by ING Insurance US's capital rating targets and local capital restrictions, and business strategy.
Risk Tolerance	A quantitative boundary intended to limit the risks taken driven by the risk appetite.
Risk Limits	Limit setting to a granular level for business units throughout the organisation.

The risk appetite is managed by the following risk tolerance metrics:

- US Regulatory Capital Requirements - Defined as a multiple of the minimum capital required by the National Association of Insurance Commissioners (NAIC) with consideration of the capital requirements deemed appropriate to maintain the ratings level issued to the operating companies by various rating agencies, excluding entities that are not US domiciled;
- IFRS Earnings;
- Targets are set on the current ratio values, limits are set on these ratios after considering a moderate stress scenario; and
- ING Insurance US is considering the implementation of additional risk tolerance metrics, potentially including US GAAP Earnings, capital sensitivities that include non-US domiciled entities, and a US management version of Economic Capital (which may not fully align with Solvency II).

Financial Risks

For financial risks, the risk tolerance is translated to risk limits on several sensitivities assuming a moderate stress scenario.

- US Regulatory Capital Requirements sensitivities

  The potential reduction, under a moderately adverse 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. The amount of excess capital targeted is also dependent on rating agency models and requirements.

- IFRS Earnings sensitivities
  The sensitivity of realised pre tax earnings of the insurance operations over a 12-month period to moderate shocks to underlying risk factors.

Other than this, several other limit structures are put in place on corporate and business unit level. Examples include but are not limited to the following:
- Issuer concentration limits
- Mortality concentration limits
- Catastrophe and mortality exposure retention
- Minimum liquidity requirements
- Investment and derivatives guidelines and limits

Financial Risk Dashboard
The Financial Risk Dashboard (FRD) is a quarterly report that is a quarterly report that is discussed at the Risk Committee of the MB AIH and the Financial Risk Committee. The FRD provides a quarterly overview of the main financial risk metrics (IFRS earnings and Regulatory Capital sensitivities) compared to the limits set by management in alignment with the risk appetite.

Non-Financial Risks
To ensure robust non-financial risk management, which also reflects the risk tolerance levels, ING Insurance US monitors the full implementation of ING Insurance US's risk policies, minimum standards and implementation guidelines. Business units have to demonstrate that the appropriate steps have been taken to control their operational and compliance risk. ING Insurance US 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 quarterly report that is discussed at the meetings of the Supervisory Board, AIH Executive Committee and ING Insurance management bodies. The NFRD provides management at all organisational levels with information on their key operational, compliance and legal risks. The NFRD is based on defined risk tolerance and a clear description of the risks and responses enabling management to prioritise and to manage operational, compliance and legal risks.

Stress Testing
ING Insurance US complements its regular risk reporting process with (ad hoc) stress tests. Stress testing examines the effect of exceptional but plausible scenarios on the capital position for ING Insurance US. Stress testing can be initiated internally or on certain request from external constituents.

RISK TYPE DESCRIPTION
ING Insurance US measures the following main types of risks that are associated with its business risk:
- Insurance risk – risks such as mortality and morbidity associated with the claims under insurance policies it issues/underwrites; specifically, the risk that premium rate levels and provisions are not sufficient to cover insurance claims.
- Market risk – the risk of potential loss due to adverse movements in market variables. Market risks include interest rate, equity, real estate, implied volatility, credit spread, and foreign exchange risks.
- Credit risk – the risk of potential loss due to default by ING Insurance US debtors (including bond issuers) or trading counterparties.
- 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.
- Liquidity risk – the risk that ING Insurance US or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions.
- Operational risk – the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputation risk, as well as legal risk.
- Compliance risk – the risk of damage to ING Insurance US's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies, procedures and ethical standards.

INSURANCE RISK
Insurance risks are comprised of actuarial and underwriting risks such as mortality, longevity, morbidity etc. which result from the pricing and acceptance of insurance contracts.

The table below shows the main risk categories for insurance risks within ING Insurance US. IFRS Earnings sensitivities are defined on a shock scenario at the 90% confidence level.

ING Insurance US

	Description	Key Drivers
Mortality	Within mortality risk there are two main parts: - Positive mortality risk exists when more insureds diying than expected, leading to higher claims than expected. - Negative mortality risk exists when insureds live longer than expected, leading to higher claims than expected (moderate shocks are not material to the P&L).	The largest earnings sensitivity to positive mortality risk arises in the Retail Life insurance business.
Morbidity	Morbidity or Health insurance covers insurance indemnifying or reimbursing losses (e.g. loss of income) caused by illness or disability, or for expenses of medical treatment necessitated by illness or disability. Morbidity risk comprises the risk of variability of size, frequency and time to payment of future claims, development of outstanding claims and allocated loss adjustment expenses (ALAE) for morbidity product lines over the remaining contract period.	Earnings sensitivity to morbidity risk (e.g. sickness, disability, accidental death, workers' compensation, medical insurance) is present in the Employee Benefits business.

Sensitivities
Mortality and morbidity sensitivities are calculated on a diversified basis at a 10% level assuming a normal probability distribution of results and a specified mortality/morbidity scenario to calibrate the distribution. 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.

IFRS Earnings Sensitivities for Insurance Risks

	US Excl. CB-VA		CB-VA	
	2011	2010	**2011**	**2010**
Mortality	**-19**	-16	**-7**	-3
Morbidity	**-49**	-48	**0**	0

Mitigation
In general insurance risks cannot be (easily) hedged directly at the financial markets and tends to be mitigated by diversification across large portfolios. They are therefore managed at the contract level through standard underwriting policies, product design requirements, independent product approval processes and risk limitations related to insurance policy terms and conditions agreed with the client.

Risk not mitigated by diversification is managed through concentration and exposure limits and through reinsurance and/or securitisations:

- Tolerance limits for life insurance risk are set per insured life and significant mortality and morbidity events affecting multiple lives such as pandemics;
- Reinsurance is used to manage tolerance levels according to the ING Insurance US reinsurance credit risk policy;
- Catastrophic losses resulting from events such as terrorism are considered to be uninsurable. ING Insurance US participates in industry pools in various countries to mitigate this risk.

