2012

Qualitative and quantitative disclosures relating to capital adequacy of the Capital Group Of ING Bank Śląski S.A. for the year 2012

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I. CAPITAL ADEQUACY

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, information covered by legal secrecy and information unavailable.

Pursuant to resolution 4/I/2013 of the Bank Supervisory Board of 18th January 2013, 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 2012.

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/31/2008 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, settlement-delivery risk and concentration risk.

Short-term capital components in millions of PLN.

	31.12.2012	**31.12.2011**
Market profit on trading portfolio *	137,4	124,7
Losses on banking portfolio excluding the losses due to changes in exchange rates and goods prices, to the extent it has not been included in the own funds or divided otherwise (negative value)	0,0	0,0
Sum of capital requirements for market risk	44,4	32,7
Short-term capital (value not exceeding the sum of capital requirements for market risk, settlement-delivery risk and concentration risk)	**44,4**	**32,7**

** Market profit of current period in non audited part.*

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 millions of PLN.

	31.12.2012	31.12.2011
I. Tier 1 capital	**6 338,3**	**5 455,2**
1. Core capital	1 183,1	1 161,7
- Share capital	130,1	130,1
- Issue premium	956,3	956,3
- Other supplementary capital	96,7	75,3
2. Capital reserve	4 556,6	3 745,3
- Capital reserve	4 004,4	3 139,8
- Retained earnings and result during the approval	112,8	172,8
- Minority equity	2,3	2,3
- Net profit of current period in audited part	439,1	446,4
- Tier I capital revaluation	-2,0	-16,0
- Revaluation of equity instruments classified as available for sale	2,3	7,1
- Correction of revaluation of equity instruments classified as available for sale	-3,5	-8,4
- Revaluation of debt instruments classified as available for sale	729,5	34,5
- Correction of revaluation of debt instruments classified as available for sale	-730,3	-49,2
3. General risk fund	960,2	910,2
4. Reductions of Tier I capital	-361,6	-362,0
- Intangible assets	-361,6	-362,0
II. Tier II capital	**585,4**	**33,3**
- Tier I capital revaluation adjustment recognised as Tier II capital	585,4	33,3
III. Reductions of Tier I and Tier II capitals	**-170,8**	**-194,7**
- Reductions of Tier I capital	-85,4	-161,4
- Capital commitments in financial institutions (50%)	-20,0	-20,0
- Amount of expected losses (50%) – only for AIRB method	-65,4	-141,4
- Zmniejszenia uzupełniających funduszy własnych	-85,4	-33,3
- Capital commitments in financial institutions (50%)	-20,0	-20,0
- Amount of expected losses (50%) – only for AIRB method	-65,4	-13,3
Short-term capital	**44,4**	**32,7**
Own funds taken into account in solvency ratio calculation according to advanced method (AIRB)	**6 797,3**	**5 326,5**
Own funds taken into account in solvency ratio calculation according to standard method (SA)	**6 928,1**	**5 481,2**

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 the following exposure classes: entrepreneurs and institutions – banks. Pursuant to KNF Resolution 76/2010 equity exposures also were assigned.
Following the letter of the Polish Financial Supervision Authority (PFSA) dated 18 May 2012 related to the decision of 06 October 2011 on a conditional approval of application of the Advanced Internal Rating-Based Approach (AIRB) by the Bank "(...) the solvency ratio should be computed based on the following figures:

1) for the capital requirement for credit risk computed with AIRB being lower than the capital requirement for credit risk computed using standard approach:
   a) for own funds – considering the amount calculated with AIRB,
   b) for the total capital requirement – considering the supplementary amount of capital requirement for credit risk to the requirement calculated under standard approach (SA),
2) for the capital requirement for credit risk computed with AIRB being higher than the capital requirement for credit risk computed under standard approach:
   a) for own funds – considering the amount calculated with AIRB,
   b) for the total capital requirement – considering the capital requirement for credit risk calculated with AIRB".

AIRB method may be applied in full to calculate the capital requirement for credit risk for supervisory purposes only upon fulfillment by the Bank of the requirements listed in the aforesaid decision of PFSA.

Retail exposures will be including to the calculation according to AIRB method consecutively, but no later than to 31 December 2015.

The Capital Group of ING Bank Śląski S.A. subsidiaries calculate capital requirements for credit risk according to SA method, except the company ING Lease Polska Sp. z o.o., which use AIRB method.

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).

Capital requirements for particular risks in millions of PLN.

	31.12.2012	**31.12.2011**
Capital requirements for credit risk, credit counterparty, dilution and delivery of instruments for future settlement	3 285,8	3 176,6
- including: supplementation of the credit risk capital requirement to the requirement computed using the standard method	444,1	329,0
Capital requirement for settlement-delivery risk	13,0	7,9
Total capital requirements for the market risk, including:	31,4	24,8
- Capital requirement for foreign exchange risk	0,0	0,0
- Capital requirement for commodity price risk	0,0	0,0
- Capital requirement for equity securities price risk	0,0	0,0
- Capital requirement for specific risk of debt instruments	0,0	0,0
- Capital requirement for general interest rate risk	31,4	24,8
Total capital requirements for operational risk	405,9	364,6
Capital requirement due to exposure concentration limit overrun	0,0	0,0
Total capital requirement computed with Advanced Internal Rating-Based method (AIRB) for calculation of the credit risk requirement	**3 292,0**	**3 244,9**
Total capital requirement computed with Standard Approach (SA) for calculation of the credit risk requirement	**3 736,1**	**3 573,9**

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

Please find below exposure classes divided into exposures calculated according to AIRB method (table 1) and calculated according to SA method (table 2), in both instances exposures are presented by exposure classes of AIRB method.

Table 1 (in millions of PLN)

Exposures calculated according to AIRB method			
Exposure class according to AIRB method	Original exposure before conversion factors	Value of exposure	Capital requirements
Governments and central banks	0,0	0,0	0,0
Institutions - banks	7 228,0	4 187,0	81,8
Entrepreneurs	37 030,0	28 782,0	1 417,3
Retail	279,0	279,0	3,1
Equity exposures *	195,0	195,0	57,6
Other assets that are not debt obligations	0,0	0,0	0,0
Total	**44 732,0**	**33 443,0**	**1 559,8**

** Calculation according to simplistic method.*

Table 2 (in millions of PLN)

Exposures calculated according to SA method			
Exposure class according to AIRB method	Original exposure before conversion factors	Value of exposure	Capital requirements
Governments and central banks	69 124,0	22 073,0	15,7
Institutions - banks	4 378,0	3 975,0	63,6
Entrepreneurs	1 552,0	1 462,0	117,0
Retail	18 769,0	17 243,0	1 018,5
Equity exposures	0,0	0,0	0,0
Other assets that are not debt obligations	839,4	839,4	67,2
Total	**93 823,0**	**44 753,0**	**1 281,9**

The Bank calculate capital requirements for credit risk according to SA method in order to compare. Please find below exposures calculated according to SA method divided into exposure classes of SA method.

(in millions of PLN)

Exposures calculated according to SA method	
Exposure class according to SA method	Capital requirements
Regional Governments	63,60
Administrative bodies and non-commercial undertakings	15,70
Institutions - banks	100,20
Entrepreneurs	1 868,30
Retail	283,60
Residential Retail	722,80
Past due	55,70
Other	83,90
Total *	**3 193,80**

** In order to achieve total capital requirement for credit risk it is necessary to aggregate the value of capital requirement presented in the table below and the value of EUR 92,0 million, being capital requirement for credit risk calculated according to AIRB method for company ING Lease Polska S.A Sp. z o.o.*

2.2 CREDIT RISK - ADVANCED INTERNAL RATING-BASED METHOD (AIRB)

2.2.1 INTERNAL RATING SYSTEMS STRUCTURE AND RELATION BETWEEN INTERNAL AND EXTERNAL RATINGS

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.
As far as the exposure is concerned, the whole ING Group applies a 22-grade rating scale with respect to entrepreneurs where classes reflect borrower risk. The Bank most often applies 15 risk classes (8-22). Sometimes a better risk class may be applicable, usually in the Strategic Clients portfolio.

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.

Risk classes may be divided into 3 basic groups:

1) *Investment grades (1-10)* include borrowers with solid income and margin levels, strong balance sheet structure and stable long-term perspectives. In the top grades of this range, the borrowers occupying the position of market leaders are classified who are relatively less susceptible to adverse market fluctuations. Such borrowers have free, that is 'at their discretion', access to the financing available on the markets at any time.

2) *Speculative grades (11-17)* include grades characterised by relatively wider range of risk, and can be divided into:
   a) The borrowers with the best grades within this class, who currently meet their financial obligations, however their debt servicing capacity (the principal and interest) may turn out to be uncertain over a longer period of time. So the safety margin is limited. In adverse business environment or unfavourable economic conditions there is a real threat that credit risk may increase.
   b) The borrowers assigned higher risk grades (the worst grades in this class) which, in a longer perspective, may be characterised by: uncertainty as to their income, lower quality of assets and risk of the capital level mismatch that may translate into possible losses.

3) *Problem loan grades (18- 22)*. This risk class includes the borrowers who show clear indications of problems with debt servicing or are in the situation referred to as 'an event of default' has already occurred.

Description of investment grades (1-10)

Grades 1-2

Entities included in this class are characterised by the lowest level of risk. In a longer perspective they have solid and stable income, substantial liquidity and extremely strong balance sheet structure. The probability of default by one of these borrowers is very low.
Entities classified in this group usually:
- operate in large markets characterised by attractive margins, a strong potential for growth and high entry barriers;
- experience weak or no pressure on prices thanks to no or few direct competitors present;
- have strong position versus suppliers, and strong and well-known brand(s);
- are subject to no foreseeable threats.

Grades 3-4

High quality entities, with slightly higher long-term risk potential than the entities classified into risk class 1 or 2. Nevertheless, in a longer perspective they are assessed as very strong entities with stable income, good financial liquidity and strong balance sheet structure.

Grades 5-7

These classes include strong entities who operate on a cycle basis or entities in good condition whose income is to some extent fluctuating. The analysis of these entities may prove that they are prone to future weakening of their financial situation.
The entities classified in this group:
- often operate on more competitive markets with low customer loyalty levels;
- have a good debt profile, characterised by relatively low risk and thus are fully capable of meeting their financial obligations;
- have to allocate substantial company resources to maintain their market share;
- have limited ability to dictate prices and/or terms and conditions of cooperation with suppliers.
- have no delayed principle and interest payments.

Grades 8-10

Entities classified in this range are susceptible to fluctuations in economic climate that may affect their creditworthiness, yet their current situation is still acceptable.
Entities classified in this group are usually characterised by:
- ability to differentiate products or services from those offered by competitors when faced with pressure from the market;
- small or no influence on prices of materials they purchase;
- management who may implement riskier strategies or who may be judged as less stable than the management of a company with a higher rating;
- no delays in principal and interest payment.

Description of speculative grades (11-17)

Grades 11-13

Entities classified in this class are characterised by a relatively good financial standing but their ability to service debt over a longer period is not guaranteed. Past cash flows of these companies show some irregularity. These companies may have suffered losses in the previous years. Although at present they are more or less profitable, they show a certain margin of safety and they are still ranked among the acceptable borrowers. However they may already show the signs of potential problems with maintaining the current level of income and profitability.
In addition, the entities classified in this range:
- may have problems with maintaining their position in the market in the face of growing competition;
- have little or no influence on prices of materials they purchase;
- it is possible that their management is not of the highest quality;
- there are no delays in principle and interest payment, or a delay is shorter than 31 days.

Grades 14-17

The companies classified in this range enter the endangered financial standing zone. Symptoms: considerable decrease in profitability, substantial weakening of the balance sheet structure, irregular cash flows with outflows predominating over inflows, and small capability to service its debts.

Such entities often:

- operate in a sector that is in a downward phase;
- have to face the increasing pressure from their competitors (including the increasing one);
- have very limited or no influence on prices of materials they purchase and their relations with suppliers;
- may have a weak management characterised by e.g. lack of experience, no stability or poor commitment;
- there are no delays in principle and interest payment, or a delay is shorter than 31 days.

The borrowers classified in the 16-17 range are additionally characterised by the occurrence of the following circumstances:

- despite servicing of all obligations by the borrower on an ongoing basis there are strong premises that the borrower's financial standing or creditworthiness may diminish;
- at present there are no predictions as to the occurrence of the situation referred to as 'default' but more intensive monitoring is necessary;
- actions aimed at improvement of the Bank's position as the creditor are required, or the limitation or complete cancellation of the Bank's involvement in a borrower or transaction financing.

Grade 15 / (potential) restructuring

Apart from the overall conditions presented above based on which an entity is classified in the range 14-17, grade 15 is additionally characterised by occurrence of the following circumstances:

- material indications of the borrower's weakening economic and financial standing/creditworthiness, and
- substantial indications of the risk profile impairment that will result in the borrower's failure to timely meet all of its debt obligations in the future,

but all of the following conditions have been met:

- the borrower has not applied for any change (extension) of the employed capital repayment date, and
- in a short term perspective (up to 1 year) the borrower will not require additional financing that would have resulted from the financial liquidity impairment, and
- the borrower is sufficiently capable of servicing its debts, and
- positive assessment of the borrower's main markets prospects.

Furthermore, as far as the customers with risk grade 15 are concerned, for whom additional covenants have been defined, the following events of default may occur:

- the Bank predicts that a borrower will breach one or more conditions, and
- the Bank may waive a condition, on a one-off basis, for the period of up to one year.

Grade 16 / (potential) restructuring

Apart from the overall conditions presented above based on which an entity is classified in the range 14-17, the following circumstances occur:
- material indications of the borrower's weakening economic and financial standing/creditworthiness,
- substantial indications of the risk profile impairment that will result in the borrower's failure to timely meet all of the debt obligations in the future,

no certainty as to whether the customer will be able to service his debts, even though all the conditions mentioned below have been met:
- the borrower has not applied for any change (extension) of the employed capital repayment date, and
- in a short term perspective (up to 1 year) the borrower will not require additional financing that would have resulted from the financial liquidity impairment, and
- positive or neutral assessment of the borrower's main markets prospects,

Furthermore, as far as the customers with risk grade 16 are concerned, for whom additional covenants have been defined, the following events of default may occur:
- the borrower failed to meet one or more conditions, or
- the borrower advised the Bank that he would not be able to meet one or more of these conditions.

Grade 17 / (potential) restructuring

Apart from the overall conditions presented above based on which an entity is classified in the range 14-17, the following circumstances occur:
- material indications of the borrower's weakening economic and financial standing/creditworthiness;
- substantial indications of the risk profile impairment that will result in the borrower's failure to timely meet all of the debt obligations in the future.

In addition, one or more of the following symptoms have occurred:
- the borrower has applied for a change (extension) of the employed capital repayment term, or there is high probability that he may submit such an application where the change (extension) of the employed capital repayment term does not (will not) result in the Bank's loss because the terms of such prolongation fully compensate for the delay in repayment of the capital,
- the borrower is not or probably will not be capable of servicing his debts in a long term, however, in a short term perspective (up to 1 year) will not require additional financing that would have resulted from the impairment of his financial liquidity,
- neutral or negative assessment of the borrower's main markets prospects.

Furthermore, as far as the customers with risk class 17 are concerned for whom additional covenants have been defined, it may happen that the borrower has failed to meet one or more conditions.

Description of problem loan grades (18-22)

Grade 18 - Under watch / Restructuring

The borrower continues its business and meets his obligations towards the Bank (i.e. there are no delays in the principal or interest repayment or any delay is shorter than 31 days), and at least one of the circumstances mentioned below has already occurred:

- the borrower has applied for a change (extension) of the employed capital repayment term, however the change (extension) of the employed capital repayment term does not result in the Bank's loss because the terms of such prolongation fully compensate for the delay in the repayment of capital,
- in a short-term perspective (up to 1 year) the borrower will need additional financing resulting from the impairment of his financial liquidity, but in the Bank's assessment, in the short period there will be no problems with obtaining such financing (beyond the Bank),
- the customer is not sufficiently capable of servicing its debt,
- negative assessment of the borrower's main markets prospects.

Furthermore, as far as the customers with risk class 18 are concerned for whom additional covenants have been defined, it may happen that the borrower has failed to meet one or more conditions.

Grade 19 - Below standard / Restructuring

The borrower continues its business and meets its obligations towards the Bank (if there are delays in the repayment any delay is shorter than 90 days), and at least one of the circumstances mentioned below has already occurred:

- the borrower has applied for a change (extension) of the employed capital repayment term, however the change (extension) of the employed capital repayment term does not result in the Bank's loss because the terms of such prolongation fully compensate for the delay in the repayment of capital,
- in a short-term perspective (up to 1 year) the borrower will need additional financing resulting from the impairment of its financial liquidity and, in the short period, such financing will be probably available (beyond the Bank),
- the customer is not sufficiently capable of servicing its debt,
- negative assessment of the borrower's main markets prospects.

Furthermore, as far as the customers with risk grade 19 are concerned, for whom additional covenants have been defined, it may happen that the borrower has failed to meet one or more conditions.

Grade 20 – Dubious

In general: it has been assessed that the customer will not repay its obligations towards the Bank in full, but the Bank has not initiated (yet) the compulsory realisation of collateral. However the Bank may have already undertaken actions aimed at voluntary sale of items constituting collateral by the customer himself (or the owner of the items) to designate the proceeds from the sale for repayment of the debt to the Bank.

The inability to repay in full the obligations towards the Bank results from one or more of the following circumstances:

- the Bank has assessed that the impairment of financial involvement has occurred, or
- the Bank has decided to dispose of credit claims at a discount higher than 10%, and such a disposal does not result from management of concentration risk.

Grade 21 – Lost

In the case of borrowers classified in risk grade 21, the following circumstances have occurred:
- the Bank initiated the realisation of collateral;
- there are no prospects for rebuilding the borrower's creditworthiness and re-commencement of debt servicing;
- all potential opportunities for the involvement restructuring have been exhausted and no desired effects have been obtained;
- no loss on the impairment is expected because the current value of the realised collateral fully covers (is expected to cover) the debt to the Bank.

Grade 22 – Lost

In the case of customers classified in risk grade 22, the following circumstances have occurred:
- the Bank initiated the realisation of collateral;
- there are no prospects for rebuilding the borrower's creditworthiness and re-commencement of debt servicing;
- all potential opportunities for the involvement restructuring have been exhausted and no desired effects have been obtained;
- due to the absence of collateral or its insufficient value, the involvement has been (or will be) remitted in part or in full.

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

2.2.2 THE PROCESS OF MANAGING AND RECOGNISING METHODS FOR MITIGATING CREDIT RISK

Collateral is an essential tool for limiting credit risk, however it may not be a substitute for an entity's creditworthiness, which is the basic criterion for granting credit exposure.

Collateral has the following functions:

1) financial:
   - it should limit the credit exposure losses when credit risk materialises,
   - if it meets the conditions set out in the bank's regulations on collateral it may be taken into account when assessing capital requirements for credit risk and collective provisions for impairment of assets in a credit portfolio. The recovery rates assigned to individual categories of collateral have been determined on the basis of the LGD approach,
2) non-financial:
   - it strengthens the Bank's control authority as the creditor by limiting the collateral provider's ability to dispose of the assets pledged to the Bank,
   - it strengthens the Bank's position in negotiations with other creditors and the collateral provider,
   - it strengthens the bank's position in negotiations with the customer (debtor).

The Bank applies the following credit risk mitigation techniques:
- funded credit protection linked to physical collateral,
- unfunded credit protection linked to personal collateral.

Reduction of the Bank's credit risk under credit exposure, in the case of:
- funded credit protection, stems from the Bank's right to liquidate, transfer, acquire, or retain particular assets or amounts - in case of a debtor's failure to meet its obligations, insolvency, bankruptcy or occurrence of other debtor-related credit event defined in transaction documents, loan agreements, and regulations,
- unfunded credit protection, stems from a third party's obligation to pay a specified amount of money if the debtor fails to meet its obligations or other credit events specified in the loan agreements/regulations have occurred.

The Bank's regulations on collateral include, among other:
- the criteria of recognising collateral in the process of calculation of capital requirements towards credit risk,
- the general rules for selecting collateral applied by the Bank taking into account acceptable credit risk level,
- detailed rules for specific types of physical and personal collateral participating in the recovery ratio estimation (including rules on collateral value assessment, physical collateral insurance coverage requirements, preferred legal status of collateral, requirements for providers of personal collateral, other requirements concerning personal and physical collateral).

Furthermore, the Bank's Regulations on collateral specifically take into account the aspects of the Resolution No. 76/2010 of the Polish Financial Supervision Authority which refer to the application of the LGD approach, legal certainty of collateral and its monitoring.

There is a recovery rate, defined by an appropriate LGD approach, assigned to every type of collateral. Such rate is estimated on the basis of the long-term observation of recovery rates within specific collateral groups which are registered in the bank's database.

The Bank's Regulations also define the way the collateral is presented and approved in the process of granting credit exposure and rules of presenting and approving collateral monitoring.

The Bank has verified the legal certainty and scope of jurisdiction assigned to the applied risk mitigation instruments with an external, reputable legal firm.

If the conditions concerning collateral defined in the Regulations are met the Bank will seek to:
- first choose the collateral with the highest recovery rate and a less costly monitoring,
- diversify types of collateral for a specific credit exposure,
- eliminate securing credit exposures with collaterals which are correlated in such a way that the impairment of one collateral results in the impairment of other collateral.

2.2.3 RATING SYSTEMS CONTROL MECHANISMS

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.

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).

2.2.4 THE SCOPE OF APPLICATION OF INTERNAL ESTIMATES FOR PURPOSES OTHER THAN CALCULATION OF RISK WEIGHTED EXPOSURE AMOUNTS USING THE IRB INTERNAL RATING APPROACH

ING Bank Śląski S.A. and the whole ING Group have PD, LGD and EAD models developed in line with the requirements of Basel II and the Polish Financial Supervision Authority resolutions (including the Resolution No. 76/2010) also for the purposes other than calculation of the regulatory capital.

According to the supervisory authorities' guidelines, there are three areas where the IRB approach components should be applied:

– measurement and management of credit exposure;
– the process of planning and formulation of strategy;
– reporting.

These three areas are used as a quick test whether the Bank actually applies the IRB approach components in its risk management processes.