BUSINESS RISK
Business risk for insurance is essentially the risk insurance operations accept as consequence of choosing to be in the business. In practice this can be defined as the exposure to the possibility that experience differs from expectations with respect to expenses, the run-off of existing business (persistency/renewals), future premium rerating, etc. The calculation of Business Risk Capital is specified by the regulatory capital methodology prescribed by the National Association of Insurance Commissioners (NAIC). ING Insurance US targets a capital level equal to 425% of the Company Action Level specified by the NAIC.

MARKET RISK
ING Insurance US is exposed to market risk to the extent to which the market value of surpluses can be adversely impacted due to movements in financial markets. Changes in financial market prices impact the market value of ING Insurance US's current asset portfolio and hedging derivatives directly as well as through the calculated market value of the insurance liabilities.

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

ING Insurance US

	Description	Key risk drivers
Interest Rate	- Impact on assets and liabilities due to movements of interest rates - Measured by the impact of a 1% upwards and downwards parallel shift of US Treasury curve	Sensitivities of various guarantees (e.g., minimum interest rate guarantees, and guaranteed living benefits). CB-VA and GMIRs of insurance products
Equity	- Impact of a drop in equity prices which impacts direct equity exposure and loss of fee income from variable and equity linked - Measured by the impact of a 25% drop in equity prices	Separate account and equity indexed business, and direct equity exposure
Credit (Default and Spread risk)	- Impact that credit default risk can have on credit impairment levels in a “1 in 10” scenario (using “1 in 10” 1-year default rates by rating category, combined with stressed “Loss Given Default” assumptions); plus impact that a “1-in-10” increase in credit spreads levels can have on previously impaired structured assets (re-impairment risk) and on CDS transactions that are carried at market value	General account business
Implied Volatility (Equity & Interest Rates)	- Impact of losses on assets and liabilities due to movements in the volatility implied from market option prices. - For interest rate - measured by the impact of a relative increase of 30% in implied swaption volatilities - For equity - measured by the impact of a relative increase in implied volatilities based on tenor - 80% for tenors less than 1 year, up 30% for tenors between 1and 3 years, up 20% for tenors between 3-7 years and up 10% for tenors of 7 years and above	Embedded guarantees in business and derivatives used to hedge equity exposures
FX	- Impact of losses related to changes in real estates - Measured by the worst case impact of a 10% up and down movement for each currency	Translation risk of market value surplus of non-USD businesses
Real Estate	- Impact of losses related to changes in real estate - Measured by impact of all real estate down 15%	

Sensitivities
The stress events are described above. The ING Insurance US earnings sensitivities are dominated by credit, equity and interest rate exposure.

ING Insurance US has no significant earnings sensitivity to Foreign Exchange Rates as ING Insurance 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. From the ING Group perspective, there may be some translation risk between USD based operations and EUR basis.

ING Insurance US earnings sensitivities are shown in the tables below. Taking into account diversification between risk factors, ING Insurance US (excluding CBVA) is exposed to a EUR 1.0 billion decrease in expected IFRS Earnings within the context of the market and non-market sensitivity analysis. The changes from 2010 to 2011 are the result of many factors including:

- Reduction in interest rates increasing exposure to further declines in rates due to product guarantees;
- Hedging programs, including various actions taken to reduce the risk of declining rates;
- Turnover of the asset portfolio; and
- Incorporation of mean reversion in DAC calculations by Retirement Services

ING Insurance US

IFRS Earnings Sensitivities for Market Risks [(1)] [(2)]		
	US Excl. CB-VA	
	2011	2010
Interest Rate Up	**72**	13
Interest Rate Down	**-146**	-34
Equity	**-293**	-374
Credit – Default	**-355**	-513
Credit – Spread	**-188**	-269

[(1)] Implied Volatility, FX and Real Estate sensitivities do not have a material impact.
[(2)] Sensitivities are calculated at business unit level.

Estimated CBVA Immediate Earnings Sensitivities at 31 December, 2011 (EUR Millions)	Immediate Change In Equity Market					
	-25%	-15%	-5%	+5%	+15%	+25%
Earnings sensitivity before RAT Policy Impact	750	500	100	-250	-600	-900
RAT Policy Impact (RAT50)	-950	-600	-200	0	0	0
Total estimated Post Refinement Earnings Sensitivity	-200	-100	-100	-250	-600	-900
Improvement in RAT 50 Sufficiency	-	-	-	200	600	950

Due to the lack of excess reserve adequacy, CBVA results may be volatile under certain economic scenarios. This volatility is shown in the table above which shows the estimated sensitivity of IFRS earnings to immediate changes in equity markets. For, example, as of December 31, 2011 it is estimated that if equity markets were to increase 25%, CBVA would be exposed to an immediate EUR 0.9 billion decrease in IFRS Earnings and an increase in the reserve adequacy at the 50% confidence level of EUR 0.95 billion. This immediate sensitivity is not directly comparable to the 12 month sensitivities shown in the preceding table.

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.

Mitigation
ING Insurance US manages its risk exposure through contractual adjustment mechanisms such as changes to credited rates, the contractual terms related to new business, adjusting its capital structure within regulatory constraints, and, where deemed appropriate, hedging various exposures.

Real Estate
ING Insurance US has a small exposure to direct real estate, which is composed primarily of Home Office real estate and real estate from foreclosed loans.

Real Estate Exposure		
	2011	2010
Total	**125**	121

CREDIT RISK
ING Insurance US credit exposure arises from the investment of insurance premiums in assets subject to credit risk, largely in the form of unsecured bond investments, investments in private placements and commercial mortgages, as well as in structured finance products. In addition, ING Insurance US is exposed to credit counterparty risk exposure in derivatives transactions, sell/repurchase transactions, securities lending/borrowing and in reinsurance contracts.

Within ING Insurance US, the goal is to maintain a low-risk, well diversified credit risk portfolio that meets or exceeds market based benchmark returns. ING Insurance US has a policy of maintaining a high-quality investment grade fixed income portfolio while avoiding large risk concentrations. The emphasis is on managing total exposure and concentration risk by means of portfolio level risk limits and concentration limits for countries, individual borrowers and borrower groups. Counterparty credit risk is mitigated by only transacting with counterparties that meet minimum credit quality standards as well as by requesting collateral for all larger exposures.

The table below shows the main risk categories for credit risk within ING Insurance US.

	Description	Key Drivers
Issuer or Investment Risk	- Risk related to the impact of a credit default or rating migration, plus the risk that a change in general credit spread levels can have on the market value of these instruments - Measured at original cost (purchase price) less any prepayments or amortisations and excluding any accrued and unpaid interest or the effects of any impairment.	Investments in public bonds, commercial paper, securitisations and other publicly traded securities
Lending Risk	- Risk related to certain illiquid investments made by ING Insurance US - Measured at original cost (purchase price) less any prepayments or amortisations and excluding any accrued and unpaid interest or the effects of any impairment.	Privately placed bonds and commercial mortgage loans in the United States.
Pre Settlement Risk	- Risk of a counterparty defaulting on a transaction before settlement and ING Insurance US having to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. - Measured as the replacement value (mark-to-market) plus a potential future volatility concept, using a 3-7 year historical time horizon and a 97.5% (1.96 standard deviations) confidence level.	Options, swaps, and securities financing transactions used for hedging purposes

Risk Profile

Risk classes

As a result of the downgrade of the United States Government in August 2011 by S&P, the exposure to AAA rated assets decreased to 16.5%. This resulted in a large "inflow" in the AA category, but that was offset by insurance companies where ING Insurance US has (collateralised) reinsurance counterparty risk were downgraded from AA to A. The 17-22 category largely consists of unrated exposures. The exposure to assets actually rated CCC or below is less than 3% of the portfolio.

Risk Classes: ING Insurance Eurasia portfolio, as % of total outstandings [(1)]

		ING Insurance US	
		2011	2010
1	(AAA)	**16.5%**	22.3%
2-4	(AA)	**13.7%**	13.9%
5-7	(A)	**25.3%**	23.4%
8-10	(BBB)	**24.0%**	21.3%
11-13	(BB)	**3.8%**	4.0%
14-16	(B)	**3.9%**	4.5%
17-22	(CCC, Unrated & Problem Grade)	**12.8%**	10.6%
		100%	100%

(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 and are based on ultimate parent.

The risk concentration per sector remains very similar to last year, with the largest decrease shown for Non-Bank Financial institutions which decreased by 2.9% Please note that this category largely consists of special purpose vehicles that issue RMBS, ABS and CMBS securities.

Risk concentration: ING Insurance US portfolio, by economic sector [1]		
	ING Insurance US	
	2011	2010
Non-Bank Financial Institutions	**38.6%**	41.5%
Real Estate	**8.5%**	7.9%
Central Governments	**8.2%**	8.4%
Natural Resources	**6.9%**	5.5%
Utilities	**6.0%**	5.2%
Commercial Banks	**4.4%**	3.4%
Food, Beverages & Personal Care	**3.6%**	3.2%
Chemicals, Health & Pharmaceuticals	**3.1%**	3.0%
Private Individuals	**2.2%**	2.3%
Telecom	**2.2%**	2.1%
General Industries	**2.1%**	1.6%
Other	**14.2%**	15.9%
	100%	100%

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

ING Insurance US largely invests in financial instruments issued in the United States, as required by regulation. Bonds and private placements issued by Western European corporations account for the majority of the non-US exposure. The decrease in exposures to the Netherlands is partially related to a reduction in the exposure to the Dutch state.

Largest economic exposures: ING Insurance US portfolio, by geographic area [1]		
	ING Insurance US	
	2011	2010
United States	**77.4%**	77.7%
Netherlands	**5.7%**	8.2%
Rest of Europe	**9.3%**	6.8%
Rest of Americas	**4.4%**	4.2%
Asia/Pacific	**3.0%**	3.0%
Rest of World	**0.2%**	0.1%
Total	**100%**	100%

[1] Country is based on the country of residence of the obligor.

Securities Lending Business

As part of its securities financing business, ING Insurance US entities actively enter into agreements to sell and buy back marketable securities. These transactions can take many legal forms. Repurchase and reverse repurchase agreements, buy/sellback and sell/buyback agreements, and securities borrowing and lending agreements are the most common. The amount of marketable securities that ING Insurance US held as collateral under these types of agreements was EUR 0.8 billion in 2011 and EUR 2 billion in 2010. The change is largely due to a decrease in repurchase agreements and the elimination of the Cash Release securities lending program. 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 Insurance US). As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or pledged in other (similar) transactions. ING Insurance US is obliged to return equivalent securities in such cases.

Mitigation

Credit Risk in ING Insurance US portfolio is partially mitigated by collateral it has received.

- The entire block of commercial mortgages (EUR 6.7 billion) is collateralised with mortgages on real estate properties. The weighted average loan to (most recent) value of this portfolio was 55% as per 31 December 2011.
- The EUR 10 billion private placement portfolio is partially collateralised with assets pledged to the consortium of lenders.
- The EUR 1.7 billion policy loan portfolio is fully collateralised by the cash value of the underlying insurance policies.
- The gross counterparty risk exposure to reinsurance companies (EUR 5.8 billion per 31 December 2011) is largely collateralised with assets held in trust (EUR 4.0 billion), letters of credit (EUR 1.8 billion), or funds withheld (EUR 1.1 billion). Please note however that some exposures are overcollateralised and that there is a total of EUR 1.7 billion of uncollateralised reinsurance counterparty risk exposure.

- Exposure to financial institutions related to OTC derivative-transactions is largely collateralised, in line with ISDA Master Agreements accompanied by Collateral Support Agreements that have been signed with these counterparties. As per 31 December 2011, ING Insurance US was holding net collateral of EUR 0.35 billion supporting a net market value exposure of EUR 0.5 billion.

Exposures related to Securities Lending, Reverse Repo, and exchange traded instruments are obviously also collateralised.

Problem Loans
ING Insurance US does not have any material past-due or impaired loans. The only type of investments that fall into the loan category are commercial mortgage loans. As soon as such loans become non-performing, the collateral is typically liquidated or the loan is sold.

Impaired loans and provisions
ING Insurance US mainly has bond investments. The amount of impaired loans in its portfolio is very small and limited to commercial mortgage loans.

LIQUIDITY RISK
Liquidity risk refers to the risk that a company is unable to settle financial obligations when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions. As with other market risks, liquidity risk falls under the supervision of the Risk Committee function. Under the volatile market circumstances in 2011, funding and liquidity risk remains an important topic on the agenda of senior management and the Risk Committee, that needs continuous monitoring and management. External market and regulatory developments and internal financial developments are closely monitored. Regular stress testing and measurement of early warning indicators are, among others, used to provide additional management information.