In this document various notions of capital are used. It is important to distinguish between the following three types of capital and their purposes:

– the accounting/bookkeeping capital is defined by experts as equal to the share capital in the consolidated annual report, and constitutes the difference between the assets and liabilities;
– the regulatory capital (Basel I / Basel II) is defined by the regulators and consists of: the core shareholders' equity (Tier 1), supplementary capital (Tier 2) and reserves required for the absorption of an unexpected loss. The Regulatory Capital measures the portfolio risk by simply summing up individual risks. And, as a consequence, ignores the internal relations between various types of risks. Nevertheless the Bank's internal risk is partly diversified by the use of the credit risk correlations defined by the regulator (in the IRB approach). The Regulatory Capital is calculated only for the credit, operational and market risk. In the IRB approach only PD, LGD, EAD and maturity components are used for calculating the Regulatory Capital for credit risk;
– The Economic Capital (EC) is defined according to the ING's own methodology as the minimum amount of capital required to cover an unexpected loss (for all material types of risk) on a specific level of trust, and within a specified time horizon. The concept of economic capital typically applied in ING treats EC as a measure of risk used for making alternative

decisions aimed at eliminating risk in such processes as transaction valuation or profitability measurement. EC includes all types of risk (credit, transfer, market, operational and business).

Credit exposure - measurement and management

The Bank and the whole ING Group use the PD, LGD and EAD models for many areas related to the credit risk management. Apart from the Regulatory Capital calculations (RECAP), the PD, LGD and EAD models are used also in:

- the calculation of the Economic Capital otherwise known as internal capital, including the local economic capital;
- the calculation of provisions according to IFRS3;
- credit granting process;
- credit price calculation;
- reference limits definition.

Each of the above mentioned areas uses a certain alignment of parameters to the purposes to be accomplished by a given area.

Process of planning and formulation of strategy

Planning and strategy processes despite financial part includes also capital part. Capital part is being prepared by Capital Management Department in cooperation with appropriate Bank units responsible for particular types of risk. The element of this process is credit risk planning, which is based on internal rating based method parameters (PD, LGD, EAD) – with reference KNF/DNB decision regarding AIRB implementation, standardized approach elements – for retail exposures, and economic capital. Planning methodology includes Bank development and expected changes in external environment. Calculated values are the basis for capital adequacy assessment, capital limits setting and credit risk management strategy in risk appetite statement (RAS). Capital plan is ratified by Management Board and Supervisory Board.

Reporting

Risk Modelling, Monitoring and Reporting Department prepares monthly reports on corporate credit risk, whereas in the case of retail exposure risk such reports are prepared by the Retail Credit Risk Management Department. In addition, the Accounting Department generates obligatory quarterly reports on risk weighted assets and the minimum Regulatory Capital. The basic reporting tool, both in ING Bank Śląski, and the whole ING Group, is VORTEX - a global, centralised database on credit risk that provides a wide spectrum of information on various aspects of credit exposure, both on a transaction level and various aggregation levels. The Vortex reports contain information on: PD, LGD, EAD, EC, RWA, the minimum Regulatory Capital, balance, and collateral. The data is available to all authorised users at all levels of management (as per specified access rights) from the risk, front-office and finances areas.

2.2.5 INTERNAL RATING PROCESS

Entrepreneurs

In the case of entrepreneurs, specialised lending, and accounts receivable purchasing, the internal rating process is based on appropriate rating models.
In such a process an AM (business line) collects information needed for a rating model and enters it in an IT system supporting the assignment of rating to an institution. RM (Credit and Market Risk Division) assigns a rating on the basis of the AM's proposal. There is room for appeal in the rating process.
The RR rating model is an example of a specialised lending rating model. The CL (large enterprises) rating model and the KC (small and medium enterprises) rating model are examples of enterprise rating models. When accounts receivable are purchased the parties of such transaction are rated with the appropriate enterprise rating model.

Institutions - banks

In the case of institutions - banks, internal rating process is analogous to the enterprise rating, and takes into account an institution-appropriate rating model.

In such a process an AM (business line) collects information needed for a rating model and enters it in an IT system supporting the assignment of rating to an institution. RM (Credit and Market Risk Division) assigns a rating on the basis of the AM's proposal. There is room for appeal in the rating process.

Retail exposures

For the purpose of calculating capital requirement in the subsidiary company - ING Lease Polska Sp. z o.o., the internal rating of retail exposure is applied (ING LP). The Bank continues to develop internal retail exposure rating models.

Within the retail customers' standard products framework each SBF customer is assigned a SLP rating (Small/Standard Leasing Facility Poland). ING LP calculates leasing transactions ratings in order to assess the probability of an event of default (PD - Probability of Default). An event of default is defined as the probability of a payment past due for more than 90 days within consecutive 12 months.
ING LP does not have its own rating model for SBF customers, compliant with the Basel II requirements. Therefore until such a model is developed, PD risk is assessed with the use of a model derived on the basis of the information provided by ING Bank Śląski S.A., and has been adopted by ING LP to standard product needs.
It is a statistical model designed for entities with the following legal status:

- a physical person conducting business activity,
- civil law partnership,
- registered partnership (unless it is impossible to assign KC rating on the basis of an integrated accounting system),
- professional partnership,
- limited liability company,

– limited partnership,
– co-operative,
– foundation - no financing within a standard product framework,
– association - no financing within a standard product framework,
– entities maintaining an incorporated accounting system with the sales volume below PLN 5 million. In the case of entities with the sales exceeding PLN 4,8 million (the equivalent of EUR 1.2 million) the KC rating is necessary.

The KC rating is necessary for the entities which were transferred from the retail to corporate segment, irrespective of their annual turnover.

2.2.6 DETAILED INFORMATION REGARDING PARTICULAR EXPOSURE CLASSES BY OBLIGOR GRADES

Exposure classes by obligor grades in millions of PLN.

INSTITUTIONS - BANKS					
Obligor grade	Total exposure	The average value of loss given default (LGD), weighted by the exposure amount expressed as percentage	Average risk weight, weighted by the exposure amount	Amount of granted undrawn off-balance sheet liabilities	Average exposure value at the time of default on granted undrawn off-balance sheet liabilities
1	0,0			0,0	0,0
2	0,0			0,0	0,0
3	0,0			0,0	0,0
4	98,2	17,08%	5%	0,0	0,0
5	1 059,2	29,88%	18%	45,1	38,8
6	172,3	27,39%	15%	42,3	21,5
7	4 721,0	37,37%	24%	2 461,9	13,8
8	727,4	37,68%	30%	1 029,3	484,4
9	85,7	39,54%	45%	426,8	44,2
10	172,9	22,74%	23%	136,6	116,4
11	124,8	50,40%	56%	3,7	3,2
12	42,7	49,87%	86%	16,9	8,9
13	12,9	50,93%	108%	10,8	5,5
14	0,0			0,0	0,0
15	0,0			0,0	0,0
16	0,0			0,0	0,0
17	3,3	37,17%	193%	37,1	37,1
18	0,1	100,00%	533%	0,1	0,1
19	7,6	53,62%	304%	0,3	0,3
20	0,0			0,0	0,0
21	0,0			0,0	0,0
22	0,0			0,0	0,0
Total	**7 228,1**	**-**	**-**	**4 210,9**	**774,2**

ENTREPRENEURS					
Obligor grade	Total exposure	The average value of loss given default (LGD), weighted by the exposure amount expressed as percentage	Average risk weight, weighted by the exposure amount	Amount of granted undrawn off-balance sheet liabilities	Average exposure value at the time of default on granted undrawn off-balance sheet liabilities
1	0,0			0,0	0,0
2	0,0			0,0	0,0
3	0,1	47,88%	269%	0,1	0,1
4	16,3	38,12%	8%	0,0	0,0
5	0,1	58,55%	49%	0,1	0,1
6	41,1	9,08%	7%	2,8	0,9
7	4 102,6	43,79%	32%	1 757,9	326,5
8	818,2	34,30%	26%	428,3	273,1
9	2 649,7	36,19%	43%	1 527,5	526,2
10	5 265,5	29,65%	44%	2 744,4	959,7
11	5 522,7	24,79%	46%	2 170,7	782,0
12	4 011,2	24,12%	57%	1 054,4	512,3
13	6 648,8	26,58%	76%	1 772,1	874,1
14	2 333,9	21,96%	73%	539,4	234,0
15	2 403,0	24,04%	96%	672,3	356,1
16	628,6	26,34%	124%	152,6	63,7
17	452,1	25,81%	134%	251,1	51,8
18	492,3	21,94%	125%	56,8	38,8
19	188,6	26,80%	146%	41,4	23,5
20	1 051,1	31,71%	61%	143,4	47,7
21	0,0			0,0	0,0
22	403,8	49,05%	77%	17,5	8,0
Total	**37 029,7**	**-**	**-**	**13 332,8**	**5 078,6**

RETAIL			
Obligor grade	Total exposure	The average value of loss given default (LGD), weighted by the exposure amount expressed as percentage	Average risk weight, weighted by the exposure amount
1	0,0		
2	0,0		
3	0,0		
4	0,0		
5	0,0		
6	0,0		
7	0,0		
8	0,0		
9	6,2	5,70%	3%
10	44,3	9,57%	7%
11	27,9	21,14%	23%
12	18,7	8,06%	13%
13	88,8	9,42%	14%
14	37,9	6,90%	12%
15	24,2	6,96%	13%
16	9,5	4,12%	8%
17	15,5	13,18%	26%
18	0,5	1,03%	3%
19	3,9	11,63%	30%
20	1,9	3,25%	11%
21	0,0		
22	0,0		
Total	**279,3**	**-**	**-**

2.2.7 FACTORS AFFECTING LOSSES INCURRED IN PRECEDING PERIOD

Within the process of verifying levels and sources of losses the Bank monitors, among other:
a) non performance rate (default rate),
b) the level of losses according to the LGD parameter, including its components (no loss rate, recovery rate on collateral, uncollateralised debt recovery rate, etc.),
c) conversion factor (for various EAD models and types of products).

In the last year the Bank did not record loss which would be higher than the average loss in previous years.

1.2.8 COMPARISON OF FORECASTS WITH ACTUAL RESULTS OVER A LONGER PERIOD OF TIME

In the cyclical (at least one a year) credit risk models validation process dedicated to individual exposure classes the Bank compares the risk model parameters (PD, LGD, CCF) forecasts with their actual levels. In line with the internal model validation procedures such comparison is based on the sufficiently long period of observation which permits a reliable assessment of the internal rating process functioning. The validation of models performed within the reporting period showed that the departure of parameter forecasts from their actual levels remains within the assumed acceptable range, including the required level of conservatism.

2.3 INFORMATION ON CREDIT RISK MITIGATION TECHNIQUES

2.3.1 INTERNAL REGULATIONS ON THE BALANCING OF ON-BALANCE SHEET AND OFF-BALANCE SHEET EXPOSURES

In line with the rules applicable in the Bank each corporate client or a non-banking financial institution prior to initiation of a derivative transaction is obliged to sign an appropriate Framework Agreement with the Bank which enables the set-off of executed transactions. The entry of the limits awarded to a customer, which are necessary to execute a transaction, is conditioned upon signing of legal documents by a customer.
Excluded from that rule are the bank customers who are obliged to sign Framework Agreements for transactions with over 1 year maturity. Nevertheless, the Bank signed appropriate agreements with the majority of its banking partners, except for just a few banks with whom the bank enters into short (usually 1-2 days) currency exchange transactions.

2.3.2 INTERNAL REGULATIONS ON CREDIT COLLATERAL VALUATION AND MANAGEMENT

The Bank's Regulations on collateral describe the method of each type of collateral valuation across the physical and personal collateral group.

The Bank distinguishes the following collateral values:
- face value,
- adjusted face value,
- goodwill.

Collateral face value is the value expressed in the collateral currency, established on the basis of current prices, excluding the influence of other factors (in particular: market value, book value, value of the accounts receivable transferred to the Bank) established for each collateral individually.

Adjusted face value is the value of collateral made real taking into account the factors omitted in the calculation of face value. Such value is worked out if in the Bank's opinion there exist factors which were omitted while calculating collateral face value or were included but to an insufficient degree, and have adverse impact on collateral value.

Collateral goodwill is calculated as a product of recovery rate on collateral (defined on the basis of an appropriate LGD model parameters) multiplied by face value, or adjusted face value of a collateral if there were reasons why such adjusted value should be calculated.

For example, the grounds for calculating real estate face value is its market value. While calculating such a value a comparative or income approach may be applied.

Depending on the type of collateral, the value is monitored at specified intervals, adjusted to the provisions of Resolution No. 76/2010 of the Polish Financial Supervision Authority.

At the same time it is recommended for the decision-makers to contemplate that if certain circumstances occur, the frequency of monitoring should be increased.

Such circumstances are, among others:
- collateral risk,
- collateral value fluctuation risk,
- reputation risk.

If the Bank decides that collateral value should be monitored at shorter intervals it should take into consideration economic effectiveness, i.e. the relation between the cost and effects of monitoring.
Monitoring performed at shorter intervals is required in the face of substantial fluctuations in the market conditions, i.e. in case of real estate, the frequency of monitoring depends on the specific nature of such real estate and individual factors affecting its value.

With respect to other physical collateral, beside the material fluctuations in the market conditions, more frequent monitoring may be dictated by the technical state of machines and equipment, means of transport, etc.

The Bank's Regulations also define the way the collateral is presented and approved in the process of granting credit exposure and rules of presenting and approving collaterals monitoring.

2.3.3 MAIN TYPES OF CREDIT COLLATERAL

The Bank accepts all permitted legal forms of collateral, at the same time specifying its preference as to their application in the Regulations on collateral.
Yet the collateral should be chosen based on:
- connecting collateral value to the risk of the customer's default and the given transaction risk,

- seeking to fulfil the conditions specified in the Regulations which enable including the specific collateral groups recovery rates assessed inside the Bank in the capital requirements assessment process,
- respecting the limitations in accepting collateral and including the guidelines presented in the Regulations, aimed at the minimisation of the risk of negative departure from the estimated probable recovery rate,
- optimisation of the collateral catalogue for a given credit exposure when there is a specific pool of collaterals available.

The Bank has identified the following collateral groups:

1. Physical collateral which makes it possible for the Bank to recover debt in the event of a partner's default by liquidating the collateral provider's specific assets - real credit protection.
   The Bank recognises the following types of assets that may serve as a physical collateral for the Bank's receivables under credit exposure:
   - real estate,
   - movable assets - things with specified identity,
   - movable assets - supplies or things of a specified type,
   - cash equivalents (security deposits, deposits and funds deposited as letter of credit coverage),
   - accounts receivable,
   - treasury bonds,
   - securities traded on a stock exchange,
   - securities not traded on a stock exchange/ investment certificates,
   - stock traded on a stock exchange,
   - stock not traded on a stock exchange,
   - shares in Open Pension Funds.

2. Personal collateral which makes it possible for the Bank to recover debt in the event of a partner's default by liquidating the collateral provider's specific assets - unfunded credit protection.
   The Bank recognises the following forms of personal collateral:
   - surety under the Civil Code or bills of exchange law,
   - bank guarantee/reguarantee and corporate guarantee,
   - assumption of debt.

3. In some LGD models applied in the bank the recovery rate on unsecured part of exposure is affected by the so-called 'negative pledge' clause which obliges a customer not to create any collateral over its assets or significantly limit collateral created in favour of other creditors. A customer's acceptance of such a clause increases the recovery rate on the unsecured part of exposure.

4. There are also additional types of collateral used by the Bank that strengthen its position in negotiations or expand the Bank's control entitlements as a creditor. Additional collateral includes, among other:

- letter of intent/letter of comfort/ statement of comfort,
- blank bill of exchange,
- assignments of rights under property insurance policy,
- obtaining credit insurance coverage from an insurance company,
- insurance coverage for domestic accounts receivable (an insurance policy issued to ING BSK or insurance policy assignment).

Structure of individual collateral groups is diversified. The collateral with the biggest share:

- corporate sureties and guarantees - this group of collateral includes guarantors from various industries having diversified financial and economic standing. Therefore there is no material risk of concentration. If a particular recovery rate has been assumed, higher than 0%, it is necessary to investigate a guarantor's economic and financial standing and assign a risk grade,
- mortgage - its share results from the fact that usually mortgage is used to secure long-term investment loans. In addition mortgage is the main collateral in the case of commercial real estate mortgage loans,
- tangible and current assets,
- accounts receivable.

Collateral in the form of bank guarantees or securities have small share in the general pool of the collateral accepted by the Bank.

2.3.4 MARKET OR CREDIT RISK CONCENTRATION WITHIN THE APPLIED RISK MITIGATION INSTRUMENTS

The Bank as the creditor uses various collateral which may be deemed credit risk mitigation instruments.
Internal concentration limits have been created for the main groups of collateral. Usage of such limits is presented in monthly and quarterly Risk Reports.

3. SOLVENCY RATIO

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 2012 is 14.55 %.

Calculation of solvency ratio (in millions of PLN).

	31.12.2012	31.12.2011
Own funds taken into account in solvency ratio calculation according to advanced method (AIRB)	6 797,2	5 326,5
Own funds taken into account in solvency ratio calculation according to standard method (SA)	6 928,1	5 481,2
Total capital requirement computed with Advanced Internal Rating-Based method (AIRB) for calculation of the credit risk requirement	3 292,0	3 244,9
Total capital requirement computed with Standard Approach (SA) for calculation of the credit risk requirement	3 736,1	3 573,9
Solvency ratio – supervisory *	**14,55%**	**11,92%**
Solvency ratio (AIRB)	**16,52%**	**13,13%**
Solvency ratio (SA)	**14,83%**	**12,27%**

** Following the letter of the Polish Financial Supervision Authority (PFSA) dated 18 May 2012 related to the decision of 06 October 2011 on a conditional approval of application of the Advanced Internal Rating-Based Approach (AIRB) by the Bank "(...) the solvency ratio should be computed based on the following figures:*

1) *for the capital requirement for credit risk computed with AIRB being lower than the capital requirement for credit risk computed using standard approach:*
   a) *for own funds – considering the amount calculated with AIRB,*
   b) *for the total capital requirement – considering the supplementary amount of capital requirement for credit risk to the requirement calculated under standard approach (SA),*
2) *for the capital requirement for credit risk computed with AIRB being higher than the capital requirement for credit risk computed under standard approach:*
   a) *for own funds – considering the amount calculated with AIRB,*
   b) *for the total capital requirement – considering the capital requirement for credit risk calculated with AIRB".*

AIRB method may be applied in full to calculate the capital requirement for credit risk for supervisory purposes only upon fulfillment by the Bank of the requirements listed in the aforesaid decision of PFSA.

4. INTERNAL CAPITAL

At ING Bank Śląski S.A. economic capital (internal capital) is defined as capital needed to cover all material risks identified in Bank's activities and macroeconomic environment. Capital covers potential unexpected losses on which bank is exposed in future with confidence interval corresponding with AA rating (99,95%) and one year horizon. Economic capital is calculated on the basis of ING Bank N.V. methodologies adjusted to local conditions.

Material Risks

At ING Bank Śląski S.A. material risks are divided into two categories: permanently material risks and material risks. Permanently material risks includes types of risks which are currently and will be in the future material because they are immanently connected with Bank functions. Permanently material risks include:

1. Credit risk:
   - default risk and counterparty risk,
   - residual risk,

- concentration risk,
- transfer risk,

2. Market risk:
   - liquidity risk,
   - exchange rate risk,
   - interest rate general and specific risk in trading book,
   - interest rate risk banking book: total mismatch,
3. Business risk:
   - model risk,
   - extreme conditions risk,
   - expense risk,
   - volumes/margins risk,
4. Operational risk:
   - operational risk.

Material risks include:

1. Market risk:
   - capital securities investment risk banking book,
   - property investment risk,
   - property in own use risk,
2. Settlement risk:
   - settlement risk,
3. Business risk:
   - client behavior risk.

<u>*Economic capital assessments methodology*</u>

ING Bank Śląski S.A. is calculating capital for following risks:

1. Default risk and counterparty risk - risk of potential losses due to clients failure of fulfilling their obligations against Bank and the risk of economic value decrease of credit exposure due to deterioration of clients creditability – is calculated using modified AIRB method.
2. Transfer risk - risk related to the potential losses due to foreign clients obstruction to fulfill their obligations against bank resulting from local authorities restrictions in capital transfer or/and currency transfer – only for countries with rating lower then 9, capital is equal to 1% of exposure.
3. Exchange rate risk and interest rate risks regarded as material – risk related to losses connected with interest rate and exchange rate changes – capital is calculated on the basis of VaR.
4. Expense risk - risk of deviation of expenses from planned levels – capital is calculated on the basis of historical volatility and operational costs.
5. Operational risk - risk of direct or indirect loss - material or reputational – resulting from inadequate or failed internal processes, bank's employees and systems or from third parties/external events. Operational risk include legal risk – capital is calculated on the basis of AMA methodology, which includes internal incidents, external data, internal processes risk

analysis, scenario analysis.

6. Equity investment risk, property investment risk and property in own use risk – risk connected with changes in equity and property valuation – capital is calculated on the basis of historical volatility and/or expert judgement and portfolio valuation.
7. Client behaviour risk - the potential future value loss due to uncertainty in the behavior of clients towards embedded options in particular products – capital is calculated on the basis of Monte Carlo simulations of replicating portfolio valuation.

Due to Bank decision to assess concentration, residual, model, volume/margin, extreme conditions, liquidity and settlement risks as material, Bank is preparing methodologies for economic capital calculations for these types of risk.

II. VARIABLE REMUNERATION POLICY

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) ING Bank Śląski S.A., hereinafter referred to as the Bank, is obliged to reveal qualitative and quantitative disclosures relating to the Variable remuneration policy.

Pursuant to resolution 4/I/2013 of the Bank Supervisory Board of 18th January 2013, disclosures relating to the Variable remuneration policy of ING Bank Śląski S.A. are published.

1. QUALITATIVE INFORMATION

1.1 SOME DETAILS OF THE PROCESS OF DETERMINATION OF THE VARIABLE REMUNERATION POLICY, INCLUDING COMPOSITION AND SCOPE OF TASKS OF THE REMUNERATION AND NOMINATION COMMITTEE, EXTERNAL CONSULTANT AND DECISION-TAKING PROCESS PARTICIPANTS WHEN DEVELOPING THE SAID POLICY, INCLUDING THEIR ROLE IN THE PROCESS

As regards the variable remuneration, the Bank implemented the solutions under Polish Financial Supervision Authority Resolution No. 258 of 04 October 2011. First the list of positions having material impact on the risk profile of ING Bank Śląski S.A. was developed. The list is enclosed with the Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A. (the Policy), adopted with the Supervisory Board Resolution of 31 May 2012.
Following the implementation of a new regulation, the content of the Executive Compensation Bylaw for Members of the Management Board of ING Bank Śląski S.A. and the General Conditions of Bonus Award to Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A. was approved.
The content of the regulations implementing PFSA Resolution No. 258/2011 was developed by a team supervised by the Bank Executive Director for HR Area. In their works, the team used the services rendered by the external consultant being PricewaterhouseCoopers Polska Sp. z o.o.