ING Insurance US defines two levels of Liquidity Management. Short-term liquidity, or cash management, covers the day-to-day cash requirements under normally expected or likely business conditions. Long-term liquidity management takes into consideration various expected and adverse business conditions, which might result in the inability of realising the current market values of the assets. The assets 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. Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis in a base case and under several stressed scenarios.

OPERATIONAL RISK
Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the risk of reputation loss, as well as legal risk whereas strategic risks are not included. Operational risk also includes IT risk.

For Operational Risk, ING Insurance US follows the ING Group framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks. The ING framework is based on the elements of the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission).

The Operational risk function works with the ING Operational Risk Management (ORM) Scorecard process to evaluate yearly the embedding level of the Operational Risk Management Framework in each business. Policies and minimum standards governing the framework are kept in the policy house. During 2011 Operational Risk started with the implementation of an ING Insurance US policy house in preparing for a stand-alone public organisation.

Risk appetite is defined as the risk level management is prepared to tolerate. The operational risk appetite levels are set by ING Group in the form of a risk footprint. Via Operational Risk Committees (ORCs) it is ensured that responsible line managers mitigate the risks that are not within the risk appetite. Incidents and operational risks are tracked and on a quarterly basis reported to management in the Non-Financial Risk Dashboard.

Integrated risk assessments are performed on an ongoing basis across the organisation. Mitigating actions are taken for those risks that are identified as risks beyond the risk appetite level. Status of the mitigating actions is formally tracked.

To ensure an independent Operational risk function and the possibility for the Operational risk officers to be impartial and objective when advising business management on Operational Risk, a dual reporting line, directly to ING Insurance US Chief Risk Officer and functionally to the next higher level ING Group Operational Risk Officer, is in place. The head of Operational risk ultimately reports directly to the ING Insurance US Chief Risk Officer.

ING INSURANCE US COMPLIANCE RISK
The ING Insurance US Compliance program and function are aligned with ING Group's Compliance Risk Management Charter and Framework and the related processes described elsewhere in this Report.

The Scope of the Compliance function

The ING Insurance US Compliance function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry. The Compliance function actively educates and supports the business in managing compliance risks including anti-money laundering, preventing terrorist financing, conflicts of interest, sales practices for insurance and investment products, trading conduct and protection of customer interests.

The Compliance function

In ING Insurance US, the Compliance function is an independent control and risk management department. The ING Insurance US Chief Compliance Officer reports directly to the ING Insurance US Chief Legal Officer, who is a member of the ING Insurance US Executive Committee. The ING Insurance US Chief Compliance Officer also has a functional reporting line to the ING Group Chief Compliance Officer.

Compliance Risk Management Framework

ING Insurance US adheres to the ING Group Compliance Framework, which consists of three key components: the Compliance Risk Management process, an Advisory component and the Scorecard. ING Insurance US Compliance executes a regular process of identifying, assessing, mitigating, monitoring and reporting compliance risks. The Compliance function works with Operational Risk Management's annual evaluation process, assessing the implementation of compliance program elements within each business line and across the enterprise.

ING Insurance US also maintains a Whistleblower process, which encourages staff to speak up, without fear of reprisal, if they know of or suspect a breach of laws, regulations or internal policies. ING Insurance US also maintains a domestic "hotline" operated by a third-party vendor that is available to all employees to report suspected misconduct, and reporting employees may elect to remain anonymous in doing so.

Main Compliance developments in 2011

- **Policies & Procedures**: ING Insurance US Compliance reviewed and prepared drafts of an updated Code of Business Conduct and Ethics, along with new or refreshed Corporate Compliance Policies tailored to the US business and regulatory regime. These will be issued and implemented in 2012.
- **Technology Enhancements**: ING Insurance US Compliance enhanced technology and tools to improve compliance risk management in the areas of anti-money laundering, position reporting and personal trading.
- **Enterprise Functions**: ING Insurance US Compliance enhanced its organisation by implementing greater focus on consistent enterprise-wide compliance processes and dedicated teams to support critical functions across all business lines, including advertising review, customer complaint resolution, branch office compliance inspections and compliance training. Compliance also integrated its team and processes supporting all of the ING Insurance US wholesale broker-dealers in the Retirement, Insurance and Annuity Manufacturing business lines to provide more effective and consistent controls.
- **Extra-territorial Laws**: The UK Bribery Act was effective 1 July 2011 and is deemed applicable to ING's business globally. Accordingly, the ING Group Gifts, Entertainment and Anti-Bribery Policy was amended to comply with the UK Bribery Act, and ING Insurance US adopted and implemented the amended Group policy to enhance ING Insurance US's existing anti-corruption and anti-bribery policies and procedures.
- **Employee Compliance Training**: Continuous education and awareness training was provided through the ING Learning Center, with four required Corporate Responsibilities Courses for all ING Insurance US employees, in addition to two targeted courses on Privacy and Anti-Money Laundering for certain designated employees.

REGULATORY CAPITAL

For the capital adequacy assessment of ING Insurance's US domiciled regulated insurance businesses, available capital is measured under US statutory accounting principles and required capital is measured under the US regulatory Risk Based Capital (RBC) methodology defined by the National Association of Insurance Commissioners (NAIC). Commonly in the US an insurer's financial strength and ability to meet policyholder obligations is measured in terms of the amount of statutory capital held in relation to the 'Company Action Level' RBC defined by the NAIC framework. Note that the level of capital required by rating agencies to maintain an acceptable claims paying ability rating is well above the regulatory minimum defined by Company Action Level RBC. Consequently, ING Insurance US manages its available capital primarily with respect to capital metrics that are aligned with the models of the various rating agencies.

The relevant capital requirements of the ING US business units consist of statutory Risk Based Capital requirements (RBC) for its US domiciled business, along with additional requirements for the Cayman Islands based subsidiary Security Life of Denver International (SLDI). ING US targets a RBC ratio of 425% for its US-domiciled business.

The asset target for variable annuity (VA) business within SLDI is based on Actuarial Guideline 43 (AG 43), a reserve standard written by the US National Association of Insurance Commissioners. AG 43 prescribes reserves based on applying standardised economic scenarios under the Conditional Tail Expectation (CTE) approach, a scenario testing methodology. For rating agency purposes, ING US targets assets satisfying the CTE requirement in excess of the 95% confidence level.

Since Regulatory filings still need to be completed, the actual targets are not available yet, but the total US target is estimated at EUR 7.0 billion.

Regulatory Capital Sensitivities
ING Insurance US calculates regulatory capital sensitivities on the Risk-Based Capital model 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. Regulatory capital sensitivities are calculated in aggregate for the US domiciled regulated insurance entities, and exclude any effects of the sensitivities on the capital of non-US domiciled entities.

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

- Interest rates;
- Equity;
- Credit (credit default and credit spread risk);
- Implied volatility (equity & interest rates);
- Foreign exchange;
- Real Estate.

The Model Disclosure table previously shown in Market Risk section for Earnings at Risk is the same overview of the shock scenarios applied for regulatory capital sensitivities.

The regulatory capital sensitivity in aggregate is calculated by combining the joint impact of the various market stress events calculated by taking into account the correlations between risk types.

Sensitivities
The table below presents market risk sensitivity figures before diversification between risks. The stress events are described in the Model Disclosure section above.

Regulatory Capital Sensitivities [(1)(2)(3)]

	US Excl. CBVA		CBVA	
	2011	2010	**2011**	2010
Interest Rate Up	**2**	-132	**24**	-6
Interest Rate Down	**-50**	49	**-226**	27
Equity	**-149**	-55	**-17**	-168
Credit - Default	**-272**	-366	**-8**	-12
Credit – Ratings Migration	**-410**	-355	**-21**	-20

(1) Implied Volatility, FX and Real Estate sensitivities do not have a material impact.
(2) Sensitivities are calculated at business unit level and cover US domiciled insurance entities.
(3) Sensitivities shown are calculated relative to management targets that are a multiple of 'Company Action Level' RBC, and those shown in the 2010 annual report were based on 'Company Action Level' RBC.

The changes from 2010 to 2011 are the result of many factors including:

- Reduction in interest rates increasing exposure to further declines in rates due to product guarantees;
- Hedging programs, including various actions taken to reduce the risk of declining rates;
- Hedging activities for Closed Block Variable Annuity related to both interest rates and equity exposure;
- Turnover of the asset portfolio; and
- Refinement of calculation of equity risk arising from hedge funds and limited partnerships was the primary driver of the increase in equity risk for US excluding CB-VA.

Taking into account diversification between risk factors, ING Insurance US (excluding CB-VA) is exposed to a EUR 0.9 billion decrease in regulatory capital and CB-VA is exposed to a EUR 0.3 billion decrease in regulatory capital within the context of the market and non-market sensitivity analysis.

INSURANCE INVESTMENTS

The Insurance Investments business consists of certain parts of ING Insurance that will not be part of the divestment of the Latin American, Eurasian and US business. In the course of the divestment process of these businesses the composition of the Insurance Investments portfolio may change. Furthermore, at some stage parts of the Insurance Investments portfolio itself may be divested or closed down. In some cases this can take many years. Currently the most important parts of this portfolio are:

- Financing activities of ING Insurance and some of it's sub holdings;
- Certain activities related to prior divestments, such as legal claims in Mexico and the ownership of a Mexican mortgage company;
- ING's stake in the Brazilian SulAmerica joint venture;
- The run-off of former non-life and reinsurance activities.

The largest asset is the Brazilian SulAmerica joint venture with a balance sheet value of EUR 394 million. Insurance Investments is primarily the responsibility of the ING CFO. Winding down financing activities is delegated to ING Capital Management. Other Insurance Investments businesses are managed by the newly appointed General Manager Insurance Investments. Insurance Investments is supported by the Finance and Risk functions of ING Group. From a risk perspective a key element of this structure is support from Group functions such as Credit Risk, Market Risk, Operational Risk and Legal & Compliance and Internal Audit and from the Functional Controller Insurance.

Capital Management

amounts in millions of euros, unless stated otherwise

OBJECTIVES

ING Group Capital Management (Capital Management) is responsible for the sufficient capitalisation of ING Group entities at all times in order to manage the risk associated with ING's business activities. This involves the management, planning and allocation of capital within ING Group. ING's Corporate Treasury is part of Capital Management. It executes the necessary capital market transactions, term (capital) funding and risk management transactions. Capital Management monitors and plans capital adequacy on a consolidated basis at three levels: ING Group, ING Insurance and ING Bank. Capital Management takes into account the metrics and requirements of regulators (Insurance Group Directive (IGD) Solvency I, Tier 1 and BIS ratios and limits for hybrid capital), rating agencies (leverage ratios, Adjusted Equity) and internal models such as the economic capital and market value balance sheet approach for parts of ING Insurance including Available Financial Resources (AFR).

ING applies the following main capital definitions:

- Adjusted Equity (ING Group) – This rating agency concept is defined as shareholders' equity plus core Tier 1 securities, hybrid capital and prudential filters. See 'Capital Base' disclosures in this section. This capital definition is applied in comparing available capital to core debt for ING Group;
- Insurance Group Directive capital (ING Insurance) – This regulatory concept is defined as shareholders' equity plus hybrid capital, prudential filters and certain adjustments. IGD capital is calculated in accordance with method 3 'method based on accounting consolidation' of the Dutch Act on Financial Supervision. In this method the solvency margin is calculated on the basis of the consolidated accounts and is the difference of (i) the assets eligible for the inclusion in the calculation of the solvency margin based on the consolidated data; and (ii) the minimum amount of the solvency margin calculated on the basis of the consolidated data. In applying this method a solvency deficit of a 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 measurement of available capital is different from previous years;
- AFR (ING Insurance Eurasia) – This is a pre-tax market value concept, defined for the insurance operations of ING Insurance Eurasia as the market value of assets (MVA) less the market value of liabilities (MVL) on the balance sheet. The liabilities do not include perpetual hybrid capital which is included in AFR. The AFR valuation of ING Eurasia includes an adjustment for portfolio illiquidity. The AFR for pension funds is set equal to the statutory net equity. AFR is used as the measure of available capital in comparison with Economic Capital employed;
- EC, or Economic Capital (ING Insurance Eurasia), is the required capital for the insurance operations of ING Insurance Eurasia, based on a 99.5% confidence interval. This interval is aligned with the Solvency II capital requirement. The EC for pension funds is based on sectoral rules. The excess of AFR over EC is set based on the business strategy and resulting risk appetite defined by the Management Board Eurasia;
- Risk Based Capital (Domestic ING US Insurance only). In the US, regulators have well developed capital adequacy models and stress tests that reflect the unique characteristics of the US insurance industry. US domiciled insurance legal entities are required to hold minimum capital levels by state insurance regulators. The level of capital required by rating agencies to maintain an acceptable claims paying ability rating is well above these levels. The Domestic US Insurance business manages its statutory surplus primarily with respect to capital metrics that are aligned with the models of the various ratings agencies;
- Financial Leverage (ING Insurance). Financial Leverage is the sum of hybrid capital, sub-debt and net financial debt and is used to measure the debt ratio of ING Insurance starting 2010.