As far as the Policy is concerned, the Bank Supervisory Board Remuneration and Nomination Committee has the following responsibilities:
1) hey present the Supervisory Board with opinions about and recommendations on the Policy,
2) they present the Supervisory Board with recommendations on Policy observance, following the report developed by the Internal Audit Department,
3) they advise upon and monitor variable remuneration of persons holding managerial positions.

The other competences of the Committee which may be applicable when pursuing the Policy are specified in the Bylaw of the Remuneration and Nomination Committee of ING Bank Śląski S.A.

Committee composition: Ms Anna Fornalczyk (Supervisory Board Chairwoman, Independent Member), Mr Brunon Bartkiewicz, Mr Nikolaas Cornelis Jue as well as Mr Wojciech Popiołek (Independent Member).

1.2 KEY FACTS ABOUT REMUNERATION DEVELOPMENT, PERFORMANCE-BASED REMUNERATION INCLUDED

ING Bank Śląski S.A. develops its remuneration policy based on market data.
The total remuneration is divided into the fixed and variable remuneration. The maximum relation of the fixed remuneration to the variable remuneration was established. Fixed remuneration is as large a part of the total remuneration as needed to ensure that a fully flexible variable remuneration policy is pursued, including but not limited to allowing to apply reduction or not to award the variable remuneration at all.
Additionally, the variable remuneration shall be as large part of the fixed remuneration as to encourage the persons concerned to care about the long-term and sustained development of the Bank.
Under PFSA Resolution 258/2011, the variable remuneration is deferred and at least 50% thereof is paid in phantom stock entitling to a cash benefit conditional on the price of ING Bank Śląski S.A. shares.

Variable remuneration is established based on the assessment of work performed by a given person and given organisational unit as well as results in the area of responsibility of a given person while taking into account the entire Bank's result.

The right to variable remuneration is conditional on generation of at least 80% of gross profit by the Bank as planned for a given year.

In keeping with the Capital Management Procedure at ING Bank Śląski S.A., the Bank tests capital to ensure that the total variable remuneration pool of all employees does not limit the ING Bank Śląski S.A.'s ability to maintain an adequate capital base. Should such a limitation apply, a decision not to activate the variable remuneration pool can be taken.

1.3 KEY FACTS ABOUT PERFORMANCE MEASUREMENT CRITERIA AND PERFORMANCE ADJUSTMENT WITH RISK AS WELL AS KEY PARAMETERS AND PRINCIPLES OF DETERMINING REMUNERATION FOR PERSONS HOLDING MANAGERIAL POSITIONS AT THE BANK

The Bank employs advanced measurement approach to estimate the capital base and the stress-testing policy, whereby adequate risk management and adequate assessment of present and future capital requirements are ensured.

At the time defined, the direct superior determines the performance-related annual goals which ensure coherence with the long-term strategy of the Bank. The goals support creating long-term value of the Bank and account for the risk cost of the Bank and liquidity risk. The goals have the following nature:

1) financial, inclusive of Bank performance-related tasks and a given employee area of responsibility (e.g. Bank net profit, financial risk costs),

2) non-financial, inclusive of quality indicators related to execution of the Bank strategy and/ or related to performance of a given control function, non-financial risk.

The goals and their weights - set in accordance with the rules adopted in the Bank - are approved by the Management Board; for ING Bank Śląski S.A. Management Board Members - by the Supervisory Board, based on the recommendation of the Supervisory Board Remuneration and Nomination Committee.

The goals of a person holding a managerial position responsible for control functions are based in at least 75% on the function-based objectives and comprise quality tasks. When determining the financial tasks, they are not related to the results achieved in areas controlled by the given person.

Assessment and its verification is performed by the immediate superior and is approved by the ING Bank Śląski S.A. Management Board, following the advice of the Supervisory Board Remuneration and Nomination Committee; for ING Bank Śląski S.A. Management Board Members - by the Supervisory Board, based on the recommendation of the Supervisory Board Remuneration and Nomination Committee. Assessment and verification take place by 31 March of the subsequent calendar year at the latest.

In keeping with the Policy, the Executive Compensation Bylaw for Members of the Management Board and the General Conditions of Bonus Award to Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A., both financial and non-financial criteria as well as risk-adjusted criteria are employed to assess individual performance. Bank's policy provides for adjustment for remuneration cost. It is made under the Policy, whereunder based on the ex post risk adjustment, the Bank has the right to reduce or not to disburse the variable remuneration when it could potentially have the negative impact on the Bank's results.

The Bank specifically regulated the terms and conditions of bonus award in case of labour relationship termination or expiry.

In accordance with the Policy, the Bank does not award additional remuneration as may be due because of termination of the employment contract understood as a part of the variable remuneration package.

2. QUANTITATIVE INFORMATION

The analysis covers all persons holding managerial positions having material impact on the risk profile of the Bank – in keeping with Enclosure No. 1 with the Variable Remuneration Policy.

Below, the quantitative information is presented required by the Policy of disclosing qualitative and quantitative information as regards the variable remuneration:

1) Aggregate quantitative information about remuneration by business line used in Bank management (in millions of PLN):

No.	Business line	Total remuneration (fixed and variable)
1	Management Board Members managing business lines used in Bank management	8,1
2	Retail banking segment	7,9
3	Corporate banking segment	24,8
	Total	**40,8**

2) Aggregate quantitative information about remuneration of persons holding managerial positions at the Bank, in split into:
   a) Management Board Members and persons reporting directly to the Management Board member irrespective of their employment basis, Branch Directors and Branch Deputy Directors and the Chief Accountant when considered the persons having material impact on the risk profile of the Bank;
   a) other persons holding managerial positions at the Bank when considered the persons having material impact on the risk profile of the Bank;

comprising the following data:

– aggregate remuneration for a given accounting year in split into fixed and variable remuneration and number of its beneficiaries (in millions of PLN):

Group		Number of persons	Remuneration fixed	Variable remuneration	Total remuneration (fixed and variable)
A	Management Board Members	6	8,9	6,2	15,1
B	Persons reporting directly to the Management Board member irrespective of their employment basis, Branch Directors and Branch Deputy Directors and the Chief Accountant when considered the persons having material impact on the risk profile of the Bank	33	18,2	8,9	27,1
C	Other persons holding managerial positions at the Bank when considered the persons having material impact on the risk profile of the Bank	7	3,6	2,0	5,6
	Total	**46**	**30,7**	**17,1**	**47,8**

– aggregate amount and form of variable remuneration in split into the remuneration paid in cash and instruments referred to in §29 (7) of Resolution 258/2011, adopted at the Bank (in millions of PLN):

Group		Variable remuneration - paid in cash	Variable remuneration - paid in phantom stock	Variable remuneration total
A	Management Board Members	3,1	3,1	6,2
B	Persons reporting directly to the Management Board member irrespective of their employment basis, Branch Directors and Branch Deputy Directors and the Chief Accountant when considered the persons having material impact on the risk profile of the Bank	4,4	4,5	8,9
C	Other persons holding managerial positions at the Bank when considered the persons having material impact on the risk profile of the Bank	1,0	1,0	2,0
	Total	**8,5**	**8,6**	**17,1**

– aggregate deferred remuneration in split into the awarded and still not awarded parts (in millions of PLN):

Group		Deferred variable remuneration - awarded part	Deferred variable remuneration - not-awarded part	Variable remuneration total
A	Management Board Members	1,8	2,5	4,3
B	Persons reporting directly to the Management Board member irrespective of their employment basis, Branch Directors and Branch Deputy Directors and the Chief Accountant when considered the persons having material impact on the risk profile of the Bank	2,7	3,5	6,2
C	Other persons holding managerial positions at the Bank when considered the persons having material impact on the risk profile of the Bank	0,6	0,8	1,4
	Total	**5,1**	**6,8**	**11,9**

– aggregate amount of payments related to employment start and termination in a given accounting year, number of beneficiaries as well as as the top payment per person (in millions of PLN):

Group		The value of payment related to the termination of employment	Number of persons	Top payment per person
A	Management Board Members	-	-	-
B	Persons reporting directly to the Management Board member irrespective of their employment basis, Branch Directors and Branch Deputy Directors and the Chief Accountant when considered the persons having material impact on the risk profile of the Bank	0,4	1	0,4
C	Other persons holding managerial positions at the Bank when considered the persons having material impact on the risk profile of the Bank	-	-	-
	Total	**0,4**	**1**	**0,4**

Since the variable remuneration policy implementation-related regulations were adopted in the year 2012, deferred payouts will be adjusted in the coming years first.

ATTACHMENT

Additional Pillar 3 information

amounts in millions of euros, unless stated otherwise

INTRODUCTION

This section relates to Pillar 3, market discipline, and as such provides information on several topics. Some of the required information has already been provided elsewhere in the Annual Report, e.g. in the Risk Management section and in the Capital Management paragraph. This section provides additional information, as well as references to the relevant sections. The information relates to ING Bank N.V. and all of its subsidiaries (hereafter ING Bank). There are no significant differences between the scope of consolidation for prudential purposes compared to the accounting scope of consolidation as reported in the annual report in the note 'Principal subsidiaries'. The information in this section has not been audited by ING Bank's external auditors.

European Disclosure Task Force recommendations on financial disclosure

In the course of 2012, the European Disclosure Task Force (EDTF) was formed to provide more comprehensive and consistent disclosure for Financial Institutions. The EDTF is an industry work group that together with the Financial Stability Board made several recommendations on financial disclosure. ING Bank is a member of the EDTF and supporter of both the principles and final paper. Since the final paper was only delivered in November 2012, ING Bank is unable to immediately implement all of the recommendations. Nonetheless, the key elements of the EDTF have been included in this Pillar 3 document using the same templates as outlined in the final recommendations. The glossary can be used as guidance to find the new tables implemented as part of the EDTF recommendations. Below an overview is given on how ING Bank has dealt with all EDTF recommendations.

Overview of EDTF recommendations on financial disclosure

EDTF Recommendation	Brief Description	Comments
1	Consolidate all risk related information in either Risk Management paragraph or Pillar 3. If not possible, provide an index to aid navigation.	Table of contents implemented in both Risk Management section and Pillar 3.
2	Define the bank's risk terminology and risk measures and present key parameter values used.	Implemented in the Risk Management sections: Business Model and Risk Profile, Economic Capital, and the risk terminology and risk measures described in the Credit Risk, Market Risk, Liquidity Risk and Non-Financial Risk sections.
3	Describe and discuss top and emerging risks for the bank.	Implemented in the Risk Management section: Risk developments in 2012.
4	Once the applicable rules are finalised, outline plans to meet each new key regulatory ratio.	To be included when CRR/CRD IV is approved by EU Parliament.
5	Summarise prominently the bank's risk management organisation, processes and key functions.	Implemented in the Risk Management section Risk Governance and the corresponding descriptions in the Credit Risk, Market Risk, Liquidity Risk and Non-Financial Risk sections.
6	Describe bank's risk culture, related procedures and strategies.	Implemented in the Risk Management sections: Risk Governance, Business Model and Risk Profile and the corresponding descriptions in the Credit Risk, Market Risk, Liquidity Risk and Non-Financial Risk sections.
7	Describe key risks arising from bank's business model and activities, the bank's risk appetite and how it manages these risks.	Implemented in the Risk Management section: Risk Governance, Business Model and Risk Profile and the corresponding descriptions in the Credit Risk, Market Risk, Liquidity Risk and Non-Financial Risk sections.
8	Describe the use of stress testing within the bank's risk governance and capital frameworks.	Implemented in the Risk Management section: Stress Testing and the corresponding descriptions in the Credit Risk, Market Risk and Liquidity Risk sections.
9	Provide minimum Pillar 1 capital requirements, including surcharges and buffers, or the minimum internal ratio.	Implemented in the Capital Management section and in the Ongoing Changes in the Regulatory environment section of the Risk Management section.
10	Summarise composition of capital based on Basel Committee templates.	To be addressed in future disclosures.
11	Present a flow statement of movements since the prior reporting date in regulatory capital, including changes in common equity tier 1, tier 1 and tier 2 capital.	Flow statement of movements are incorporated in the Credit Risk and Market Risk section of the Risk Management section. Changes in available capital are disclosed in Pillar 3.
12	Qualitatively and quantitatively discuss capital planning within a more general discussion of management's strategic planning.	Implemented in the Capital Management section and in the Ongoing Changes in the Regulatory environment section of the Risk Management section.
13	Provide granular information to explain how risk-weighted assets (RWAs) relate to business activities and related risks.	Implemented in Pillar 3 in the RWA migration table.

14	Present a table showing the capital requirements for each method used for calculating RWAs for credit risk per Basel asset class as well as for major portfolios within those classes.	Template 11 of the EDTF is added to the SA and AIRB section of Pillar 3; it shows the READ and RWA for the AIRB and SA portfolio per exposure class.
15	Tabulate credit risk in the banking book showing average probability of default (PD) and LGD as well as exposure at default (EAD), total RWAs and RWA density for Basel asset classes and major portfolios within the Basel asset classes.	Templates 3, 12, 13 and 14 of the EDTF added in the AIRB section of Pillar 3.
16	Present a flow statement that reconciles movements in RWAs for the period for each RWA risk type.	For Credit Risk this is implemented in Pillar 3 in the RWA migration table. The Market Risk flow statement is included in the Risk Management section.
17	Provide a narrative putting Basel Pillar 3 back-testing requirements into context, including how the bank has assessed model performance and validated its models against default and loss.	Implemented in Pillar 3 in the PD back-test table that is added to the AIRB section where the predicted PD is compared with the actual default rate per Exposure Class. Model Validation process and results included in RMP and Pillar 3.
18	Describe how the bank manages its potential liquidity needs and provide a quantitative analysis of the components of the liquidity reserve held to meet these needs.	Qualitative description included in the Liquidity Risk section of the Risk Management section. Quantitative component to be addressed in future disclosures.
19	Summarise encumbered and unencumbered assets in a tabular format by balance sheet categories.	To be addressed in future disclosures.
20	Tabulate consolidated total assets, liabilities and off-balance sheet commitments by remaining contractual maturity at the balance sheet date.	Implemented in the maturity tables in Notes 22 and 23 of the Annual Accounts.
21	Discuss the bank's funding strategy, including key sources and any funding concentrations, to enable effective insight into available funding sources, reliance on wholesale funding, any geographical or currency risks and changes in those sources over time.	Included in the Liquidity Risk section of the Risk Management Section.
22	Link balance sheet items and income statement with positions included in the traded and non-traded market risk disclosures such as risk factor sensitivities, economic value and earnings scenarios and/or sensitivities.	Risk factor sensitivities are presented in the Market Risk section of the Risk Management Section. Exact linkage with balance sheet items is to be addressed in future disclosures.
23	Provide further qualitative and quantitative breakdowns of significant trading and non-trading market risk factors.	Implemented in the Market Risk section of the Risk Management Section.
24	Provide qualitative and quantitative disclosures that describe significant market risk measurement model limitations through time and descriptions of the reasons for back-testing exceptions.	Qualitative description included in the Market Risk section of the Risk Management section. Quantitative component to be addressed in future disclosures.
25	Provide a description of the primary risk management techniques employed by the bank to measure and assess the risk of loss beyond reported risk measures and parameters, such as VaR, earnings or economic value scenario results.	Implemented in the Market Risk section of the Risk Management paragraph.
26	Provide information that facilitates users' understanding of the bank's credit risk profile, including any significant credit risk concentrations.	Implemented in Pillar 3 by adding the EDTF templates 18, 19, 20 and 21 which tabulate the portfolio per exposure class segmented by relevant factors.
27	Describe the policies for identifying impaired or non-performing loans, including how the bank defines impaired or nonperforming, restructured and returned-to-performing loans as well as explanations of loan forbearance policies.	Implemented in the Risk Management paragraph in the Credit Risk Mitigation section.
28	Provide a reconciliation of the opening and closing balances of non-performing or impaired loans in the period and the allowance for loan losses.	Implemented in Pillar 3 by adding the recommended EDTF template to the Loan Loss Provisions section.
29	Provide a quantitative and qualitative analysis of the bank's counterparty credit risk that arises from its derivatives transactions.	Implemented in Pillar 3 by adding the recommended EDTF template to the Derivatives section.
30	Provide qualitative information on credit risk mitigation, including collateral held for all sources of credit risk and quantitative information where meaningful.	Implemented in Pillar 3 by adding the recommended EDTF template to the Credit Risk Mitigation section.

31	Describe 'other risk' types based on management's classifications and discuss how each one is identified, governed, measured and managed.	Implemented in the Risk Management paragraph.
32	Discuss publicly known risk events related to other risks, including operational, regulatory compliance and legal risks, where material or potentially material loss events have ccurred.	Implemented in the Risk Management Section.

Capital Adequacy Rules – Basel II Accord
The rules on capital adequacy, also referred to as Regulatory Capital (RC), express the regulators' and legislators' opinions of how much capital a bank and other regulated credit institutions must retain in relation to the size and the type of risk taking expressed in the form of risk-weighted assets. The most important part of the capital base is the shareholders' equity. In addition to equity, the institution may issue certain liabilities such as certain hybrid instruments to be included in the capital base. The legal minimum requirement stipulates that the capital base must correspond to at least 8% of the Risk-Weighted Assets (RWA).

The Dutch government adopted the Capital Requirements Directive (CRD), the European reflection of the Basel II capital accord in December 2006. CRD IV will be the reflection of the Basel III accord but is not yet in force. Preparations by ING Bank for the implementation of CRD IV are described in the Risk Management section.

This section relates to Pillar 3, market discipline, and as such provides information on several topics. Some of the required information has already been given elsewhere in the annual report, e.g. in the Risk Management section and in the capital management section. This section provides additional information, as well as references to the relevant sections.

The Pillar 3 information mostly relates to Credit Risk, but also to securitisations and Other Non-Credit Obligation Assets (ONCOA). The requirements are mainly for underlying exposure, risk weighted assets and regulatory capital. As such it relates primarily to the first Basel II pillar, the minimum capital requirement. These regulatory requirements are provided in the next section, including those for market risk and operational risk. The second pillar concerns the banks internally used Economic Capital, and the supervisors review of that capital and the underlying models. Economic Capital, and consequently Pillar 2, is disclosed extensively in the Risk Management section. As such, the text of this Pillar 3 section should be read in conjunction with statements made in the Risk Management section and capital management section of the annual accounts, where there is a comprehensive discussion of Risk Management and Capital Management.

Approaches applied by ING Bank
On 1 January 2008, ING Bank adopted the Advanced Internal Ratings Based (AIRB) approach for the majority of its significant portfolios that contain credit risk in accordance with the approvals granted by DNB (Dutch Central Bank), and various local regulators, as required. However, there remains a small portion of the portfolio that is subject to the Standardised Approach (SA). Unlike many regulators, DNB requires institutions to have at least 85% (RWA weighted) of their portfolio on AIRB to qualify for AIRB status. The majority of SA portfolios at ING Bank relate to subsidiaries where the home regulator does not have a robust AIRB framework or requirement. ING continues to explore opportunities to transition additional portfolios from SA to AIRB. ING Bank does not have any portfolios that use the Foundation IRB Approach.

During 2012 ING Bank decreased its SA portfolio in terms of Regulatory Exposure at Default (READ) by 1% as a result of the sale of ING Direct US and ING Direct Canada which both had a relatively small SA portfolio and the migration of the Commercial Finance Netherlands portfolio and a part of the Poland portfolio from SA to AIRB. ING Bank continues to work towards reducing the portion of its portfolio which falls under the Standardised Approach. At the moment the largest portfolio's under SA are the Turkey, India (Vysya) and Poland (Slaski) portfolios. ING continues to work with local regulators especially in Poland and India to bring more portfolios to AIRB.

The AIRB and SA approaches are explained in more detail in the Credit Risk Measurement section of the Risk Management paragraph. An analysis on the AIRB and SA portfolios with their accompanying tables is provided in 'The SA and AIRB Approach' section of Pillar 3.

ING Bank uses the AIRB and the Internal Assessment Approach (IAA) for liquidity lines provided to Asset Backed Commercial Paper programs.

REGULATORY CAPITAL REQUIREMENTS FOR ALL RISK TYPES

Regulatory capital requirements		
	2012	2011
Credit risk		
Portfolios subject to standardised approach	**2,415**	2,455
Portfolios subject to AIRB approach		
– Sovereigns	**217**	234
– Institutions	**1,121**	1,277
– Corporate	**7,773**	8,664
– Residential mortgages	**3,524**	4,798
– Other retail	**1,286**	1,303
Total portfolios subject to AIRB approach	**13,920**	16,276
Securitisation exposures	**442**	1,489
Equity portfolios in the banking book under the simple risk weight approach	**201**	207
Other Non-Credit Obligation Assets	**1,708**	2,046
Total Credit Risk		
Market risk		
Standardised approach	**28**	34
Internal models approach - trading book	**744**	1,091
Total Market Risk	**772**	1,125
Operational risk		
Advanced measurement approach	**2,836**	2,836
Total Basel II required Regulatory Capital	**22,292**	26,434
Basel I floor*	**28,767**	31,107
Additional capital requirement	**6,475**	4,673

This table includes securitisation benefits of the SA, AIRB and securitisation portfolios, amounting to EUR 21 million for 2012.
* The floor is 80% of Basel I required Regulatory Capital.

Other Non-Credit Obligation Assets (ONCOA) represents assets of non-credit obligation character that are not included in the SA or AIRB calculations. Capital requirement for ONCOA as of 31 December 2012 is EUR 1,708 million (2011: EUR 2,046 million).

ING Bank is in the process of updating its AMA Operational Risk model in conjunction with DNB. Until finalisation of this project which is expected in 2013, DNB has put a floor on the Operational Risk Capital of ING Bank. Since the internally calculated Operational Risk Capital of ING Bank is below the imposed floor, the Operational Risk Capital did not change over 2012.

In order to prevent large short-term effects on capital requirements, the regulators introduced transition rules (the ‘capital floor’) for institutions implementing the Basel II capital adequacy reporting. For 2012 and 2011 the capital requirement was not allowed to fall below 80% of the capital requirements calculated under Basel I regulations. The additional capital requirements according to the transition rules are EUR 6,475 million for 2012 (EUR 4,673 million in 2011).