DEVELOPMENTS

In 2011 Capital Management's main focus remained 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 repay the remaining outstanding Core Tier 1 securities. Capital Management started managing towards separate US, Eurasia and Insurance Investments Financial Leverage and Capital Adequacy in 2011. In May ING repaid EUR 2 billion of the Core Tier 1 securities issued in November 2008 at a 50% premium. Nevertheless ING maintained a strong capital position, driven mainly by strong capital generation at ING Bank. ING Bank met the additional capital requirements proposed by the EBA and agreed by the EU Council on 26 October 2011. In December 2011, ING successfully completed a liability management transaction with an average participation of 60%. The net impact of this transaction on ING Group's consolidated balance sheet was a reduction of EUR 2 billion in hybrid capital and a capital gain of EUR 0.7 billion.

On 8 March 2012, in preparation of the planned insurance and investment management divestments, ING Group has announced three separate exchange offers and consent solicitations on a total of three series of senior securities of ING Verzekeringen N.V. with a total nominal value of EUR 2.6 billion. The objective of the transaction is to remove potential ambiguity that the planned divestments may create with regard to these ING Verzekeringen N.V. securities, predominantly with regard to the Change of Control clauses which may be triggered at the time of a substantial asset disposal. The transaction is scheduled to be completed in April 2012. Any difference between the book value of the currently outstanding securities and the fair value of the newly issued securities will be recognised in the profit and loss account upon completion of the exchange.

In 2011 ING Bank issued a total of EUR 23 billion long-term funding against EUR 10.7 billion of ING Bank's (including subsidiaries) long-term debt maturing.

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 additional policies and limits that guide the management of the balance sheets and the execution of capital market transactions.

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 2011, ING Group, ING Bank and ING Insurance were adequately capitalised.

Capital Management continued

ING Group's Capital base

	Group		Bank		Insurance	
	2011	2010 [1]	**2011**	2010	**2011**	2010
Shareholders' equity (parent)	**46.663**	40.904	**34.367**	34.452	**23.475**	20.159
Core Tier 1 securities	**3.000**	5.000				
Group hybrid capital [2]	**9.332**	12.039	**6.850**	8.438	**2.604**	2.094
Group leverage [3]	**7.917**	8.462				
Total capitalisation	**66.912**	66.405	**41.217**	42.890	**26.079**	22.253
Adjustments to equity:						
Revaluation reserve debt securities	**–4.142**	–1.158	**213**	–19		
Revaluation reserve crediting to life policyholders	**3.492**	1.488				
Revaluation reserve cashflow hedge	**–1.970**	–847	**822**	639	**–2.883**	–1.567
Goodwill [4]	**–2.006**	–2.908	**–1.390**	–1.645	**–786**	–1.425
Revaluation reserves fixed income & other	**–4.626**	–3.425	**–355**	–1.025	**–3.669**	–2.992
Revaluation reserves excluded from Tier 1 [5]			**–2.043**	–2.212		
Insurance hybrid capital [6]					**1.726**	2.250
Excess hybrid capital [7]		–43				–43
Minority interests			**817**	749	**62**	111
Deductions Tier 1			**–1.014**	–1.069		
Tier 1 capital for Bank			**38.622**	39.333		
Other qualifying capital [8]			**8.502**	9.813		
Insurance Group Directive adjustments [9]					**–2.792**	–1.244
Group leverage (core debt)	**–7.917**	–8.462				
Total capital (Adjusted Equity for Group, BIS capital for Bank and IGD capital for Insurance)	**54.369**	54.475	**47.124**	49.145	**21.406**	20.335

(1) These numbers have been restated to reflect the move towards fair value accounting for Guaranteed Minimum Withdrawal Benefits for life in the US closed block VA as of 1 January 2011. Further details on the restatement are available in the Accounting Policies for the consolidated annual accounts of ING Group under 'Changes in accounting policies'.
(2) 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.
(3) 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.
(4) According to the regulatory definition
(5) Includes mainly EUR –1.247 million (2010: EUR –1.727 million) in participations (e.g. Kookmin, Bank of Beijing) and other equity investments, EUR -55 million (2010: EUR –382 million) for Real estate for own use and EUR –441 million (2010: EUR –107 million) for own credit risk. The Dutch banking regulator requires this deduction to be made from Tier 1 capital. This deduction is added back to Tier 2 capital.
(6) Qualifying dated subordinated debt issued by ING Insurance at nominal value.
(7) Excess Insurance hybrids over the regulatory cap need to be deducted from both Insurance and Group capital.
(8) Consists of EUR 9.516 million (2010: EUR 10.882 million) Tier 2 capital and no Tier 3 (2010: nil), offset by EUR 1.014 million (2010: EUR 1.069 million) of regulatory deductions.
(9) 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 securites and revaluation reserve crediting to life policyholders are not reversed out of the IGD capital definition.

REGULATORY REQUIREMENTS

ING BANK

Capital adequacy and the use of regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision (The Basel Committee) and the European Union Directives, as implemented by the Dutch Central Bank (DNB) for supervisory purposes. The minimum Tier 1 ratio is 4% and the minimum total capital ratio (known as the BIS ratio) is 8% of all risk-weighted assets.