The decrease in Basel II required regulatory capital can be explained by the divestment of ING Direct US and ING Direct Canada in addition to de-risking of the Bank’s balance sheet. The required regulatory capital shown in this section should be compared to the available regulatory capital for which details can be found in the Capital Management paragraph, section ‘Regulatory Capital’. The table below provides an overview of the changes in the available regulatory capital.

ING Bank Regulatory Capital flow statement		
In EUR million	**2012**	2011
Core Tier 1 capital		
Opening amount	**31,772**	30,894
Profit	**3,116**	4,005
Adjustment prudential filters own credit risk	**468**	-334
Change in goodwill	**130**	226
Dividend	**-2,125**	-3,000
Change in revaluation reserves	**-471**	-290
Change in third party interest	**148**	77
Change in deductions from tier 1	**25**	54
Other	**137**	140
Closing amount	**33,200**	31,772
Additional Tier 1 capital		
Opening amount	**6,850**	8,438
Issued capital		571
Redeemed capital		-2,349
Exchange rate differences	**-75**	190
Closing amount	**6,774**	6,850
Tier 2 capital		
Opening amount	**8,502**	9,813
Change in Tier 2 capital instruments	**-1,384**	-1,364
Change in deductions	**24**	53
Closing amount	**7,142**	8,502
Total regulatory capital	**47,116**	47,123

Unless stated otherwise, the tables in Pillar 3 are focused on credit risk only and therefore exclude ONCOA, equities, market risk and operational risk.

BASIS AND SCOPE OF CREDIT RISK PRESENTATION

For credit risk, data included in these tables are related to ING Bank's core credit risk activities in the areas of: Lending (both on- and off-balance sheet); Securities Financing, Derivatives (collectively Pre-Settlement Risk, Money Market) activities (including reserve deposits at Central Banks) and Investment Risks. Credit Risk in the trading book is excluded and covered in the Market Risk section. The amounts presented in this section relate to amounts used for Credit Risk Management purposes, which follow ING Bank's interpretation of the definitions as prescribed under the Basel II accords. Therefore, the numbers can be different from the accounting numbers as reported in the annual accounts under IFRS-EU.

Unless stated otherwise, the tables included in this section focus on the measurement of Regulatory Exposure at Default (READ) and Risk Weighted Assets (RWA) under the Basel II definitions. READ is generally the sum of the on-balance and off-balance sheet: Lending, Investment and Money Market activities plus an estimated portion of the unused credit facilities extended to the obligor. The amounts associated with Investment and Lending activities are based on the original amount invested less repayments. Additionally, the risk weighting amounts (plus add-ons) is included. Multiplying RWA by 8% will result in the level of Regulatory Capital (RC) that is required to be held against these portfolios (for the Credit Risk portion of the activities).

Figures for Derivatives and Securities Financing are based on 'risk weighted amounts', which generally is equal to the mark-to-market value of the underlying trades plus a (regulatory defined) 'add-on' which represents estimated potential future exposure. The amounts are then further modified by an adjustment that is related to the underlying collateral (market) values (after a haircut is applied) and any legal netting or compensation that may be permitted under various master agreement arrangements (such as ISDAs, CSAs, GMLAs).

Off-balance sheet exposures include the letters of credits and guarantees, which are associated with the Lending Risk category. Additionally, off-balance sheet exposures include a portion of the unused limits, associated with the expected use of the unused portion of the limit between the moment of measurement and the theoretical moment of statistical default. Collectively, these amounts are called 'Credit Risk outstandings'.

Exposures associated with Securitisations (Asset Backed Financing, Commercial/Residential Mortgage Backed Securities) are shown separately. These amounts also relate to the amount invested prior to any impairment activity or mark-to-market adjustments. These amounts are also considered to be 'Credit Risk outstandings'.

RISK WEIGHTED ASSETS MIGRATION ANALYSIS

In line with the EDTF recommendations the table below explains the changes in RWA during the reporting period and provides additional information by linking the impact on RWA of changes in portfolio composition, model changes and shifts in the risk environment. The table reconciles movements in RWA for the period for each RWA risk type of ING Bank for the SA and AIRB portfolio including securitisations.

Flow statement for RWA

RWA movement by key driver (amounts in EUR billion)	
RWA as at 31 December 2011	**252.7**
Book size [1]	**-5.1**
Book quality [2]	**3.3**
De-risking	**-3.5**
Model updates [3]	**0.3**
Methodology and policy [4]	**-3.3**
Acquisitions and divestments	**-32.4**
Foreign exchange movements	**0.0**
Other	**-2.4**
Total movement	**-43.0**
RWA as at 31 December 2012	**209.7**

Excluding equities and ONCOA.
[1] Book size: organic changes in book size and composition (including new business and maturing loans).
[2] Book quality: quality of book changes caused by experience such as underlying customer behaviour or demographics.
[3] Model updates: model implementation, change in model scope or any change to address model malfunctions including changes through model calibrations/realignments.
[4] Methodology and policy: methodology changes to the calculations driven by internal changes in policy and regulatory policy changes.

Key changes

Over the year, RWA decreased by EUR 43.0 billion to EUR 209.7 billion:

- The decreasing book size, excluding disinvestments and de-risking of the portfolio, reduced RWA by EUR 5.1 billion. The book size decrease is mainly seen in the Real Estate and in the Corporate Lending portfolio.
- The deterioration of the book quality increased RWA by EUR 3.3 billion and was mainly seen in the Spanish Corporates and Financial Institutions portfolio and in the Dutch mortgages portfolio due to higher LGD's as a result of the deteriorated market circumstances, which led to a decline in the cover values. Several smaller movements, both positive and negative, occurred in various portfolios throughout the year.
- De-risking in 2012 includes the sale of securitisations and the sale of other debt securities like covered bonds and unsecured bonds. This reduced RWA by EUR 3.5 billion.
- There were several model updates through the year but their impacts on capital were relatively insignificant. A key change was the LGD model for Financial Institutions which was revised to reflect the current deteriorating market circumstances, causing RWA to increase. As part of the Financial Institution model refinement, several changes were made to maturities including removing the 1 year floor for certain exposures, in line with the regulatory exemption. In addition, ING shifted from limit maturity to outstanding maturity per trade as a calculation method. These changes shortened the maturities in the capital calculations causing an RWA decrease. A lthough theindividual impacts from these changes were significant, they almost completely offset each other. Combined, all these changes and multiple smaller movements resulted in an increase in RWA of EUR 0.3 billion over the year.
- The decrease caused by methodology and policy changes was mainly due to a more granular classification for ING Turkey's credit replacement portfolio which lowers the risk weight under the SA approach as ING Turkey largely uses the SA Approach. Next to that, a regulatory maturity floor exemption for trade related products have been refined and the Commercial Finance NL portfolio migrated from SA to AIRB. These RWA decreases were partly offset by the implementation of an allocated calculation method that ensures that no guaranteed facility has less RWA allocated than if this facility would be granted to the guarantor directly, on an unsecured base. Previously this calculation was done centrally and added in ONCOA. An additional methodology change was a shift from a rating hierarchy to the second best rating methodology for securitisations which increased RWA as well. The combined impact of the above mentioned items, together with other smaller changes with relatively insignificant impacts, decreased RWA by EUR 3.3 billion.
- The divestments in 2012 were related to the sale of ING Direct US to Capital One N.A. , which decreased RWA by EUR 29.7 billion and the sale of ING Direct Canada to Scotiabank which reduced RWA by EUR 2.7 billion.
- Although between the quarters large FX movements were observed, the FX impact over the year is negligible.

Overall, RWA management has a very high priority throughout ING in all aspects of our business. From product design, to pricing, to divestment decisions, RWA management is extensively monitored, reported, and managed at all levels of the organisation.

EXPOSURE CLASSES

The Basel Accord has developed the concept of 'Exposure Classes'. These are essentially groupings of credit risks associated with a common obligor type or product type. For the AIRB Approach, most of the exposure classes have subcategories. ING Bank has applied the following definitions to determine Exposure Classes:

- **Central Governments & Central Banks** (hereafter **Sovereigns**) include Sovereign Government entities, Central Banks and Basel II recognised Local/Regional Authorities as well as Supranational Organisations;
- **Institutions** include all Commercial Banks, non-Bank Financial Institutions, such as Leasing Companies, Funds and Fund Managers, and Insurance Companies, as well as local and regional government entities not classified as governments;
- **Corporates** include all legal entities, that are not considered to be Governments, Institutions or Retail;
- **Retail** includes the following classes:
  - **Residential Mortgages** include all mortgage loans for residential properties that are not part of a securitisation; and
  - **Retail Other** includes all other credit obligations related to Retail SMEs, such as partnerships, one-man businesses and private individuals, such as consumer loans, car loans and credit cards.

Under these exposure class definitions, it is possible for a private individual to be included under both Residential Mortgages and Retail Other. For other types of counterparties or issuers, there is no potential overlap. In the tables below an overall picture is given of the ING Bank portfolio per exposure class, after which a breakdown per exposure class is given segmented by relevant factors. Securitisations segmentation is given in the Securitisation chapter.

Credit risk per exposure type and exposure class

In line with the EDTF recommendations the table below shows the total READ and RWA for ING Bank by Basel defined exposure types for both the SA and AIRB portfolio per exposure class.

Model approaches per exposure class

	Sovereigns		Institutions		Corporate		Corporate		Total 2012		Total 2011	
	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA
SA approach												
On-balance	4,056	3,096	1,344	678	9,890	9,736	20,794	11,252	36,085	24,762	33,942	23,411
Off-balance	7	7	339	191	2,707	2,636	3,137	2,350	6,190	5,183	8,442	6,928
Securities Financing			337	156	87	88	1	1	425	245	62	62
Derivatives											481	279
Total	4,062	3,103	2,020	1,024	12,684	12,460	23,933	13,603	42,699	30,190	42,927	30,682
AIRB approach												
On-balance	73,006	2,333	57,432	8,302	161,016	64,528	314,700	57,115	606,155	132,278	701,725	153,897
Off-balance	8,213	180	6,911	2,345	72,779	24,671	14,293	2,964	102,195	30,160	104,779	34,125
Securities Financing	1,424	74	3,463	300	5,665	853			10,552	1,227	14,738	2,350
Derivatives	1,819	122	18,189	3,066	13,191	7,104	81	48	33,280	10,340	36,060	13,073
Total	84,463	2,710	85,995	14,014	252,650	97,157	329,074	60,126	752,182	174,006	857,302	203,444
SEC AIRB												
On-balance									9,118	3,391	33,397	18,112
Off-balance									2,983	2,134	2,572	495
Total									12,101	5,525	35,970	18,607
Total Bank	88,525	5,813	88,015	15,038	265,335	109,617	353,007	73,729	806,982	209,722	936,199	252,733

Includes both AIRB and SA portfolios; excludes equities and ONCOA.

The ING bank portfolio falls for 85.6% under the AIRB approach and for 14.4% under SA in terms of RWA. The total portfolio decreased in 2012 by EUR 129.2 billion in READ to EUR 807.0 billion RWA declined by EUR 43.0 billion to EUR 209.7 billion.

The divestments of ING Direct US and ING Direct Canada had a material reduction on the ING Bank portfolio especially in the mortgage category. These two divestments also had a large impact on the investment portfolio. Although not closed yet, the UK sale has also already led to significant reduction in the investment portfolio of which mainly securitisations. In addition to absolute levels, these divestments also reduced the risk profile leading to large reductions in RWA as

explained in the RWA migration analysis section. Especially the sale of the relatively high risk weight US portfolio led to almost EUR 30 billion reduction in RWA.

Next to the large divestments, the de-risking in the investment portfolio over 2012 contributed to an improved risk profile of the Bank. More than EUR 10 billion of investments were sold which reduced RWA significantly. Other areas of de-risking came from run-off portfolios like Real Estate and Lease which declined in absolute amounts but showed deterioration in risk metrics. Part of this deterioration is a function of cyclicality and geographic markets and a portion is the natural decline expected as better quality clients leave the run-off portfolio quicker than weaker ones. Although not a large impact on the risk profile, significant reductions especially at year-end occurred in the money market and financial markets products. This was a conscious decision resulting from the reduction in short-term funding. Many of the de-risking exercises achieved their effect of reducing capital.

Sovereign credit risk disclosure

In line with the EDTF recommendations, the table on the next page presents the READ, segmented by relevant factors, and the analysis for exposure class 'Sovereigns'.

The figures per geography for each exposure class are based on the country of residence of the obligor. As such, these figures do not represent the risk associated with a country transfer risk event, such as a restriction on the convertibility of local currency into internationally tradable currencies, as local and foreign currencies are combined and converted into Euro equivalent for presentation. The definitions associated with ING Bank's transfer risk positions and economic country risk exposure can be found in the Risk Management paragraph.

Sovereigns - credit risk disclosure in READ

		2012	2011	Delta %
Sovereigns	**Rating**	**88,525**	111,145	–20.3%
	Performing	**88,524**	111,144	–20.3%
	Impaired/Non-performing	**1**	1	–8.5%
Sovereigns	**Geography/business units**	**88,525**	111,145	–20.3%
	Africa	**313**	344	–8.9%
	America	**487**	10,429	–95.3%
	Asia	**5,677**	5,480	3.6%
	Australia	**261**	60	333.8%
	Europe	**81,787**	94,832	–13.7%
	Europe	**81,787**	94,832	–13.7%
	Netherlands	**19,393**	36,922	–47.5%
	Belgium	**16,372**	13,589	20.5%
	Germany	**16,174**	16,095	0.5%
	Other Europe	**29,847**	28,227	5.8%
Sovereigns	**Product Type**	**88,525**	111,145	–20.3%
	Bond Investments	**53,491**	55,016	–2.7%
	Revolving	**13,833**	12,716	8.8%
	Money Market	**10,445**	27,278	–61.7%
	Term Loans	**4,743**	13,276	–64.3%
	Lending	**2,500**		
	Other	**3,512**	2,859	22.9%
Sovereigns	**PD Bands**	**88,525**	111,145	–20.3%
	<0.05%	**70,958**	93,797	–24.3%
	0.05% to 0.5%	**14,422**	13,670	5.5%
	0.5% to 5%	**2,971**	3,356	–11.4%
	5% to 10%	**126**	142	–11.8%
	10% to 20%	**45**	21	109.1%
	20% to 50%	**2**	157	–98.4%
	>50%	**1**	1	–8.5%

Includes both AIRB and SA portfolios; excludes equities and ONCOA.

The divestments of ING Direct US and ING Direct Canada declined READ by EUR 16.0 billion and EUR 3.8 billion, respectively.

Money market declines (EUR 16.8 billion) were predominantly seen in the Netherlands (EUR 13.8 billion - less deposit given to the Dutch Central Bank) and the US (EUR 4.8 billion - less deposit given to the US Central Bank), while Germany saw an increase of EUR 1.8 billion. The decline in term loans was mainly due to the restructuring of the IABF with the Dutch State, which was previously classified as term loans and now partly as bonds. The IABF needed to be restructured because of the sale of ING Direct US. The IABF is an agreement between ING and the Dutch government on an Illiquid Assets Back-up Facility covering 80% of ING's Alt-A mortgage securities.

The bond investments decreased slightly, as the increase in bond investments due to the restructuring of the IABF is offset by the decrease in sovereign exposure in the USA and Canada due to the sales of ING Direct US and ING Direct Canada. A significant reduction in France also contributes to this effect.

The rise of EUR 2.5 billion in Lending was mainly due to increased exposure to the Central Bank of Belgium.

Financial institutions credit risk disclosure
In line with the EDTF recommendations, this table presents the READ, segmented by relevant factors, and the analysis for exposure class 'Institutions'.

Institutions - credit risk disclosure in READ

		2012	2011	Delta %
Institutions	**Rating**	**88,015**	102,422	–14.0%
	Performing	**87,245**	101,637	–14.1%
	Impaired/Non-performing	**769**	784	–1.9%
Institutions	**Geography/business units**	**88,015**	102,422	–14.0%
	Africa	**439**	585	–25.0%
	America	**4,659**	10,149	–54.1%
	Asia	**11,547**	12,728	–9.3%
	Australia	**6,116**	6,295	–2.8%
	Europe	**65,253**	72,664	–10.2%
	Europe	**65,253**	72,664	–10.2%
	Netherlands	**2,982**	2,862	4.2%
	Belgium	**6,266**	5,929	5.7%
	Germany	**13,908**	12,000	15.9%
	Rest of Europe	**42,097**	51,873	–18.8%
Institutions	**Product Type**	**88,015**	102,422	–14.0%
	Bond Investments	**30,892**	43,068	–28.3%
	Derivatives	**18,527**	18,747	–1.2%
	Money Market	**11,922**	8,906	33.9%
	Term Loans	**9,473**	10,752	–11.9%
	Revolving	**9,075**	9,888	–8.2%
	Other	**8,126**	11,061	–26.5%
Institutions	**PD Bands**	**88,015**	102,422	–14.0%
	<0.05%	**19,953**	20,404	–2.2%
	0.05% to 0.5%	**53,074**	73,579	–27.9%
	0.5% to 5%	**13,698**	7,103	92.9%
	5% to 10%	**371**	239	55.7%
	10% to 20%	**111**	194	–42.7%
	20% to 50%	**38**	119	–68.3%
	more than >50%	**769**	784	–1.9%

Includes both AIRB and SA portfolios; excludes equities and ONCOA.

The divestments of ING Direct US and ING Direct Canada declined READ by EUR 3.6 billion and EUR 0.6 billion, respectively.

Overall, there was a shift to better risk categories across the Institutions portfolio. Bond investments especially in Southern Europe were actively de-risked. Growth was experienced in Money-Market exposure which tends to have a shorter tenor.

Corporate credit risk disclosure
In line with the EDTF recommendations, this table presents READ, segmented by various factors, analysis for exposure class 'Corporates'. The Industry breakdown for this table is based on the NAICS system (North American Industry Classification System).

Corporate credit risk disclosure in READ				
		2012	2011	Delta %
Corporate	**Rating**	**265,335**	286,599	–7.4%
	Performing	**255,715**	278,807	–8.2%
	Impaired/Non-performing	**9,620**	7,792	23.5%
Corporate	**Geography/business units**	**265,335**	286,599	–7.4%
	Africa	**731**	1,017	–28.1%
	America	**37,065**	45,841	–19.1%
	Asia	**23,194**	23,314	–0.5%
	Australia	**3,334**	4,348	–23.3%
	Europe	**201,010**	212,078	–5.2%
	Europe	**201,010**	212,078	–5.2%
	Netherlands	**71,454**	74,639	–4.2%
	Belgium	**32,429**	32,232	0.7%
	Germany	**6,173**	6,471	–4.6%
	Rest of Europe	**90,953**	98,736	–7.8%
Corporate	**Industry**	**265,335**	286,599	–7.4%
	Real Estate	**51,374**	53,920	–4.7%
	Natural Resources	**41,665**	40,955	1.8%
	Non-Bank Financial Institutions (NBFI)	**33,292**	44,985	–26.0%
	Transportation & Logistics	**22,060**	23,763	–7.1%
	Food, Beverages & Personal Care	**18,084**	17,351	4.3%
	Other	**98,860**	105,625	–6.4%
Corporate	**PD Bands**	**265,335**	286,599	–7.4%
	<0.05%	**13,989**	14,345	–2.4%
	0.05% to 0.5%	**114,214**	132,720	–13.9%
	0.5% to 5%	**104,606**	107,906	–3.0%
	5% to 10%	**9,059**	10,530	–13.9%
	10% to 20%	**7,026**	7,989	–12.0%
	20% to 50%	**6,820**	5,317	28.3%
	more than >50%	**9,620**	7,792	23.5%

Includes both AIRB and SA portfolios; excludes equities and ONCOA.

The divestments of ING Direct US and ING Direct Canada caused a decline of EUR 2.0 billion and EUR 0.7 billion respectively.

The NBFI decline of EUR 11.7 billion was mainly seen in the UK portfolio where the READ decreased by EUR 4.3 billion. The decline to NBFI's was also seen in US (EUR 3.0 billion), and Netherlands (EUR 1.6 billion).

Real Estate decline of EUR 2.5 billion was mainly spread over Australia (EUR 0.9 billion), US (EUR 0.8 billion). Since the industry classifications are based on NAICS codes, the real estate definition is much broader than the Commercial Real Estate exposure which accounts for approximately two-thirds of the portfolio. The remainder consists of real estate development and real estate related exposure primarily from our retail business (SMEs, Private Banking and Lease).

Netherlands decline of EUR 3.2 billion was seen in Revolving (EUR 1.7 billion) and Term Loans (EUR 2.1 billion) whereas Rest of Europe decline of EUR 7.8 billion was mainly seen in UK (EUR 4.6 billion) and Spain (EUR 1.6 billion).
Increases in non-performing loans were seen in The Netherlands 34%, Romania 111%, Italy 48%, UK 131%, and Belgium 21%.

Retail credit risk disclosure
In line with the EDTF recommendations, this table presents READ for exposure class 'Retail'.

Retail credit risk disclosure in READ				
		2012	2011	Delta %
Retail	**Rating**	**353,007**	400,064	–11.7%
	Performing	**347,508**	394,262	–11.8%
	Impaired/Non-performing	**5,499**	5,802	–5.2%
Retail	**Customer Segment**	**353,007**	400,064	–11.7%
	Private Persons	**321,384**	366,529	–12.3%
	Small Mid-sized Enterprises	**22,281**	24,539	–9.2%
	Private Banking	**3,553**	2,514	41.4%
	Other	**5,790**	6,483	–10.7%
Retail	**Geography/business units**	**353,007**	400,064	–11.7%
	Africa	**57**	53	7.6%
	America	**146**	55,279	–99.7%
	Asia	**1,684**	1,528	10.2%
	Australia	**34,438**	34,243	0.6%
	Other	**30**	925	–96.8%
	Europe	**316,652**	308,035	2.8%
	Europe	**316,652**	308,035	2.8%
	Netherlands	**164,777**	165,534	–0.4%
	Belgium	**39,703**	38,051	4.4%
	Germany	**68,457**	64,292	6.5%
	Rest of Europe	**43,715**	40,158	8.9%
Retail	**PD Bands**	**353,007**	400,064	–11.7%
	<0.05%	**22,009**	11,556	90.5%
	0.05% to 0.5%	**192,850**	217,225	–11.2%
	0.5% to 5%	**113,563**	133,863	–15.1%
	5% to 10%	**8,525**	18,010	–52.7%
	10% to 20%	**6,792**	7,824	–13.2%
	20% to 50%	**3,769**	5,784	–34.8%
	more than >50%	**5,499**	5,802	–5.2%

Includes both AIRB and SA portfolios; excludes equities and ONCOA.