Basel II

As of 2008 ING Bank publishes risk-weighted assets (RWA), Tier 1 and BIS capital and the accompanying capital ratios based on Basel II data only. In addition, ING publishes the minimum required capital level according to Basel II and according to the Basel I floor. As of 2009 the Basel I floor is based on 80% of Basel I RWA. The minimum requirements according to Basel II and Basel I are both compared to total BIS available capital according to Basel II.

EBA capital exercise

An additional capital exercise was proposed by the EBA and agreed by the Council on 26 October 2011. This exercise required banks to strengthen their capital positions by building up a temporary capital buffer against sovereign debt exposures to reflect current market prices. In addition, it required them to establish a buffer such that the Core Tier 1 capital ratio reaches a level of 9% by the end of June 2012. ING Bank already meets the 9% Core Tier 1 ratio after the removal of the prudential filters on sovereign assets in the Available-for-Sale portfolio and prudent valuation of sovereign debt in the Held-to-Maturity and Loans and receivables portfolios, reflecting current market prices.

Capital position of ING Bank		
	2011	2010
Shareholders' equity (parent)	**34.367**	34.452
Minority interests [(1)]	**817**	748
Subordinated loans qualifying as Tier 1 capital [(2)]	**6.850**	8.438
Goodwill and intangibles deductible from Tier 1 [(1)]	**–1.390**	–1.645
Deductions Tier 1	**–1.014**	–1.069
Revaluation reserve [(3)]	**–1.008**	–1.592
Available capital – Tier 1	**38.622**	39.332
Supplementary capital – Tier 2 [(4)]	**9.516**	10.882
Deductions	**–1.014**	–1.069
BIS capital	**47.124**	49.145
Risk-weighted assets	**330.421**	321.103
Core Tier 1 ratio	**9.62%**	9.62%
Tier 1 ratio	**11.69%**	12.25%
BIS ratio	**14.26%**	15.30%
Required capital based on Basel I floor [(5)]	**31.107**	29.860
BIS ratio based on Basel I floor [(5)]	**12.12%**	13.17%

(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 5).
(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.

ING INSURANCE

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

Capital position of ING Insurance		
	2011	2010 [(1)]
Shareholders' equity (parent)	**23.475**	20.159
Hybrids issued by ING Group [(2)]	**2.604**	2.094
Hybrids issued by ING Insurance [(3)]	**1.726**	2.207
Required regulatory adjustments	**–6.399**	–4.125
IGD capital [(4)]	**21.406**	20.335
EU required capital base [(4)]	**9.515**	8.826
IGD Solvency I ratio [(4,5)]	**225%**	230%

(1) These numbers have been restated to reflect the move towards fair value accounting for Guaranteed Minimum Withdrawal Benefits for life in the US closed block VA as of 1 January 2011. Further details on the restatement are available in the Accounting Policies for the consolidated annual accounts of ING Group under 'Changes in accounting policies'.
(2) Hybrids issued by ING Group at notional value
(3) Hybrids issued by ING Insurance at notional value capped at 25% of EU required capital
(4) In the fourth quarter 2011, ING has reviewed the calculation of the IGD ratio to ensure consistent application throughout the Group. As a consequence, several changes have been made, mainly related to (i) certain provisions which are internally reinsured and for which required capitals were netted out in the past and (ii) changes in the allocation of policyholder liabilities to the relevant capital requirement categories. The reported IGD Solvency I ratio in 2010 of 250% has been adjusted for this change into 230%.
(5) The actual required regulatory adjustments for IGD capital and the EU required capital may be different from the estimate since the statutory results are not final until filed with the regulators.

ING Insurance continues to aim that all operating entities are adequately capitalised based on local regulatory and rating agency requirements and that on a consolidated basis, the financial leverage (hybrids, sub-debt and net financial debt) of ING Insurance is appropriate relative to the capital base. The financial leverage decreased in 2011 mainly due to the divestment of the business in Latin America.

Capital base and financial leverage of ING Insurance

	2011	2010 [1]
Shareholders' equity (parent)	23.475	20.159
Revaluation reserve debt securities	–4.379	–1.164
Revaluation reserve crediting to life policyholders	3.492	1.488
Revaluation reserve cash flow hedge	–2.883	–1.567
Goodwill	–786	–1.425
Minority interests	62	111
Capital base	18.981	17.602
Group Hybrid capital [2]	2.617	2.094
Insurance hybrid capital [3]	1.751	2.313
Total hybrids	4.368	4.407
External debt issued by ING Verzekeringen N.V.	2.855	3.347
External debt issued by US Holding companies	930	1.384
Other net financial debt [4]	1.686	2.273
Total financial debt	5.471	7.004

(1) These numbers have been restated to reflect the move towards fair value accounting for Guaranteed Minimum Withdrawal Benefits for life in the US closed block VA as of 1 January 2011. Further details on the restatement are available in the Accounting Policies for the consolidated annual accounts of ING Group under 'Changes in accounting policies'.
(2) Hybrids issued by ING Group at amortised cost value consistent with IFRS carrying value
(3) Hybrids issued by ING Insurance at amortised cost value consistent with IFRS carrying value
(4) Includes net internal borrowings from the operating subsidiaries, net of cash and current tax liability at the at the holding level and current tax liabilities of the holding companies, mainly ING Verzekeringen N.V. and ING America Insurance Holdings Inc.

For ING Insurance in total, the capital base for financial leverage purposes is fully based on IFRS accounting, whereas the IGD capital is corrected for some regulatory adjustments. The table below provides a reconciliation.

Reconcilation between IGD capital and Capital base

	2011	2010
IGD Capital	21.406	20.335
Hybrids issued by ING Group	-2.604	-2.094
Hybrids issued by ING Insurance	-1.726	-2.207
Revaluation reserve debt securities	-4.379	-1.164
Revaluation reserve crediting to life policyholders	3.493	1.488
Required regulatory adjustments	2.791	1.244
Capital base	18.981	17.602

For ING Insurance Eurasia, Available Financial Resources (AFR) continues to be important, especially as an evolving proxy for the Own Funds derivation from our internal model under Solvency II. The following table presents the reconciliation from the 2010 AFR and EC for Insurance excluding US as reported in the Annual Accounts 2010, to the comparable basis for Eurasia 2011. This reflects the changes in scope and methodology.

2010 AFR and EC reconciliation

amounts in billions of euros	AFR	EC
As reported for ING Insurance excluding US in 2010	19.7	10.4
Exclude non-ING Insurance Eurasia AFR and EC	1.4	–2.0
ING Insurance Eurasia 2010, before changes	21.1	8.4
Change pension funds fee business to statutory basis	–1.5	–0.1
Change in models and methodology	–1.0	3.0
ING Insurance Eurasia 2010, on a basis comparable to 2011	18.6	11.3

The exclusion of non-ING Insurance Eurasia AFR and EC mainly relates to the business in Latin America and the financial leverage of ING Insurance excluding US that was considered in last year's AFR position and EC requirement. The capital structure of Eurasia underlying the AFR does not include any senior debt.

The fee-based pension funds business in Central and Eastern Europe are regulated by local sectoral rules rather than by Solvency II regulations for insurance entities. AFR and EC of the fee-based pensions administration business were previously calculated using market consistent valuation approach. This has been replaced by using the statutory net equity and required capital of the pension funds administration companies. The impact on AFR is EUR 1.5 billion and on EC EUR 0.1 billion.

ING Insurance Eurasia has carried out a review of the internal model in the context of a Solvency II gap analysis. In that review we benchmarked our models against the Solvency II Standard Formula, the EIOPA consultation papers and commentary of expert groups like CRO Forum and Groupe Consultatif. In the Annual Report 2010 it was estimated that these changes would result in a material increase of EC, between EUR 1 billion and EUR 2 billion. During 2011 further refinements and analyses took place which on a comparable basis would lead to an increase in the EC of 2010 of EUR 3.0 billion. The changes are related to equity risk (EUR 0.6 billion), operational risk (EUR 0.1 billion), credit spread and illiquidity premium risk (EUR 1.3 billion), business risk (EUR 0.1 billion) and less diversification (EUR 0.9 billion). The changes mainly due to new illiquidity premium method resulted in an AFR decrease of EUR 1.0 billion. The Solvency II legislative process is still ongoing. In particular, aspects determining the valuation of the policyholder liabilities and thereby the sensitivity to market and other risk factors on the own funds are not yet settled. The Economic Capital model will continue to be updated to reflect most recent market data, developments in best practices, and Solvency II legislation.

At the end of 2010 the AFR for ING Insurance Eurasia was EUR 18.5 billion. As described in the Risk Paragraph. EC, based on 99.5% confidence interval was EUR 11.4 billion, which leads to excess of AFR over EC for 2010 of EUR 7.1 billion. For 2011 the AFR is EUR 17.3 billion, EC is EUR 10.5 billion and the excess of AFR over EC is EUR 6.8 billion.

For the capital adequacy assessment of ING Insurance's US domiciled regulated insurance business, available capital is measured under US statutory accounting principles and required capital is measured under the US regulatory Risk Based Capital (RBC) methodology as prescribed by the National Association of Insurance Commissioners (NAIC). For ING's US domiciled regulated insurance business, the consolidated RBC ratio (available capital/required capital) is estimated to be approximately 488% for the period ended 31 December 2011. 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 426% at the end of 2010.

ING GROUP

The debt/equity ratio of ING Group as at year-end 2011 was 12.71% (2010: 13.44%).

ING Group reports to the Dutch Central Bank as required under the Dutch implementation of the financial conglomerates directive (FICO). The directive mainly covers risk concentrations in the group, intra-group transactions and an assessment of the capital adequacy of the Group.

In the following table, we show the Group’s FICO ratio on the following basis:

- Insurance required capital from applying European Solvency I rules to all ING Insurance entities globally (regardless of local capital requirements);
- Bank required capital based on applying Basel II with the Basel I floor (80% of Basel I Risk Weighted Assets);
- Group FICO capital using an approach similar to that used for Bank BIS capital and Insurance IGD capital whereby Group leverage is deducted.

Regulatory capital adequacy ING Group		
	2011	2010
BIS capital	**47.123**	49.145
IGD capital	**21.406**	20.336
Group leverage (core debt)	**–7.917**	–8.462
Regulatory capital	**60.612**	61.019
Required capital banking operations	**31.107**	29.860
Required capital insurance operations	**9.515**	8.826
Total required capital	**40.622**	38.686
FICO ratio	**149%**	158%

Capital Management continued

Capital adequacy and ratios

Quantitative disclosures on capital measures and ratios	Group		Bank		Insurance	
	2011	2010	**2011**	2010	**2011**	2010
Tier 1 ratio (Bank)						
Year-end actual Tier 1 ratio			**11.69%**	12.25%		
Regulatory minimum Tier 1 ratio			**4.00%**	4.00%		
Target minimum Tier 1 ratio			**10.00%**	10.00%		
BIS ratio (Bank)						
Year-end actual BIS ratio			**14.26%**	15.30%		
Regulatory minimum BIS ratio			**8.00%**	8.00%		
Target minimum BIS ratio			**10.00%**	10.00%		
Insurance Groups Directive						
Year-end actual Capital coverage ratio					**225%**	230%
Required capital					**100%**	100%
Target ratio					**150%**	150%
Debt/Equity ratio (Group)						
Debt/Equity ratio	**12.71%**	13.44%				
Target maximum Debt/Equity ratio	**15.00%**	15.00%				

The Tier 1 ratio and the BIS ratio are regulatory requirements. Internally ING manages on the Core Tier 1 ratio, for which the target was raised from 8.0% to 8.5% in 2011. The actual ratios were 9.62% at the end of 2010 and also 9.62% at the end of 2011. ING expects the BIS ratio to lose its meaning.

Main credit ratings of ING at 31 December 2011	Standard & Poor's		Moody's		Fitch	
	rating	**outlook**	**rating**	**outlook**	**rating**	**outlook**
ING Groep N.V.						
– long-term	**A**	**stable**	**A1**	**stable**	**A**	**stable**
ING Bank N.V.						
– short-term	**A-1**		**P-1**		**F1+**	
– long-term	**A+**	**stable**	**Aa3**	**stable**	**A+**	**stable**
– financial strength			**C+**			
ING Verzekeringen N.V.						
– short-term	**A-2**		**P-2**		**F2**	
– long-term	**A-**	**negative**	**Baa2**	**developing**	**A-**	**negative**

ING's key credit ratings and outlook are shown in the table above. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency.

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.