The divestment of ING Direct US and ING Direct Canada caused declines of EUR 32.7 billion and EUR 22.7 billion, respectively (mainly related to Residential Mortgages), while in Germany the increase of EUR 4.2 billion was mostly due to an increase in the Residential Mortgages portfolio.

A re-segmentation exercise in The Netherlands of small and Medium Size Enterprises from the internal classification of Mid-Sized Corporate to Retail Companies was executed in 2012 as a part of a continuing redesign of the customer approach. Non-performing loans declined by 5.2% due to the sale of ING Direct US which reduced the total non-performing loans portfolio by EUR 912 million. Excluding ING Direct US, non-performing loans would have increased by 12%.

LTV Residential Mortgages per country

The table below shows the weighted average Loan to Value (LTV) ratio of the ING Bank Residential Mortgage portfolio per country. All LTV figures are based on market values. In most portfolio's, ING uses house price development to index these market values. In several markets, customers provide additional collaterals or (government sponsored) mortgage insurance programs are used. None of these additional covers are included in the LTV figures.

Loan-to-Value Residential Mortgages per country				
		2012		2011
	LTV	**READ**	LTV	READ
Netherlands [(1)]	**89%**	**149,965**	81%	148,451
Germany	**71%**	**61,754**	71%	58,649
Australia	**69%**	**34,507**	67%	34,288
Belgium, Luxembourg	**76%**	**30,420**	75%	29,017
United States of America	**na**	**-**	75%	31,964
Canada	**na**	**-**	73%	22,198
Spain	**66%**	**9,077**	61%	8,682
Italy	**53%**	**7,440**	52%	6,960
United Kingdom	**59%**	**6,652**	60%	5,846
Poland [(2)]	**59%**	**3,037**	61%	2,546
Turkey	**48%**	**1,065**	48%	927
Romania	**54%**	**587**	55%	559
India	**59%**	**710**	67%	710
Total	**79%**	**305,214**	75%	350,795

Includes both AIRB and SA portfolios; excludes equities and ONCOA.
(1) Netherlands includes Domestic Bank NL and Westland Utrecht.
(2) The LTV for Poland in 2011 was restated for consistency purpose.

After the sale of ING Direct US and ING Direct Canada, ING Bank's Residential Mortgage portfolio outstandings decreased to EUR 296 billion which is about 39% of ING Bank's credit outstandings. The overall LTV of ING Bank's mortgages increased, which was mainly driven by Dutch and Spanish mortgages, despite stricter underwriting policies. For both portfolios the decline in house prices caused LTV to rise). The LTV in the Netherlands is relatively high, but is partially compensated by the NHG guaranteed portfolio and other secondary covers, such as life insurance policies, savings and investment products.

The small size of the Vysya portfolio in India can cause high volatility in the LTV due to its relatively small mortgage portfolio. Poland's LTV improved due to stricter underwriting policy loans with an LTV of over 80% which were no longer granted.

STANDARDISED AND ADVANCED IRB APPROACH

ING uses two methods to calculate Regulatory Capital for Credit Risk within its portfolio: the Advanced Internal Rating Based (AIRB) approach and the Standardised Approach (SA). The AIRB approach is permitted by the Regulator if there are regulatory approved rating models (PD, EAD and LGD) in place, if the Legal Entity is AIRB compliant and if the (local) management understands and uses these rating models (Basel Use Test) in their credit decision making processes. ING Bank does not use the Basel Foundation IRB Approach (FIRB) for any of its portfolios. This section is to be read in conjunction with the Risk Management paragraph sections on: Risk Appetite Framework, Credit Risk Measurement, Monitoring and Reporting within ING Bank.

Corporate credit risk disclosure in READ

		Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
							2012	2011
Under SA approach	READ	**4,062**	**2,020**	**12,684**	**12,564**	**11,368**	**42,699**	42,927
	RWA	**3,103**	**1,024**	**12,460**	**5,004**	**8,599**	**30,190**	30,682
Under AIRB approach	READ	**84,463**	**85,995**	**252,650**	**292,650**	**36,424**	**752,182**	857,302
	RWA	**2,710**	**14,014**	**97,157**	**44,047**	**16,079**	**174,006**	203,444
Totals	READ	**88,525**	**88,015**	**265,335**	**305,214**	**47,793**	**794,881**	900,229
	RWA	**5,813**	**15,038**	**109,617**	**49,051**	**24,678**	**204,197**	234,126
	RWA density	**6.6%**	**17.1%**	**41.3%**	**16.1%**	**51.6%**	**25.7%**	26.0%
Securitisations	READ						**12,101**	35,970
	RWA						**5,525**	18,607
Totals	READ	**88,525**	**88,015**	**265,335**	**305,214**	**47,793**	**806,982**	936,199
	RWA	**5,813**	**15,038**	**109,617**	**49,051**	**24,678**	**209,722**	252,733
	RWA density	**6.6%**	**17.1%**	**41.3%**	**16.1%**	**51.6%**	**26.0%**	27.0%

Includes both AIRB and SA portfolios; excludes equities and ONCOA.
* Securitisations are shown for completeness purposes.

The SA to AIRB migration of the Commercial Finance Netherlands portfolio and a part of the Polish portfolio, together with the sale of ING Direct US and ING Direct Canada decreased the READ and RWA in the SA portfolio. The RWA density or risk weights remained relatively stable as the sale of higher risk portfolios especially ING Direct US was partially compensated by risk migration.

STANDARDISED APPROACH

The SA approach applies fixed risk weights to each exposure class, split into credit quality steps (based on external ratings) as dictated by the Capital Requirement Directive (CRD). Because the underlying obligors are relatively small, the underlying obligors tend not to have external ratings. As such, the SA Approach is the least sophisticated of the Basel II methodologies and is not as risk sensitive as the risk-based AIRB Approach.

Exposures before and after risk mitigation for the SA portfolio

The table below shows how credit risk mitigation in the SA portfolio is distributed over the risk weight buckets. There are two principal methods for reducing or mitigating Credit Risk: by reduction of Credit Risk through the acceptance of pledged financial assets as collateral (such as marketable securities or cash) or mitigation or shifting of credit risks to a lower risk weighting group by accepting guarantees from unrelated third parties.

Exposure before and after risk mitigation and after conversion factors in READ

			2012			2011
Risk Weight Buckets	**Exposure before risk mitigation**	**Exposure after risk mitigation**	**Exposure after Conversion factors ***	Exposure before risk mitigation	Exposure after risk mitigation	Exposure after conversion factors *
0%				497	497	494
10%						
20%	**107**	**107**	**55**	148	148	92
35%	**11,671**	**11,671**	**11,629**	11,090	11,090	10,820
50%	**5,513**	**5,513**	**4,430**	6,370	6,369	3,825
75%	**16,788**	**16,548**	**11,173**	16,608	16,390	11,494
100%	**27,251**	**27,091**	**15,206**	23,672	23,502	15,904
150%	**371**	**371**	**205**	565	565	298
200%						
1250%						
Total	**61,700**	**61,301**	**42,699**	58,951	58,562	42,927

Includes the SA portfolio only; excludes securitisations, equities and ONCOA.
* Exposure after conversion factors is the net exposure or READ as commonly referenced. It is lower than the other exposures in the table mainly because it does not take into account uncommitted limits. This column is provided for reference purposes only.

The biggest movements within the risk buckets are the decrease in the 0% risk weight bucket which held mostly ING Direct Canada securities, the decrease in the 50% risk weight bucket due to a reduction in the uncommitted money market limits and the increase in the 100% risk weight bucket which is driven by increased exposure to Turkish Corporates.

AIRB APPROACH

The AIRB approach has five elements that drive the Basel II 'risk-based approach' for the determination of RWA. RWA times the BIS ratio of 8% leads to Regulatory Capital. The elements are: the Basel II exposure class, Probability of Default (PD), Exposure at Default (EAD), Loss Given Default (LGD) and Maturity. Within ING Bank internal Basel models are used to determine the PD, EAD and LGD for regulatory and economic capital. Bank wide, ING Bank has implemented more than 100 models, including various sub models that may be applicable for a specific portfolio. This section has to be read in conjunction with the Risk Management paragraph.

AIRB credit exposures by internal rating grade In line with the EDTF recommendations, the table below shows the AIRB portfolio per internal rating grade. Under Basel II rules, the nominal exposures are weighted to determine the RWA (and regulatory capital) of a portfolio, under a 'risk-based approach'. This approach dictates that less capital is required for credit risks which are well-rated, while progressively more capital is required as an obligor's risk (rating) deteriorates. This effect can cause RWA to increase or decrease together with risk rating migration without a significant change in the size of the underlying financial assets, in terms of financial accounting. As such, rating migrations are closely monitored within ING Bank.

Exposures (READ) per internal rating grade and corresponding PD, LGD and RWA

Internal rating grade	PD range for each grade	READ in each grade	Average RPD	Average RLGD	RWAs in each grade (or band)	Total RRW	External Rating Equivalent
Performing							
1	0.00-0.01	25,532	0.03*	23.97	733	0.03	AAA
2	0.01-0.02	43,385	0.02	20.83	789	0.02	AA+
3	0.02-0.04	41,726	0.04	19.77	904	0.02	AA
4	0.04-0.05	15,328	0.04	25.81	1,375	0.09	AA-
5	0.05-0.06	26,274	0.05	30.14	2,461	0.09	A+
6	0.06-0.08	45,981	0.07	22.72	4,031	0.09	A
7	0.08-0.11	44,129	0.11	29.01	6,505	0.15	A-
8	0.11-0.17	50,381	0.15	22.55	7,282	0.14	BBB+
9	0.17-0.29	89,193	0.22	21.9	13,314	0.15	BBB
10	0.29-0.51	106,880	0.37	20.27	20,625	0.19	BBB-
11	0.51-0.89	101,638	0.64	19.91	25,313	0.25	BB+
12	0.89-1.54	49,123	1.14	18.94	16,754	0.34	BB
13	1.54-2.67	36,461	1.92	20.37	16,751	0.46	BB-
14	2.67-4.62	22,753	3.34	20.33	12,449	0.55	B+
15	4.62-8.01	15,811	6.55	19.8	10,464	0.66	B
16	8.01-13.88	6,127	10.88	21.07	4,997	0.82	B-
17	13.88-20.00	6,162	18.58	20.45	6,154	1	CCC
18	20.00-30.00	5,820	25.02	16.29	5,157	0.89	CC
19	>30%	4,301	40.48	21.68	4,453	1.04	C
Non-Performing							
20	100%	10,352	100	25.63	9,523	0.92	Default
21	100%	2,667	100	18.11	2,625	0.98	Default
22	100%	2,158	100	25.01	1,347	0.62	Default
Total		752,182	3.28	21.79	174,006	0.23	

Includes the AIRB portfolio only; excludes securitisations, equities and ONCOA.

* For non-sovereign exposures there is a RPD floor of 3 BPS, hence the RPD in the first three grades might look counterintuitive, due to the mixture of sovereign and non-sovereign exposures.

ING Bank's Probability of Default (PD) rating models are based on a 1-22 scale, which corresponds to the same rating grades that are assigned by external rating agencies. Risk Ratings (PD) for performing loans (1-19) are calculated in ING Bank with regulatory approved models. Risk Ratings for non-performing loans (20-22) are set on the basis of an approved subjective methodology by the Global or Regional Restructuring unit. For securitisation portfolios, the external ratings of the tranche in which ING Bank has invested are leading. Overall the risk weights of the ING portfolio are a mixture of low risk weights for Sovereigns and Residential Mortgages combined with higher risk weights for Corporates and Securitisations.

Many central governments exposure receives a zero risk weight due to the financing in local currency and the high quality rating (permanent partial use of the SA rules). Mortgages generally benefit from large levels of (over)collateralisation.

Disclosures of model outcomes

In line with the EDTF recommendations the table below shows the PD, LGD READ, RWA and RWA density per exposure class. This should be read in conjunction with the table 'changes in risk parameters since last reporting date'.

Model approaches per exposure class

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2012	Total 2011
Average PD	**0.08%**	**1.24%**	**5.55%**	**2.35%**	**7.32%**	**3.28%**	2.89%
Average LGD	**20.67%**	**23.22%**	**23.88%**	**17.04%**	**44.34%**	**21.79%**	20.83%
EAD	**84,463**	**85,995**	**252,650**	**292,650**	**36,424**	**752,182**	857,302
RWA	**2,710**	**14,014**	**97,157**	**44,047**	**16,079**	**174,006**	203,444
RWA density	**3.2%**	**16.3%**	**38.5%**	**15.1%**	**44.1%**	**23.1%**	23.7%

Includes the AIRB portfolio only and non-performing loans; excludes securitisations, equities and ONCOA.

The relatively low RWA density for Sovereigns and central banks is because of sovereign entities, which are rated between 1-4 and whose exposures are denominated in local currencies, and therefore receive a regulatory risk weight of 0%.

Changes in risk parameters since last reporting date

In line with the EDTF recommendations the table below shows the changes in risk parameters since last reporting date in percentages. This should be read in conjunction with the table 'disclosure of model outcomes'.

AIRB changes

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2012
Average PD	**–16%**	**23%**	**23%**	**–10%**	**7%**	**14%**
Average LGD	**1%**	**21%**	**–2%**	**6%**	**2%**	**5%**
READ	**–22%**	**–14%**	**–7%**	**–14%**	**–3%**	**–12%**
RWA	**–7%**	**–12%**	**–10%**	**–27%**	**–1%**	**–14%**
RWA density	**18%**	**3%**	**–3%**	**–15%**	**2%**	**–3%**

Includes the AIRB portfolio only; excludes securitisations, equities and ONCOA.

Over the course of 2012, both average PD and average LGD increased. This was due to general decrease in credit quality and mostly house prices as several markets experienced economic difficulties. Nonetheless, credit quality remained stable for Belgium and ING Vysya and improved for the Australian Residential mortgages portfolio. Next to that, the relative shift in portfolio composition from higher risk weight exposure classes to lower risk weight exposure classes led to a slight decrease in the overall AIRB risk weight. The low risk density decrease combined with a significant reduction in READ led to a reduction in RWA over 2012.

Disclosure of estimated and actual loss parameters

In line with the EDTF recommendations the table below provides a back-testing of the PD models per exposure class. ING has dedicated AIRB credit risk models per business unit, segment and country. An independent Model Validation department periodically reviews all AIRB models for compliance including back testing when possible. If a model is considered not to be robust or the back testing indicates insufficient conservatism, than the model is either re-calibrated or re-developed. All model recommendations from Model Validation department are tracked in the same internal database as the Internal Audit Department. All significant model changes are submitted to the Home Regulator and implemented after regulatory approval. On average, 91% of the AIRB credit risk models in the validation cycle have a 'No' to 'Remote' (58%) and 'Minor' (33%) model deficiencies.

In order to better quantify the back-testing, ING has analysed the December 31, 2011 portfolio. The sold ING Direct US and ING Direct Canada units are excluded from both the average PD as the default rate, for comparison reasons. The average PD of December 31, 2011 per portfolio is split per Basel II exposure class. The December 31, 2011 portfolio is followed through 2012 to determine the observed default rate. The models are based on long series of historical data. In the back-test the model based PD values are compared against the defaults observed in 2012. This back-test is only representative of the year end 2011 portfolio and can be influenced by small sample sizes or incidents. Nonetheless, the back-test gives a comparison of the predicted PD versus the observed default rate. In the table below, the default rate is based on the weighted average READ of the defaulted portfolio whereas the models are developed on an obligor basis.

Average estimated PD under the Advanced AIRB approach versus the actual default rate per exposure class						
	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total
						2012
Average PD 2011*	**0.11%**	**0.23%**	**1.81%**	**1.20%**	**2.87%**	**1.24%**
Observed Default Rate	**0.17%**	**0.10%**	**1.33%**	**1.09%**	**2.69%**	**1.02%**

Includes the AIRB portfolio only; excludes securitisations, equities and ONCOA.
* Average PD includes performing loans only.

The back-test shows a conservative pattern; the predicted PD exceeds the observed default rate. For the exposure class Retail Other high defaults rates are observed in the small business portfolios due to challenging economic circumstances in Italy, Belgium and the Netherlands. The majority of the defaults in the exposure class Corporate originates from the pressured Real Estate segment and the SME portfolios in Belgium and the Netherlands. The higher observed default rate compared to the average PD for Sovereigns is due to the default of the Government of Greece.

CREDIT QUALITY

This section focusses on non-performing loans, which are loans where there is a reasonable probability that ING Bank may end up with a loss, unless ING Bank intervenes with specific and significant actions. In other words, in this category, an account or portfolio requires a more intensified approach, which may include renegotiations of terms and conditions and/or business/financial restructuring. This section should be read in conjunction with the Risk Management paragraph sections on: Risk Appetite Framework, and Credit Quality.

Reconciliation of non-performing loans disclosures

In line with the EDTF recommendations the table below shows the reconciliation of non-performing loans segmented by the lines of businesses used internally by ING. A narrative explanation on these business lines are given in the Risk Management paragraph.

Reconciliation of non-performing loans disclosures				
	Commercial Banking	Retail Banking Benelux	Retail Banking International	Total ING Bank
Impaired loan book movements				
Impaired loans at 1 January 2012	**5,245**	**5,362**	**2,763**	**13,370**
Classified as impaired during the year [1]	**2,896**	**3,154**	**1,085**	**7,135**
Transferred to not impaired during the period	**–947**	**–1,571**	**–424**	**–2,942**
Amounts written off	**–717**	**–772**	**–185**	**–1,675**
Changes in the composition of the Bank [2]			**–1,007**	**–1,007**
Exchange and other movements [3]		**–2**	**13**	**10**
Other	**–21**	**–68**	**21**	**–68**
Impaired loans at 31 December 2012	**6,476**	**6,172**	**2,278**	**14,925**
Impairment allowances - movements				
Impairment allowances at 1 January 2012	**2,039**	**1,751**	**1,743**	**5,533**
Changes in the composition of the Bank			**–582**	**–582**
Amounts written off	**–717**	**–772**	**–185**	**–1,675**
Recoveries of amounts written off in previous years	**21**	**69**	**11**	**101**
Addition to loan loss provisions (from income statement)	**955**	**833**	**337**	**2,125**
Exchange or other movements	**5**	**–17**	**14**	**2**
Impaired allowances at 31 December 2012	**2,303**	**1,864**	**1,338**	**5,505**

[1] Unadjusted for exchange rate fluctuations.
[2] Sale of ING Direct US and ING Direct Canada.
[3] Based on start and end date of the outstanding positions, unadjusted for inflow and outflow.

Following the economic distress, the risk costs (additions to LLP) increased from EUR 1.7 billion in 2011 to EUR 2.1 billion in 2012. The increase was mainly visible in the Corporate (mainly real estate) and in the Retail portfolio. The risk costs in Retail International decreased materially after the sale of ING Direct US in Q1 2012. Despite the sale of ING Direct US, the total non-performing loans increased by 11% from EUR 13.4 billion to EUR 14.9 billion. While additions to risk costs rose in 2012, continued write offs diminished the provisioning stock. The provisions were still more than 2 times the risk costs and more than 3 times the amounts written off.

Cumulative provisions by industry

ING Bank uses a common industry classification methodology based on the NAICS system (North American Industry Classification System). This methodology has over 1,500 detailed industry descriptions, which are aggregated into 22 industry classes at the highest level. Certain countries require ING Bank to report locally based on other industry classification methodologies, which are generally derived from the NAICS classifications presented here. Residential mortgages are generally only extended to private individuals. The Cumulative Provision table should be read in

conjunction with the corresponding tables below related to ‘Past due loans by Industry’ as well as information and statements made in the Risk Management section.

Cumulative provisions by industry

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2012	2011
Real Estate			**1,121**		**49**	**1,170**	764
Private Individuals			**2**	**753**	**394**	**1,150**	1,605
Builders & Contractors			**421**		**96**	**517**	394
Food, Beverages & Personal Care			**366**		**119**	**485**	424
General Industries			**297**		**68**	**365**	459
Services			**243**		**100**	**344**	368
Transportation & Logistics			**253**		**48**	**301**	442
Media			**176**		**62**	**238**	74
Retail			**149**		**66**	**215**	182
Natural Resources			**172**		**10**	**182**	152
Chemicals, Health & Pharmaceutical			**112**		**17**	**129**	116
Automotive			**77**		**35**	**112**	125
Non-Bank Financial Institutions		**9**	**86**		**17**	**112**	244
Telecom			**59**		**4**	**63**	87
Other [(1)]	**3**	**26**	**50**		**43**	**122**	98
Total	**3**	**35**	**3,586**	**753**	**1,128**	**5,505**	5,533

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

(1) Sectors with cumulative provisions of less than EUR 50 million are grouped under ‘Other’.

Past due loans by economic sector

ING Bank considers past due loans to be those loans where any payment of interest of principal is more than one day past due. The methodology is principally extended to loans to private individuals, such as Residential Mortgage loans, Car loans and other consumer loans. For business loans (Sovereigns, Institutions, Corporates), ING Bank has adopted a policy to classify the obligor as a non-performing loan as quickly as possible upon the occurrence of a payment default. Therefore, the concept of past due loans does not exist for these types of obligors and hence the reason why the business exposure classes are not included.

	Residential mortgages	Other retail	Total	Total
			2012	2011
Private Individuals	**5,788**	**290**	**6,078**	6,368
Other [(1)]		**461**	**461**	281
Total	**5,788**	**750**	**6,539**	6,649

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

(1) Economic sectors not shown in table have past due loans of less than EUR 150 million, and are grouped under ‘Other’.

Overall the provision stock remained stable in 2012 but the composition changed significant. Increases in commercial real estate especially in Spain, Netherlands and UK were balanced by decreases in private individuals after the sale of ING Direct US and ING Direct Canada. Weaknesses in small and medium enterprises in the Netherlands continued. While additions to loan loss provisions increased in 2012, continued write-offs marginally decreased the provisioning stock.

Cumulative provisions by geographic area

The table below is based on the country of residence of the obligor. The Cumulative Provision table should be read in conjunction with the corresponding tables below related to ‘past due loans by geographic area’ as well as information and statements made in the Risk Management paragraph.

Cumulative provisions by geographic area

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2012	2011
Netherlands		**1**	**1,264**	**236**	**387**	**1,889**	1,509
Belgium		**1**	**393**	**54**	**197**	**646**	558
Germany			**81**	**380**	**139**	**600**	582
Other Europe	**1**	**15**	**1,315**	**66**	**381**	**1,779**	1,491
Americas			**212**			**213**	940
Asia/Pacific	**1**	**16**	**319**	**17**	**22**	**375**	448
ROW	**1**	**1**	**1**			**3**	6
Total	**3**	**35**	**3,586**	**753**	**1,128**	**5,505**	5,533

The level of provisions is a function of many elements including the default definition, the amount and quality of collateral and the legal structure per jurisdiction. For instance, mortgages in Germany have a relatively higher proportion of provisions than in the Netherlands due largely to the level of (secondary) collateral and enforcement regime, which has an impact on the recovery rate and in turn drives the LGDs higher. The Corporate segment is largely influenced by real estate companies, larger SME companies, and several run-off portfolios which are experiencing economic stress.

Past due loans by geographic area

The table below is based on the country of residence of the obligor and on credit risk outstandings. Credit Risk outstandings include amounts associated with both on- and off- balance sheet products, but exclude amounts related to unused limits.

Past due loans by geographic area (based on outstandings)

	Residential mortgages	Other retail	Total	Total
			2012	2011
Netherlands	**2,653**	**8**	**2,661**	2,055
Belgium	**1,217**	**393**	**1,610**	1,500
Germany	**200**	**10**	**210**	197
Other Europe	**289**	**311**	**600**	478
Americas	**6**		**6**	465
Asia/Pacific	**1,421**	**29**	**1,450**	1,930
ROW	**3**	**1**	**4**	23
Total	**5,788**	**751**	**6,539**	6,649

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

The 29% increase in past due loans in the Dutch mortgage portfolio is due to the deteriorating risk profile of the Residential Mortgage market in the Netherlands. Belgium also saw an increase in past due loans nevertheless the provisions did not increase as significant as in the Netherlands due to the better LTV's and LGD's for the Belgium Residential Mortgage portfolio. The declined levels of past due loans in Americas to almost zero is due to the sale of ING Direct US and ING Direct Canada.

Loan loss provision shortfall

The Loan loss provision shortfall is the difference between the expected loss (EL) and the loan loss provisions for AIRB exposures. This difference is caused by the different PD time horizons that exist for IAS 39 Loan Provisioning (3, 6, and 9 months) and the 12 month time horizon used for EL and regulatory capital calculation. Basel II requires that the shortfall is deducted from the regulatory capital, 50% from Tier 1 and 50% from Tier 2 capital.

Exposure before and after risk mitigation and after conversion factors in READ

			2012			2011
	AIRB	**SA**	**Total**	AIRB	SA	Total
REL	**5,972**	**n.a**	**5,972**	6,299	n.a.	6,299
Provisions	**4,774**	**731**	**5,505**	4,968	565	5,533
Shortfall	**1,199**	**n.a.**	**n.a.**	1,367	n.a.	n.a.
Shortfall %	**20%**	**n.a.**	**n.a.**	23%	n.a.	n.a.

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

Over the year, Regulatory Expected Loss (REL) for the AIRB portfolio declined from EUR 6.3 billion to EUR 6.0 billion in line with the reduced portfolio size. Provisions reported in the SA portfolio increased by EUR 0.1 billion while overall provisions remained stable at EUR 5.5 billion.

The shortfall amount slightly decreased to EUR 1.2 billion. The shortfall as a percentage of the REL is now 20% and should be deducted evenly from Tier-1 and Tier-2 capital.

OFF-BALANCE ITEMS

Undrawn commitments

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

Undrawn commitments

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2012	Total 2011
Under SA approach	**13**	**82**	**719**	**147**	**4,581**	**5,541**	7,425
Under AIRB Approach	**310**	**1,517**	**60,619**	**9,888**	**11,902**	**84,235**	83,514
Total	**322**	**1,599**	**61,338**	**10,035**	**16,483**	**89,776**	90,939

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

The overall decrease in undrawn commitments comes mainly from the Retail Other and Residential Mortgages within the SA portfolios. For Retail Other, the limits were lowered while outstandings increased and for Residential Mortgages the rise in drawn limits caused outstandings to climb. These decreases were slightly offset by the increase in the AIRB portfolio which comes mainly from corporates where outstandings reduced much more than the limits.

ING Bank has seen many of its Large Corporate customers obtain funding from capital markets in the course of 2012. This often leads to large undrawn commitments. These stand-by commitments are usually for top rated Corporates which have historically shown a reluctance to draw these facilities. Much of the undrawn commitments in the mortgage area relate to forward commitments of clients to lock in interest rates.

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

DERIVATIVES AND SECURITIES FINANCING

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

Derivatives by product type

The table below is based on the mark-to-market plus (Regulatory) add-on methodology used for calculating Basel II RWA for determining the gross exposures. The Current Exposure Method (the methodology to calculate the READ) together with the other building blocks (PD, LGD and Maturity), allow ING Bank to classify a large part of its derivatives exposures under the AIRB approach. This means that the READ figure listed hereunder is significantly below the notional amount. The mark-to-market plus (regulatory) add-on is recalculated daily to reflect both changes in the markets as well as portfolio composition.

Derivatives by product type in READ

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2012	Total 2011
Credit Derivatives	8	404	395			808	801
Derivatives		30	211			241	240
Equity Derivatives		1,190	670		7	1,867	2,197
Foreign Exchange Derivatives	398	2,346	1,464		12	4,219	5,155
Interest Rate Derivatives	1,413	14,508	10,137		64	26,121	25,024
Commodity derivative		48	206			254	272
Exchange Traded Products			194			194	2,852
Total	1,413	18,526	13,278		83	33,705	36,541

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

The Derivatives portfolio is largely represented by Interest Rate Derivatives provided to Institutions and is mainly seen in the UK, Germany, France and in the Netherlands portfolio. Derivatives which are exchange traded have seen a significant decline in the derivatives traded in the Eurozone exchange market. However, this figure can be volatile as it is based on a single balance sheet date.

Over the counter and exchange traded derivatives
In line with the EDTF recommendations this section provides a quantitative and qualitative analysis of ING's Credit Risk that arises from its derivatives transactions. This quantifies notional derivatives exposure, including whether derivatives are over-the-counter (OTC) or traded on recognised exchanges (ETD). Where the derivatives are OTC, the table shows how much is settled by central counterparties and how much is not, and provides a description of the collateral agreements in place.

Credit risk derivatives

	2012 Notional	2012 MtM
OTC derivatives		
CCP	1,417,454	–4,430
Non-CCP	2,020,068	–3,154
ETD derivatives	24,000	n/a*
Total	3,461,522	–7,584

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
* ETD Derivatives settle price movements daily. Therefore there is no MTM build-up that generates exposure.

From the total notional value of OTC derivatives transactions that are not cleared by a CCP, 88% has been documented under bilateral (96%) and unilateral (4%) Collateral Support Annex ('CSA') agreement.
- The notional value of transactions that are done under bilateral CSA agreements relates for 79% to Interest Rate derivatives, for 17% to FX derivatives and for 4% to Credit, Equity and Commodity Derivatives.
- Unilateral CSA agreements relate mainly to agreements that are unilateral against ING and mainly consist of Interest Rate Derivatives.

The remaining 12% of the total notional value of OTC derivatives transactions that are not cleared by a CCP, is not supported by a CSA agreement or a Clearing Agreement and mainly relates to Corporates with small credit limits and mainly consists of Interest Rate Derivatives (58%).

Securities financing by product type
The table below is based on the mark-to-market plus (regulatory) add-on methodology used for calculating Basel II RWA for determining the gross exposures. The methodology to calculate the READ is called the Current Exposure Method (CEM) and together with the other building blocks (PD, LGD and Maturity) it allows ING Bank to classify virtually all of its Securities Financing exposures under the AIRB approach.

Securities financing by product type in READ	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2012	Total 2011
Bond Financing Given	1,292	1,023	1,150	-	-	3,466	6,176
Equity Financing Given	101	1,598	3,577	-	-	5,276	4,866
Bond Financing Taken	31	120	592	-	-	743	2,147
Equity Financing Taken	-	721	346	-	-	1,067	1,610
Total	1,424	3,463	5,665	-	-	10,552	14,799

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

The decrease of EUR 2.5 billion in Bond Financing Given is mainly seen in the Institutions portfolio where the READ to mainly UK banks decreased. The remainder of the Securities Financing portfolio remained relatively stable. In terms of READ, the Equity Financing portfolio seems to be larger, but in terms of notional amounts the Equity Financing portfolio is relatively small. This is due to the conservative regulatory haircuts applied for the Equity Financing portfolio.

CREDIT RISK MITIGATION

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

For the other risk types and especially lending, covers are received which is intended to reduce the losses incurred subsequent to an event of default on an obligation a customer may have towards ING Bank. These are subdivided into four groups, called collateral values mortgages, cover values cash, cover value guarantees and other physical covers.

Maximum exposure to credit risk

In line with the EDTF recommendations the following table present our maximum exposure to Credit Risk in the AIRB portfolio and associated collateral held and other credit enhancements (netting and collateral) that do not qualify for offsetting in our financial statements for the periods specified. The netting credit enhancement component includes the effects of legally enforceable netting agreement as well as the offset of negative mark-to-markets from derivatives against pledged cash collateral. The collateral credit enhancement component which is referred to as Cover Values mainly includes real estate, guarantees and collateral in the form of cash. ING records collateral value per facility. For the AIRB portfolio those figures are based on original cover values although some business units attempt to update to current market values. This is inherently difficult in volatile markets. Some facilities will have multiple levels of collateral while others have no collateral. The total figures may not reflect the collateral value per facility.

Maximum Exposure to Credit Risk per 31 December 2012					Cover Values*	Cover Values	Cover Values	Cover Values
	Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	READ	Mortages	Eligible Financial Collateral*	Guarantees*	Other*
AIRB Portfolio								
Sovereigns				84,463	135	3	1,520	73
of which Pre Settlement	4,406	1,138	1,130	1,138				
Institutions				85,995	82	92	13,533	569
of which Pre Settlement	140,132	36,213	24,967	32,532				
Corporates				252,650	84,085	16,870	38,049	73,070
of which Pre Settlement	10,032	9,030	8,868	9,041				
Residential Mortgages				292,650	416,874	n.a	32,917	169
of which Pre Settlement								
Other Retail				36,424	15,527	794	8,193	9,010
of which Pre Settlement	327	327	327	327				
Securitisations				12,101				
of which Pre Settlement								
Total AIRB				764,283	516,703	17,759	94,211	82,890
of which Pre Settlement	154,897	46,708	35,291	43,038				

Includes AIRB portfolio only; excludes securitisations, equities and ONCOA.

The ING Bank portfolio is characterised by significant amounts of secured lending especially in the key areas of residential and commercial mortgages, structured finance and leasing. Amount of collateral often has a significant impact on provisioning and LGD which directly affects risk density.

In 2012, ING Bank changed the way it allocated guarantees by implementing a calculation method that ensures that no guaranteed facility has less RWA allocated than if this facility would be granted to the guarantor directly, on an unsecured base. Previously this calculation was done centrally and allocated by borrower group instead of facility and a maximum of 100% of the facility was used for guarantees. These factors led to a significant increase in guarantees recorded especially for exposure class Corporates. In addition, ING Lease has begun classifying certain purchase obligations as guarantees. For the Residential Mortgages portfolio the guarantees relate to mortgages covered by governmental insurers under the Nationale Hypotheek Garantie (NHG) in the Netherlands.

Credit default swaps

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

Credit risks from credit risk derivatives

	2012	2011
Credit derivatives used for hedging purposes		
– credit protection bought	884	897
– credit protection sold		

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

The figures above represent the notional amount of credit risk default swaps that ING Bank has entered into for the purpose of hedging. The credit risk on the counterparties associated with credit default swap protection bought is included in the Pre-Settlement risk calculations for the given counterparty, and not in the figures above. In addition, ING engages in CDS trading both in credit protection bought and credit protection sold. These figures essentially cancel each other. However as they are part of the trading book, these figures are provided in the Market Risk section. For credit default protection sold, ING Bank incurs synthetic issuer risk, on which capital is calculated, depending on its purpose, either hedging under the banking book or trading.

Exposures secured by guarantees received

From time to time, ING Bank extends loans for which it receives a specific financial guarantee from a non-related counterparty or obligor. The figures in the table below represent the READ that has been guaranteed by these non-related parties. It does not include nonguaranteed amounts. For example, if a given credit risk is only partially guaranteed by a third party then only the portion of the amount which is guaranteed is included in the figures below. For the Residential Mortgages portfolio the guarantees relate to mortgages covered by governmental insurers under the Nationale Hypotheek Garantie (NHG) in the Netherlands. The NHG guarantees the repayment of a loan in case of a forced property sale.

Exposures READ secured by guarantees received

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2012	Total 2011
Under AIRB Approach	1,520	13,533	38,049	32,917	8,193	94,211	85,409

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

These figures exclude any guarantees which are received from a party related to the obligor, such as a parent or sister company. The figures also exclude any guarantees that may be implied as a result of credit default swap activities. The figures above do include amounts that are guaranteed through an unfunded risk participation construction.

MATURITY PROFILE

Outstandings by tenor bucket

The table below shows the outstanding of ING Bank by tenor. The figures assume that no new credit risks are introduced into the portfolio and that there are no delays in repayments associated with non-performing loans, nor are there write offs associated with provisions. The portfolio runoff is implied by the difference in the figures between two periods.

The assumption is that loans, money market and investments in fixed income securities are fully repaid at their maturity dates and that limits are reduced in conjunction with repayment schedules contained in the associated loan

documentation, without regard for potential renewal or extension, or portfolio sales or acquisitions. Pre-Settlement risks are assumed to reduce over the legal maturity of the underlying transactions. However, under mark-to-market plus add-on methodology, it is possible for exposures to increase in time, rather than decrease. This is a function of ING Bank's estimates of future interest rates and foreign exchange rates, as well as potential changes in future obligations that may be triggered by such events. Generally, credit risk outstandings are lower than READ.

Outstandings by tenor bucket (credit risk outstandings)

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2012	Total 2011
Current Outstandings	**81,047**	**77,712**	**224,317**	**294,116**	**36,389**	**713,582**	828,569
1 month	**72,077**	**60,192**	**206,932**	**293,750**	**35,869**	**668,820**	819,358
3 month	**42,427**	**51,359**	**199,257**	**293,284**	**35,149**	**621,476**	765,521
6 month	**40,340**	**47,376**	**189,691**	**292,496**	**33,975**	**603,879**	711,378
1 year	**36,157**	**38,866**	**150,410**	**289,796**	**26,340**	**541,570**	648,046
2 years	**33,937**	**29,568**	**114,043**	**286,276**	**21,381**	**485,206**	590,686
3 years	**32,741**	**23,784**	**90,930**	**281,548**	**18,321**	**447,324**	540,416
5 years	**26,131**	**13,468**	**49,709**	**270,638**	**12,707**	**372,654**	450,378
7 years	**22,089**	**8,915**	**36,077**	**257,704**	**9,264**	**334,049**	399,969
10 years	**10,529**	**5,339**	**24,179**	**226,904**	**6,187**	**273,138**	323,845

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

The large decrease in current outstandings compared to last year is mainly related to the sale of ING Direct US and ING Direct Canada. As these were mainly mortgages portfolios, the long term tenor buckets were impacted the most. As an outcome of a methodology change, certain Pre-Settlement and trade related products are now based on the outstandings maturity instead of the limit maturity. This resulted in shorter maturities for these products.

SECURITISATIONS

The following information is prepared taking into account the 'Industry Good Practice Guidelines on Pillar 3 disclosure requirements for securitisations' (the Guidelines) issued by the European Banking Federation and other industry associations on 31 January 2010. It includes qualitative and quantitative disclosures addressing both the exposure securitised as well as securitisations positions held. While quantitative disclosures are limited to those securitisations that are used for the purpose of calculating the regulatory capital requirements under the CRD, qualitative information have a broader scope and give a view on ING Bank's entire securitisation activity.

Securitisations - credit risk disclosure

		2012	2011	Delta %
Securitisations	**Geography**			
	America	**5,521**	22,308	–75.3%
	Asia	**172**	76	127.0%
	Australia	**228**	451	–49.4%
	Europe	**6,179**	13,134	–53.0%
		12,101	35,970	–66.4%
	Europe			
	Spain	**2,530**	3,800	–33.4%
	United Kingdom	**1,428**	4,408	–67.6%
	Italy	**815**	1,196	–31.8%
	Netherlands	**532**	1,057	–49.7%
	Rest of Europe	**873**	2,674	–67.4%
		6,179	13,134	–53.0%
Securitisations	**Product Type**			
	Residential Mortgage Backed Securities	**5,874**	12,416	–52.7%
	Asset Backed Securities	**2,399**	3,242	–26.0%
	Synthetic Investment Bonds (1)	**1,439**	0	–
	Securitisation Liquidity (2)	**1,345**	2,041	–34.1%

	Commercial Mortgage Backed Securities	**315**	2,040	–84.5%
	Other	**729**	16,231	–95.5%
		12,101	35,970	–66.4%
Securitisations	**Exposure Class** (3)			
	Securitisation Investor	**10,078**	33,719	–70.1%
	Securitisation Sponsor	**2,022**	2,251	–10.2%
	Total	**12,101**	35,970	–66.4%

Excludes equities and ONCOA.
(1) This represents the guarantee granted by ING for the sold ALT-A bonds under the Alignment Transaction with the Dutch State.
(2) These are structured financing transactions by ING for clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to an SPV.
(3) Securitisation benefits are excluded. Own originated securitisations explained in separate section.

ING's exposure to securitisations has declined compared to last year, targeted efforts to reduce securitisation exposures have been executed and will continue so in 2013 in order to decrease impairment risk, credit migration and concentration risk on ING's non-trading books. The main decreases arise from the sale of ING Direct US, ING Direct Canada and although not closed yet, the UK sale has also already led to a significant reduction in the securitisations portfolio. More details can be found in the following specific securitisation sections.

Investor securitisations
The following table provides the breakdown of current exposures by risk weight bands. The amount of securitisation positions is based on the regulatory exposure values calculated according to the CRD after consideration of credit conversion factors (CCFs) where applicable as used for the purpose of Pillar 1, but prior to the application of credit risk mitigants on securitisation positions.

ING has a strict policy on securitisations and no new investments in securitisations are allowed for ING's Investment portfolio. ING's goal is to maintain a portfolio of high quality liquid assets that meets the regulatory requirements of Basel III liquidity framework.

Purchased exposures per risk weight band

		2012		2011
	READ	**RWA**	READ	RWA
Risk weight band 1 <= 10%	**4,917**	**394**	11,888	938
Risk weight band 2 >10% and <= 18%	**346**	**45**	16,680	2,646
Risk weight band 3 >18% and <= 35%	**2,639**	**665**	2,053	644
Risk weight band 4 >35% and <= 75%	**158**	**99**	143	165
Risk weight band 5 >75% and <1250%	**1,917**	**2,810**	2,408	7,192
Risk weight 1250%	**101**	**1,165**	547	6,554
Total	**10,078**	**5,179**	33,719	18,139

Excludes equities and ONCOA.

The investment positions in securitisation are mainly in North American and European ABS', almost all positions are of the highest seniority and the majority of vintages are between 2004-2007, the majority of the exposure falls within the better risk weight bands. All securitisations are subject to rigorous testing using various stress scenarios, positions with underperforming collateral have been sold in order to mitigate RWA increases. Impaired positions have shown signs of improvement compared to last year, over the year ING's impairment charges due to underperforming securitisation have declined significantly, impairment charges for 2012 were minimal and mainly driven by legacy positions in US RMBS/CMBS.

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

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

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

The total liquidity facilities, including programme wide enhancements, provided to the Mont Blanc conduit are EUR 2,528 million which represents the limit. The total drawn liquidity amount as of 31 December 2012 is EUR 229 million.

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

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

The first transactions (Moon and Memphis 2003) were repaid in 2008 with no loss for the investors. The following transactions were also repaid, still with no loss for the investors: Mars 2004 in 2009, Memphis 2005 and Mars 2006 in 2012. As of 31 December 2012, two transactions totalling approximately EUR 4.6 billion (BEL SME 2006 on SME exposures and Memphis 2006 on Residential Mortgages) remain outstanding, as further detailed below. Memphis 2006 transfers risk on high Loan to Value (LTV) Dutch mortgages.

Retained exposures on securitisation of ING Bank's own assets include the most senior tranches. Economically, on a total of about EUR 4.6 billion underlying exposures in the two transactions mentioned above, ING Bank has transferred approximately EUR 481 million of mezzanine and equity tranches (first and second loss) to third parties.

Securitisations originated by a company may only be considered for balance sheet derecognition when the requirements for significant credit risk transfer have been fulfilled. However, for a securitisation transaction to be recognised for RWA reduction, risk transfer alone may be insufficient due to the increasing impact of the maturity mismatch formula. As a consequence, the RWA of the retained tranches for one of the transactions in the table below would be higher than the total RWA of the underlying pool before securitisation, and therefore that transaction is treated for RWA purposes as if it was not securitised.

Exposures securitised (amounts in EUR million)

2012	Cut-off Date	Initial Pool	Outstandings	Credit Events	Past due Assets	Losses
Residential Mortgages						
Memphis 2005*						
Memphis 2006	31-Oct-12	**4,000**	**3,914**	**18**	**212**	**10**
SME						
Mars 2006*						
BEL SME 2006	30-Nov-12	**2,500**	**684**	**15**	**4**	**3**
Total						

* Both Memphis 2005 and Mars 2006 have been unwound in 2012, respectively on May 21 and August 28.

Exposures securitised (amounts in EUR million)

2012	Cut-off Date	Initial Pool	Outstandings	Credit Events	Past due Assets	Losses
Residential Mortgages						
Memphis 2005	31-Oct-11	3,000	2,403	2	50	1
Memphis 2006	31-Oct-12	4,000	3,904	12	196	7
		7,000	6,307			
SME						
Mars 2006	30-Sep-11	4,500	4,354	25	301	13
BEL SME 2006	30-Nov-12	2,500	1,043	15	5	3
Total		7,000	5,397			

All securitisations reported in this section are synthetic securitisations used to transfer risk to third parties. Transactions for liquidity/funding purpose are not included.
The determination of impairments and losses occurs at least every quarter at the cut-off date applicable to each specific transaction.

Cut-Off Date	Most recent date in respect of which determination and allocation of losses have been made pursuant to the legal documentation of the transaction. Information on the performance of ING's securitised exposures is published regularly.
Outstandings	EAD on 31 December of assets that were performing on the Cut-off date.
Credit Events	Aggregate outstandings of assets subject to a credit event reported in the 12 months period ending on the Cut-off date.
Past Due Assets	Outstandings on the Cut-off date of assets that are past due, but not in credit event on that date, as more fully detailed in the quarterly reports. Past due for Residential Mortgage transactions means 'more than 1 monthly payment in arrears'. Past due for SME deals means 'reference entities that are rated 20-22'.
Losses	Aggregate losses on securitised assets; reported in the 12 months period ending on the cut-off date.

Liquidity and funding

Although the most senior tranches in securitisations are no longer efficient to release regulatory capital under Basel II, they are used to obtain funding and improve liquidity. To be eligible as collateral for central banks securitised exposures must be sold to a Special Purpose Vehicle (SPV) which, in turn, issues securitisation notes ('traditional securitisations') in two tranches, one subordinated tranche and one senior tranche, rated AAA by a rating agency. The AAA tranche can then be used by ING Bank as (stand-by) collateral in the money market for secured borrowings.

ING Bank has created a number of these securitisations with a 31 December 2012 position of approximately EUR 90.3 billion of AAA rated notes and unrated subordinated notes. The underlying exposures are residential mortgages in the Netherlands, Germany, Belgium, Spain, Italy and Australia and SME Loans in the Netherlands and Belgium.
As long as the securitisation exposures created are not transferred to third parties, the regulatory capital remains unchanged. These are not detailed hereunder. Apart from the structuring and administration costs of these securitisations, these securitisations are profit/loss neutral.

Securitisation in the trading book

Per 31 December 2012, securitisation positions in trading books are reported under the Standardised Capital Framework in the Market Risk section.

RISK MANAGEMENT

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

Risk management formulates with the various management boards the risk appetite, strategies, policies and limits and provides a review, oversight and support function throughout ING Group on risk-related issues. The main financial risks ING Group is exposed to are credit risk (including transfer risk), market risk (including interest rate, equity, real estate and foreign exchange risks), insurance risk, liquidity & funding risk and business risk. In addition, ING Group is exposed to non-financial risks, e.g. operational and compliance risks. The way ING Group manages these risks on a day-to-day basis is described in this risk management section.

As a result of the decision to manage ING Bank and ING Insurance separately, ING has implemented two distinct risk appetite frameworks for both Bank and Insurance. The common concept however is that risk appetite is expressed as the tolerance to allow key capital and liquidity ratios to deviate from their target levels under adverse scenarios. These frameworks are discussed in more detail in the specific chapters of this risk management section.

Both ING Bank and ING Insurance need to prepare for significant changes in the regulatory requirements. For ING Bank the most important one is the implementation of Basel III (for European banks as ING implemented via Capital Requirements Directive (CRD) IV), while ING Insurance runs an extensive program to allow the implementation of Solvency II (which is the fundamental reform of European insurance solvency and risk governance legislation; announced to be effective as of 1 January 2014 but delays in legislation imply that it will not be effective before 1 January 2016). Additionally, both in Bank and Insurance, ING continued its stress testing efforts, with stress testing becoming more important and more embedded in the risk culture.

MISSION AND OBJECTIVES

The mission of ING Group's risk management function is to have a sustainable competitive advantage by fully integrating risk management into daily business activities and strategic planning. This mission is fully embedded in ING Group's business processes. The following principles support this mission:

- Products and portfolios are structured, underwritten, priced, approved and managed appropriately and compliance with internal and external rules and guidelines are monitored;
- ING's risk profile is transparent, managed to avoid surprises, and is consistent with delegated authorities;
- Delegated authorities are consistent with the overall Group strategy and risk appetite;
- Transparent communication to internal and external stakeholders on risk management.

Risk management benefits ING and its stakeholders directly by providing more efficient capitalisation and lower costs of risk and funding. The cost of capital and funding is reduced by working closely with rating agencies and regulators in satisfying their requirements in aligning capital and liquidity to risks. Risk Management helps business units with lower funding costs, the latest risk management tools and skills, and lower strategic risk, allowing them to focus on their core expertise with the goal of keeping ING's businesses competitive in their markets.

GROUP RISK MANAGEMENT FUNCTION

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

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

RISK DEVELOPMENTS IN 2012

Monitoring exposures and Eurozone developments

The problems in the Eurozone have been a top priority for risk management throughout 2012, and will continue to be a top priority in 2013. ING closely monitors the exposures in debt securities, lending and credit derivatives in the involved countries, and regularly assesses whether the positions still fit with its risk appetite. This assessment is supported by internal stress tests.

Throughout 2012 ING has continued to de-risk its balance sheet, including reducing its positions in especially covered bonds, ABS securities and Real Estate investments for some of the weaker countries as a result of these risk analyses.

Several European countries have been downgraded in 2012. But there have also been some positive developments related to the Eurozone crisis. Financial markets rallied due to amongst others the Long-term Refinancing Operations from the ECB and better than expected economic data. Credit spreads for some of the involved countries tightened significantly. On 21 February 2012 a new common understanding on key terms of a voluntary exchange of privately held Greek government bonds was reached. In March 2012 the Treaty of Stability, Coordination and Governance ('Fiscal Treaty') was signed by 25 EU member states. The treaty encourages greater long term fiscal responsibility on the part of the individual member states and bolsters market confidence in the Euro and European sovereign debt. In the summer of 2012 the chairman of the ECB announced that ECB would take any appropriate action that was deemed necessary to ensure the stability of the Euro. These measures helped to calm down the situation at the global financial markets and government bond rates (and consequent CDS spreads) of peripheral countries decreased to more manageable levels.

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

Greece, Italy, Ireland, Portugal, Spain and Cyprus

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

The table below provides information on ING's risk exposure with regard to Greece, Italy, Ireland, Portugal and Spain. Unless otherwise indicated, the amounts represent risk exposure values and exposures are included based on the country of residence of the direct Obligor to which ING has primary recourse of repayment of the obligations, except most RMBS, which exposures are based on country of risk. Cyprus is not included in the table below as the net credit risk linked to Cyprus is not material for ING Bank and ING Insurance/IM has no credit risk linked to Cyprus.

During 2012, ING further improved the scope and the presentation of the disclosures of exposure on Greece, Italy, Ireland, Portugal and Spain. Furthermore, certain definitions have been improved and/or aligned. Comparative figures as per 31 December 2011 have been amended. The changes mainly relate to the inclusion of Pre-settlement exposures, the presentation of trading and banking book CDS exposure, the definitions and scope of Real Estate and ABS exposure (from 'country of residence' to 'country of risk') and the classification of corporate bonds. In total these restatements did not have a material impact on ING's exposure on Greece, Italy, Ireland, Portugal and Spain.

Greece, Italy, Ireland, Portugal and Spain - Total risk exposures [1]

					31 December 2012	
	Greece	**Italy**	**Ireland**	**Portugal**	**Spain**	**Total**
Residential mortgages and other consumer lending	14	7,531	6	4	9,680	17,235
Corporate Lending	287	8,441	705	1,015	5,733	16,181
Financial Institutions Lending	0	227	4	76	626	933
Government Lending	0	203	0	0	35	238
Total Lending	301	16,402	715	1,095	16,074	34,587
RMBS	95	997	267	553	2,846	4,758
CMBS	0	0	12	0	0	12
Other ABS	0	180	218	49	171	618
Corporate Bonds	0	509	642	67	319	1,537
Covered Bonds	0	245	370	153	11,780	12,548
Financial institutions' Bonds (unsecured)	0	527	74	56	84	741
Government Bonds	43	2,474	53	633	1,308	4,511
CDS exposures in banking book [2]	0	0	0	0	-390	-390
Total Debt Securities	138	4,932	1,636	1,511	16,118	24,335
Real Estate [3]	21	380	0	217	610	1,228

Trading excluding CDS exposures	**0**	**450**	**28**	**8**	**454**	**940**
Sold CDS protection	**0**	**1**	**1**	**1**	**7**	**10**
Bought CDS protection	**-2**	**-22**	**-11**	**-1**	**-51**	**-87**
Trading including CDS protection	**-2**	**429**	**18**	**8**	**410**	**863**
Undrawn committed facilities	**166**	**1,287**	**258**	**181**	**2,780**	**4,672**
Pre-settlement exposures (4)	**80**	**516**	**343**	**41**	**953**	**1,933**
Total risk exposure	**704**	**23,946**	**2,970**	**3,053**	**36,945**	**67,618**

Footnote: Total risk exposure to companies registered in Cyprus was approximately EUR 0.9 billion as per 31 December 2012, which consisted mostly of corporate lending (EUR 0.7 billion) and Financial Markets trades (EUR 0.1 billion). Majority of the corporate lending risk exposures were either deals with country of risk outside of Cyprus, Letter of credits or Trade Commodity Finance with maturity less than 3 months. Therefore, net credit risk linked to Cyprus is not material for ING Bank. ING Insurance/IM has no credit risk linked to Cyprus.
(1) The exposures reported are credit, market and real estate exposures based on source systems and measurement criteria that can differ from those of similar exposures reported in Note 4 'Investments' of the annual accounts.
(2) At the end of 2012 ING Bank holds CDS protection (notional value) on the Spanish government, Financial Institutions and covered bonds.
(3) Real Estate includes Real Estate Development, Real Estate Investments and Property in Own Use; it does not include (indirect) exposure through Real Estate Finance, which is reflected in Total Lending and Total Debt Securities.
(4) Pre-settlement exposure is exposure to dealing room products such as options, swaps, and securities financing transactions. This exposure is based on the replacement value (Marked-To-Market) of each product plus potential future volatility.

Greece, Italy, Ireland, Portugal and Spain - Total risk exposures (1)

					31 December 2011	
	Greece	Italy	Ireland	Portugal	Spain	Total
Residential mortgages and other consumer lending	14	7,027	4	3	9,176	16,224
Corporate Lending	307	9,061	502	996	7,092	17,958
Financial Institutions Lending	6	853	57	139	2,038	3,093
Government Lending		195			55	250
Total Lending	327	17,136	563	1,138	18,361	37,525
RMBS	127	1,315	1,094	752	4,131	7,419
CMBS			310			310
Other ABS		400	371	101	170	1,042
Corporate Bonds		641	654	68	483	1,846
Covered Bonds (2)		236	350	172	16,835	17,593
Financial institutions' Bonds (unsecured)		769	249	164	366	1,548
Government Bonds	254	2,557	54	809	1,508	5,182
Total Debt Securities	381	5,918	3,082	2,066	23,493	34,940
Real Estate (2)	36	429		245	632	1,342
Trading excluding CDS exposures		569	33	7	261	870
Sold CDS protection		9	1		64	74
Bought CDS protection	-3	-29			-13	-45
Trading including CDS protection	-3	549	34	7	312	899
Undrawn committed facilities	411	1,229	523	140	2,302	4,605
Pre-settlement exposures (3)	70	670	425	14	909	2,088
Total risk exposure	1,222	25,931	4,627	3,610	46,009	81,399

Footnote: Total risk exposures to companies registered in Cyprus were approximately EUR 1 billion as per 31 December 2011, which consisted mostly of corporate lending (EUR 0.6 billion) and Financial Markets trades (EUR 0.3 billion). Majority of the corporate lending risk exposures were either deals with country of risk outside of Cyprus, Letter of credits or Trade Commodity Finance with maturity less than 3 months. Therefore, net credit risk linked to Cyprus is not material for ING Bank.
(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) 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.
(3) Pre-settlement exposure is exposure to dealing room products such as options, swaps, and securities financing transactions. This exposure is based on the replacement value (Marked-To-Market) of each product plus potential future volatility.

Total exposure to the GIIPS countries was reduced by EUR 13,781 million in 2012. ING Group completed the planned de-risking of its investment portfolio in the fourth quarter of 2012 as part of its balance sheet optimisation programme. ING reduced its exposure in debt securities, with covered bonds going down by EUR 5,045 million and RMBS position diminishing by EUR 2,661 million, and its lending portfolio with a decrease of EUR 2,938 million, driven by Financial Institutions lending by EUR 2,159 million and corporate lending by EUR 1,777 million, and partially offset by an increase in residential mortgages and other consumer lending by EUR 1,011 million.

Greece
On 21 July 2011 a Private Sector Involvement to support Greece was announced. This initiative involved a voluntary exchange of existing Greek government bonds together with a Buyback Facility. On 12 March 2012, the agreement under the Private Sector Initiative ('PSI') to exchange Greek Government bonds into new instruments was executed. Under this exchange, ING received new listed Greek Government bonds, listed European Financial Stability Facility ('EFSF') notes and listed short-term EFSF notes. Furthermore, ING received listed GDPlinked securities issued by Greece. In July 2012 ING Bank sold all its Greek government bonds to ING Insurance.

Total exposure to Greece declined by EUR 518 million in 2012 mainly due to a reduction of debt securities with EUR 243 million and undrawn committed facilities with EUR 245 million. The decrease in debt securities was mainly in the government bonds (EUR 211 million).

ING Bank does not have a bank operation in Greece but does serve a limited number of mostly international companies which have their domicile in Greece. Many of these companies are dependent on cash flows that are based outside Greece. ING Insurance Eurasia has direct Greek exposure given the Greek based insurance entity.

Italy
Total exposure to Italy decreased by EUR 1,985 million in 2012 mainly in the lending book by EUR 734 million to EUR 16,402 million and in debt securities by EUR 986 million to EUR 4,932 million.

The decrease in lending exposure was driven by a EUR 1,247 million reduction in financial institutions and corporate lending partially offset by an increase in residential mortgages and other consumer lending of EUR 504 million. The debt securities went down mainly in ABS portfolio by EUR 538 million and financial institutions bonds by EUR 241 million.

Ireland
Total exposure to Ireland declined by EUR 1,657 million in 2012 mainly due to a reduction of debt securities with EUR 1,446 million. The decrease in debt securities was mainly in the ABS portfolio (EUR 1,278 million decrease) and financial institutions bonds (EUR 175 million reduction).

In addition to the above exposures on Ireland, ING Insurance has Irish reinsurance exposure of EUR 1,578 million. This mainly includes reinsurance through an Irish subsidiary of a large European Reinsurance group.

Portugal
Total exposure to Portugal declined by EUR 557 million in 2012 mainly in debt securities by EUR 555 million. The decrease was mainly in the ABS portfolio (EUR 252 million), government bonds (EUR 176 million) and financial institutions bonds (EUR 108 million).

Spain
ING's total exposure to Spain was reduced by EUR 9,065 million in 2012 to EUR 36,944 million. The lending book declined by EUR 2,287 million to EUR 16,074 million. This decrease was driven by a EUR 1,412 million reduction in financial Institutions lending and EUR 1,359 million in corporate lending, and partly offset by a EUR 504 million increase in residential mortgages and other consumer lending. The debt securities portfolio decreased by EUR 7,375 million mainly due to a decrease in RMBS by EUR 1,285 million and covered bonds by EUR 5,055 million.

Derivatives
In these countries, ING Bank has limited derivative exposure and largely enters derivative transactions to help clients reduce exposure to interest and currency movements. Many of these transactions are covered either via CSA agreements or as part of the collateral of the underlying financing. The key credit risk ING Bank faces in these derivative transactions is movements in markets creating an uncollateralised exposure to a counterparty or that the collateral is not sufficient. ING monitors these mark to market movements on a daily basis.

Impact of low interest rate environment
Interest rates in the Eurozone but also in the other main home countries decreased from already low levels to unprecedented low levels. Central bank rates are still at very low levels, thereby negatively impacting the short term money market rates, and also long term rates decreased to very low levels last year. The on-going Eurozone crisis in combination with doubts on the growth potential of the world economy were the main reasons for this development.

Impact for ING Bank
The typical interest rate position for ING Bank implies that the duration of the assets is somewhat higher than the duration of the liabilities. Given this mismatch, decreasing interest rates are initially favourable for ING Bank's income: liabilities re-price quicker than assets, and therefore the average coupon of liabilities adapts quicker to lower interest rates. This should support ING Bank's interest rate margin and subsequently our interest income.

However, the current situation of low interest rates levels is there since the eruption of the financial crisis. Therefore interest rates are on a low level for more than 4 years now. A sustained low interest rate environment can put ING Bank's interest income under pressure. New client assets are produced at lower rates, which impacts the average yield in the credit portfolio, but also implies lower prepayment rates and thus lengthening of the portfolio duration. This results in lower yielding assets that reprice more slowly. On the other side of the balance sheet savings coupons do not reflect the low interest rate environment fully. Due to high liquidity spreads as a consequence of the crisis and strong competition in the savings market savings coupons only marginally track lower interest rates. On balance these factors may put ING Bank's interest rate margin under pressure. This situation will endure until structural economic recovery, which will lead to an environment with interest rate increases. As there is much uncertainty when this period of recovery will emerge, ING Bank closely monitors markets in order to be positioned adequately in anticipation of either a prolonged period of a low interest rates or a potential increase of short term and long term interest rates.

Impact ING Insurance Eurasia and US

Since we are mainly a life insurance company with long-term commitments to our clients, a low(er) interest rate will result in a high(er) market value of the liabilities (MVL). The risk of low interest rates combined with other risks, such as longevity, will further increase the MVL and reduce available capital.

The ING Insurance entities have an ALM process where investments are bought such that they match with the duration profile of our liabilities. The remaining interest exposure is closed through a derivative portfolio. Long term guarantees and options are more difficult to hedge and expose ING to further risks. Further, in several countries the interest rate guarantees provided have a maturity significantly longer than asset maturities in the currency of these countries. In these cases ING runs non-hedgeable interest rate risks. These risks are well-known within ING's risk appetite as these risks are part of doing life insurance business in these countries, and within market risk limits defined and monitored on a quarterly basis.

The exact impact of the low interest differs per entity and per products offered. However, in general lower interest rates lead to higher provisions and thus lower available capital. In addition, capital requirements will also go up; the matching quality of the assets that back the liabilities will determine the magnitude. In conclusion, lower interest rates will result in higher capital needs.

Impact ING Group

The impact of the low interest rate environment for Bank and Insurance goes further than earnings and reserves, that are described in the sections above. Low interest rates result in addition to provisions for guarantees that are included in life insurance and variable annuity contracts, as the guarantees become more valuable to policy holders. Thereby the solvency position of the Insurance businesses is negatively impacted, which can also impact the proceeds of the Insurance divestment. The proceeds of the Insurance divestments are to be used to pay back the double-leverage. In case the Insurance proceeds are not sufficient to do so, ING Bank will need to upstream extra dividend to ING Group. EUR 1.0 billion of the November 2012 dividend payment by ING Bank to the Group has been used for this purpose. Note however, that when future Bank earnings and future capital position are negatively impacted such capital up-streams are difficult to establish. And this can be further hampered by the on-going increasing capital requirements for banks in general.

RISK MANAGEMENT

Taking risks is an essential part of banking business. To ensure controlled and measured risk-taking throughout the organisation, ING Bank operates through a comprehensive risk management framework. This ensures that these risks are identified, well understood, accurately measured, controlled and pro-actively managed at all levels of the organisation so that ING Bank's financial strength is safeguarded.

ING Bank uses risk assessment and measurement models to guide decision making. To guard the quality of these risk models there is a governance process for approval of risk models, methods and parameters. This ensures compliance with business and regulatory requirements, via a clear assignment of responsibility and accountability. Nevertheless, users of the disclosed information in the risk management section should bear in mind that the analyses provided are based on forward looking models that rely on assumptions and estimates of future events, some of which are considered extreme and therefore unlikely to occur. In the normal course of business ING Bank continues to develop, recalibrate and refine the various models that support risk metrics, which may result in changes to the risk analyses as disclosed.

Although ING Bank strives towards a reporting basis that is consistent over time, the risk management section is subject to enhancements and improvements. These are needed to reflect the continuous developments that take place in ING Bank's risk function and on-going (macro-) economic developments that require additional disclosures. Also the continuing changes in the environment in which ING Bank operates like new regulations but also voluntary initiatives from the banks themselves need to be reflected. In October 2012, the Financial Stability Board (FSB) published the results of the 'Enhanced Disclosure Task Force' (EDTF). This taskforce consisted of a collaboration between users and preparers of financial reports, and the recommendations are therefore not only based on expertise from but also supported by global financial institutions (ING Bank included), investors, rating agencies and external auditors. The taskforce identified some fundamental principles for enhancing the bank's risk disclosures and thereby contributing towards the further development of financial disclosures that communicate banks' business models and the key risks arising from them.

As ING Bank's risk disclosure has been striving to generate the same high-quality and transparent description of its risk, it embraces the EDTF principles and recommendations and used it to further fine-tune its practice on risk disclosures. ING Bank is of the opinion that disclosures should be clear, balanced and understandable by external observers, and that risk information is disclosed on a timely basis. The latter not only applies for the Annual Accounts and the risk management paragraph but also for the concurrent publication of the Pillar 3 section.

The risk management rection describes the ING Bank business model, and the key risks that arise from it. It also explains how the risk management function is embedded within the organisation based on the 'three lines of defence'. This includes front office as 'first line of defence', risk management as independent observer in the 'second line of defence' and the internal audit function in the 'third line'. The key risks resulting from the bank's business model are managed by dedicated and specific risk management departments that each covers their own area of expertise. Each of these departments explains the respective governance framework, relevant risks and how they are expressed on a qualitative and quantitative basis within this report. Although ING Bank strives towards a reporting basis that is consistent over time, changes arise due to new regulations and on-going (macro-) economic developments that require additional disclosures.

Although it is ING Bank's ambition to disclose all risk related items into one comprehensive section, this is in practice not always possible. For instance, the capital-linked recommendations that have been listed by EDTF are included in the Capital Management section. Further, assets and liabilities per contractual maturity via predefined time-bands are displayed in specific notes of the Consolidated Annual Accounts. The additional Pillar 3 information that stems from the Basel II accords provides detailed tables on ING Bank's credit portfolio. An overview of all the EDTF recommendations and how they are being followed-up can also be found in the introduction of this same Pillar 3 section. It is ING Bank's ambition to incorporate most of the information into the risk management section such that all disclosed risk information is present in one section of the Annual Report. This contributes to the EDTF recommendations that strive towards transparent and comparative risk disclosures by global banks.

With respect to comparability of risk disclosures, it is important to note that since the start of the financial crisis there has been much debate on the risk-weighted capitalisation of banks, and in specific whether internal models are appropriate for such purposes. ING Bank is of the opinion that internal models are very valuable since they better represent the bank's business model, its customers and its credit quality than a standardised approach. However, we also acknowledge that interpretations between banks and also between regulators may differ. This stresses the importance of having a level playing field via a uniform banking supervision within the EU, but also includes improving and aligning risk disclosures as proposed by the EDTF as much as possible. To reflect this importance, ING Bank aligned its Risk Weighted Assets (RWA) disclosure as much as possible with the EDTF set-up to present RWAs on a detailed and granular level, and to make our risk profile more comparable with peers.

Many elements of the EDTF recommendations were already reflected in last year's risk disclosure, although not all in the form that can be directly linked to the EDTF set-up. Given the limited time between publication of the EDTF recommendations and publishing date of this report, ING Bank has decided to incorporate the most feasible elements of the EDTF recommendations into this year's risk disclosure. The remaining others will be disclosed in future reports.

Subject	Improvement
Business model and risk culture	Explicit inclusion of a description and how these link to the already disclosed key risks and key model disclosures
Risk appetite framework	More extensive description
RWA disclosure	More aligned with the EDTF set-up, and also better linked to ING Bank's capital position and balance sheet composition.
Credit portfolio per type (per exposure class, per product type and per geography) and Basel II model approach	Better alignment to the EDTF recommendations of our disclosures, More aligned Information on the bank's credit quality via nonperforming loan disclosures, provisions and past due loans
Forbearance	Inclusion of a quantitative and qualitative disclosure in line with EDTF, also in the light of the recent European Securities and Markets Authority (ESMA) proposals

The results of all these improvements can be found within the below described sections that describe qualitative and quantitative elements of ING Bank's risk practice. The set-up of the risk disclosure is as follows:

- Mission and objective of ING Bank's risk management. This is followed by a description of our risk governance where ING Bank's risk culture is described – including how risk is embedded throughout the organisation based on the three lines of defence model.
- ING Bank's business model and the resulting key financial and non-financial risks. This section includes the functioning of our Risk Appetite Framework at bank level and how it's translated throughout the organisation.
- Quantitative risk disclosure on Bank level, where the most common metrics over all different risk types are displayed: RWA via regulatory capital and economic capital, followed by an overview of the key risk developments in 2012.
- Detailed disclosure of the most significant financial and non-financial risk types, where per risk type the organisation, governance, risk metrics and risk profile is elaborated.
- Additional information on ING Bank's credit portfolio, in terms of composition, credit quality and modelling approaches, can be found in the Pillar 3 section.

MISSION

The mission of ING Bank's risk management function is to have a sustainable competitive advantage by fully integrating risk management into daily business activities and strategic planning. This mission is fully embedded in ING Bank's business processes. The following principles support this mission:

- Products and portfolios are structured, underwritten, priced, approved and managed appropriately and compliance with internal and external rules and guidelines is monitored;
- ING Bank's risk profile is transparent, managed to avoid surprises, and is consistent with delegated authorities;
- Delegated authorities are consistent with the overall Bank strategy and risk appetite;
- Transparent communication to internal and external stakeholders on risk management and value creation.

Risk management benefits ING Bank and its stakeholders directly by providing more efficient capitalisation and lower costs of risk and funding. The cost of capital is reduced by working closely with rating agencies and regulators to align capital requirements to risks. Risk Management helps business units to lower funding costs, make use of the latest risk management tools and skills, and lower strategic risk. This enables them to focus on their customers with excellent service, fair and transpa rent products and pricing. Thus maintaining a loyal customer base and a leadership position in our key markets and product franchises.

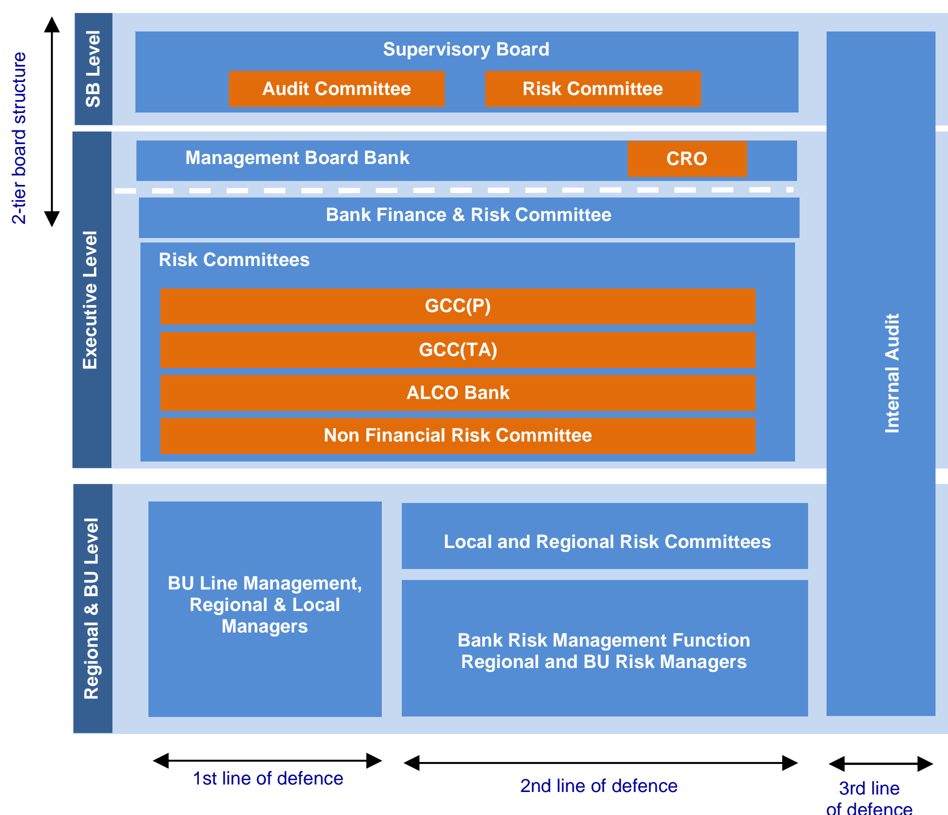
RISK GOVERNANCE

ING Bank's risk management framework is based on a 'three lines of defence' governance model, whereby ownership for risk is taken at three levels in the organisation. This governance framework ensures that risk is managed in line with the risk appetite as defined by the Management Board Bank (and ratified by the Supervisory Board) and is cascaded throughout ING Bank.

The commercial departments form the first line of defence. They originate loans, deposits, insurance and wealth management products and other products, they know our customers well and are best placed to act in both the customers' and ING's best interest.

The second line of defence consists of the risk management organisation, headed by the chief risk officer (CRO), and the corporate legal function. The membership of the CRO on the MBB ensures that risk management issues are heard and discussed at the highest level, thus establishing the appropriate tone at the top. The CRO steers a functional, independent risk organisation both at bank and regional/local level, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of excessive risks.

The internal audit function provides an on-going independent (i.e. outside of the risk organisation) and objective assessment of the effectiveness of internal controls of the first two lines, including financial and non-financial risk management and forms the third line of defence.



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

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

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

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

Executive Level
The ING Bank Finance and Risk Committee (F&RC) is a platform for the CRO and the Chief Financial Officer (CFO), along with their respective direct reports, to discuss and decide on issues that relate to both the finance and risk domains. The primary responsibility of the F&RC is to co-ordinate, on a high level, the finance and risk decisions that have an impact on internal and/or external reporting.

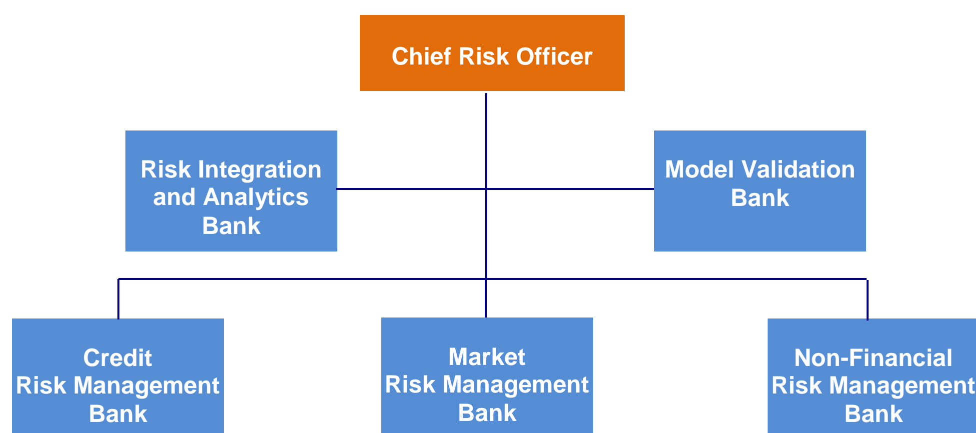
The risk committees described below act within the overall risk policy and delegated authorities granted by the Management Board Bank:

- ING Bank Credit Committee – Policy (GCC(P)): Discusses and approves policies, methodologies and procedures related to credit, country and reputation risks within ING Bank. The GCC(P) meets on a monthly basis;
- ING Bank Credit Committee – Transaction Approval (GCC(TA)): Discusses and approves transactions which entail taking credit risk (including issuer investment risk). The GCC(TA) meets twice a week;
- Asset and Liability Committee ING Bank (ALCO Bank): Discusses and approves on a monthly basis the overall risk profile of all ING Bank's market risks that occur in its Commercial Banking and Retail Banking activities. ALCO Bank defines the policy regarding funding, liquidity, interest rate mismatch and solvency for ING Bank; and
- Non-Financial Risk Committee Bank (NFRC Bank): Accountable for the design and maintenance of the Risk Management Framework including the ORM, Compliance and Legal policies, minimum standards, procedures and guidelines; the NFRC structure; development of tools, methods and key parameters (incl. major changes) for risk identification, measurement and monitoring/reporting.

Risk Management Function

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

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



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

In addition two staff departments report to the CRO:

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

Risk policies

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

Risk model governance and model validation
All risk models are built according to the internal risk modelling methodology standards and model life cycle, in line with regulatory requirements. After thorough review of the documentation by model development departments and Model Validation (MV), specific model risk committees for each risk type approve the models. After approval by the dedicated risk committee, a risk model is implemented and entitled for usage. In addition, MV validates each model on a regular basis. The validation results and its capital impact are reported on a quarterly basis to senior management and to DNB. Independent Model Validation is one of the cornerstones of ING Bank's risk model governance. It consists of the process of determining that a model is appropriate for its intended use. It is an on-going process whereby the reliability of the model is verified at different stages during its lifecycle: at conception, before approval, periodically after implementation, and when significant changes are made to the model. The validation process contains a mix of developmental evidence, process verification and outcome analysis. To ensure the independence of Model Validation, this department reports directly to the CRO.

The Model Validation department undertakes backtesting of all existing risk models. In addition to evaluating the underlying model parameters, ensuring continued applicability of the models for the relevant portfolios, and discussing the model performance with front office and risk users of the models, Model Validation also tests the observed performance of a model (and its components) with the predicted level. A model where the observed results deviate from the predicted results is a candidate for either re-calibration or re-development.

BUSINESS MODEL AND RISK PROFILE

Business Model
ING Bank is a large European Retail Bank with a strong world-class Commercial Banking franchise operating an extensive network with presence in over 40 countries. Next to the operations in its historic markets of the Benelux, ING has developed a strong (internet) banking franchise in a number of European countries and in Asia and Australia.

This business model is translated into the following specific ambitions:
- ING Bank's long term ambition is to become a strong predominantly European focussed bank with a low risk balance sheet offering a competitive return on equity of 10% to 13% through low costs and low risks.
- Retail Banking will pursue the One Bank strategy: ING Bank will converge to one retail model: 'easy, fair, and at low costs'.
- Commercial Banking will build further on its present strengths: leadership position in core markets (Benelux, Germany and Central and Eastern Europe) and in its core products (Structured Finance and Benelux Corporate market).

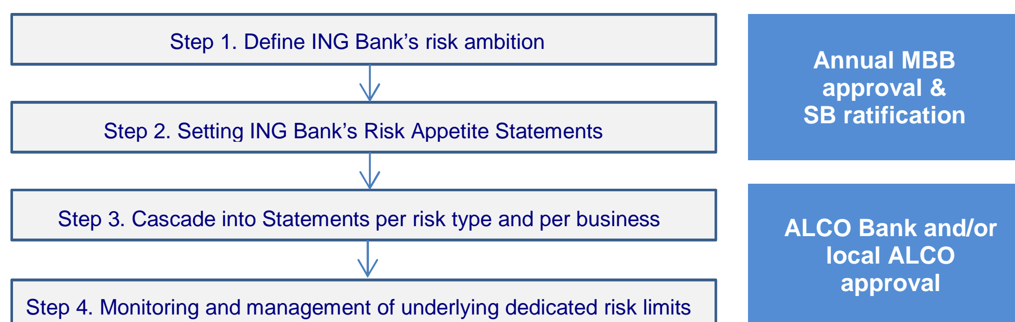
Key Risks
ING Bank recognises the following key risks (financial as well as non-financial risks) that are associated with its business activities.

Financial risks:
- Credit risk: the risk of potential loss due to default by ING Bank's debtors (including bond issuers) or trading counterparties;
- Market risk: the risk of potential loss due to adverse movements in market variables. Market risks include interest rate, equity, real estate, implied volatility, credit spread, and foreign exchange risks;
- Liquidity risk: the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions; and
- Business risk: the exposure to value loss due to fluctuations in volumes, margins and costs, as well as customer behaviour risk. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency, and as such strategic risk is included in business risk.

Non-financial risks
- Operational risk: the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk, as well as legal risk; and
- Compliance risk: the risk of impairment of ING Bank's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, ING Bank policies and standards as in ING Bank Business Principles.

Risk Appetite Framework
ING Bank uses an integrated risk management approach for its banking activities. The Management Board Bank (MBB) uses the bank risk appetite framework both to set boundaries for the budget process (MTP) monitor and manage the actual risk profile in relation to the risk appetite.

Process
The ING Bank risk appetite framework consists of specific risk appetite statements which are approved in the MBB on an annual basis or more frequently if this is felt necessary, and reviewed quarterly in the MBB and the Supervisory Board (SB). The bank risk appetite process is focused on setting the appetite at the consolidated Bank level and across the different risk categories. It is therefore essentially a top down process, which bases itself on the ambition of the Bank in terms of its risk profile and a function of the actual risk profile, the regulatory environment and the economic context. The process is set up according to the following steps:



Step 1. Define ING Bank's risk ambition
ING Bank defines a Bank Risk Appetite Framework in line with its business model and risk ambition, which is currently formulated as following:

ING Bank Risk Appetite: ING Bank has the ambition to be and remain a strong bank, resilient to possible adverse events on a standalone basis and able to address such developments based on its own strengths and resources.

In order to achieve this risk ambition, ING Bank believes it should have the following targets:
- Rating: have a rating ambition which is in line with the strongest among its peer group;
- State Support: be able to restore capital and liquidity position following a stress situation on its own strength;
- Regulatory based: be in a position to meet current and forthcoming regulatory constraints and targets;
- Peer comparison based: have a risk profile that compares favourably to its main banking peers.

Step 2. Setting ING Bank Risk Appetite Statements
Based on ING Bank's risk ambition, specific targets are set for both financial and non-financial risks:

Financial risks
For financial risks, ING Bank expresses its risk appetite as the tolerance to allow key ratios to deviate from their target levels. Therefore the high level risk ambition is translated into quantitative targets on ING Bank level for solvency risk, liquidity & funding risk and for concentration & event risk.

The solvency risk appetite is closely aligned to Capital Management activities and policies. ING Bank has expressed tolerances for its risk weighted solvency position (core tier 1 ratio), for non-risk weighted solvency (leverage ratio) and for more value based solvency (economic capital). The solvency risk appetite statements are not only compared to the actual reported level, but also include the potential impact of a standardised and pre-determined 1 in 10 years stress event (i.e. at the 90% confidence level and a 1 year horizon). Based on this mild stress scenario the impact on ING Bank's earnings, revaluation reserve and RWA is calculated (which are labelled as earnings-at-risk, revaluation reserve-at-risk and RWA-at-risk). These stressed figures are used as input for a two year simulation which depicts the developments of ING Bank's solvency level versus its risk appetite.

Liquidity and funding risk have two dimensions: where liquidity focuses on having a sufficient buffer to cope with the short term situation, managing the funding profile ensures long term compliance to both internal and external targets. Managing liquidity and funding risk focuses on both 'business as usual' (based on the run-off profile to show the stickiness of deposits combined with the run-off of assets without new production) and a stressed situation. There we define liquidity risk as the time to survive a specific scenario, while for funding risk we focus on the maximum funding gap allowed.

The concentration and event risk appetite set at ING Bank level are directly translated into corresponding limits in the underlying credit, market and liquidity & funding risk appetite statements.

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

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

Step 3. Cascade into statements per risk type and per business
The Bank Risk Appetite is translated per risk type, which is further cascaded down through the organisation to the lowest level needed. The risk appetite statements are then translated into dedicated underlying risk limits which are used for day-to-day monitoring and management of ING Bank's risks.

For financial risks a sequence of different risk appetite frameworks are implemented to address the most significant risks. This implies that a whole framework of credit risk limits is in place that monitors the overall quality of the ING Bank credit portfolio, but also of all the underlying portfolios. In addition, specific concentration risk appetites are defined on product level, geographic level and (single name) counterparty level which are cascaded down into the organisation. For market risk, the risk appetite for the trading book activities within Financial Markets is accompanied by a risk appetite framework for market risks in the banking books. For both types of market risk, limits at Bank level are translated down into the organisation. The liquidity & funding risk appetite statements that are defined on ING Bank level are translated down into the organisation, taking the liquidity & funding specific situation of each (solo) unit into account.

The non-financial risk appetite framework that is described under the previous step is cascaded down within the organisation without any need to make specific adjustments for each of the reporting solo entity.

Step 4. Monitoring and management of underlying risk limits
In order to verify that it remains within the risk appetite framework as it is executing its budget, ING reports monthly through regular reporting towards senior management committees as ALCO Bank. The Risk Management Report reflecting the exposure of ING Bank against the Risk Appetite targets is submitted to the MBB and to the (Risk Committee of the) Supervisory Board.

Stress testing
Stress testing is a key tool of risk management that involves consideration of the impact of adverse movements in one or more risk factors. Its importance and awareness has been substantially increased as a result of the recent financial crisis. For ING Bank, stress testing evaluates the bank's financial stability under severe but plausible stress scenarios and assists in decision-making that assures that the bank remains a financially-healthy on-going concern after a severe event occurs. Stress testing is used to understand what happens to ING Bank's ability to meet its external and internal capital as well as liquidity requirements, if external conditions change for the worse over a period of time and is expressed in increased RWA, risk costs and losses. The scope of stress testing can include the whole balance sheet of ING Bank, but it can also be used to analyse the potential impact on certain asset classes or certain activities. Stress testing helps ensure the risks we take remain within our Risk Appetite, and is a key component of our capital management and internal capital adequacy assessment processes (ICAAP). Stress testing outcomes are regularly reviewed by senior management, including the Finance & Risk Committee.

ING Bank regularly performs ad-hoc stress testing which has become a very important risk management tool during the past couple of years. Although stress testing is not formally part of the Bank Risk Appetite Statements, it is an integral part of ING Bank's risk management practice. Bank-wide stress tests are conducted under the governance of the Stress Test Steering Committee (STSC). All stakeholders are represented in the STSC, such as representatives of the different Corporate Risk departments, Capital Management, Finance and the Economic Bureau. The STSC ensures a solid stress test process and submits the stress test results to the Finance & Risk Committee for formal approval.

Internal stress testing
Our internal stress testing program utilises stress scenarios featuring a range of severities based on exceptional, but plausible adverse market and economic events. These stress scenarios are evaluated across the organisation, and results are integrated to develop an enterprise-wide view of the impacts on our financial results and capital requirements. This program uses situation specific macroeconomic projections that are then transformed into stress impacts on various types of risk across the organisation. Our evaluations indicate whether the resulting capital and financial impacts of these stress scenarios are within our ability to manage.

Sector-wide stress testing
In addition to the enterprise-wide program, ING takes part in a broad range of stress testing activities that are specific to a particular line of business, portfolio or risk type including market risk, liquidity risk, structural interest rate risk, retail and wholesale credit risk. Test results are used in a variety of decision-making processes including adjustments to certain risk limits, specific portfolios, and business implementation strategies.
In October 2012, the European Banking Authority published the results of a capital requirements exercise. These confirmed that the Bank remains well capitalised with a strong core Tier 1 capital ratio.

ECONOMIC CAPITAL

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

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

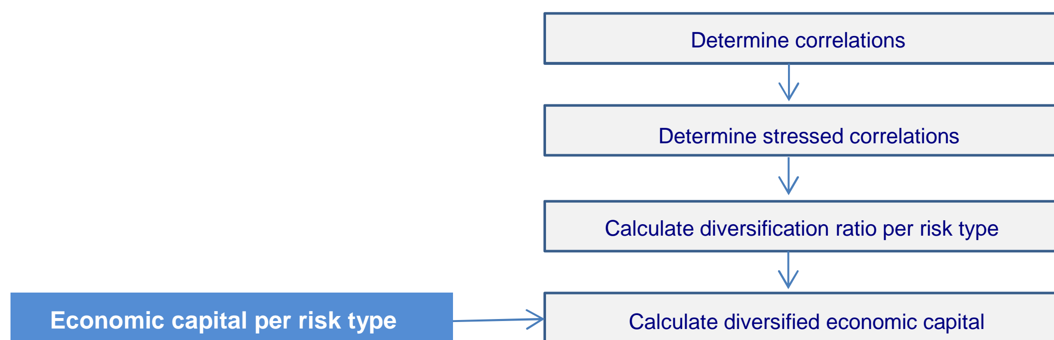
The following fundamental principles and definitions have been established for the model:

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

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

Aggregation model

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



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

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

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

Reporting Framework

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

Economic Capital and Regulatory Capital

Main risk management tools for ING Bank are Economic Capital (EC) and Regulatory Capital (RC). Both of these Capital metrics are used to determine the amount of capital that a transaction or business unit requires to support the economic risks it faces. RC is driven by methodologies prescribed by regulators whereas EC is driven by internally developed models.

Economic capital is a non-accounting measure which is inherently subject to dynamic changes and updates as a result of ING Bank's portfolio mix and general market developments. ING Bank has been and will continue recalibrating the underlying assumptions to its economic capital models, which may have a material impact on the economic capital values going forward.

The tables below provide ING Bank's Economic Capital and Regulatory Capital by risk type and business line. The main driver of the decrease in capitals compared to 2011 is the divestment of ING Direct US and ING Direct Canada in combination with the further derisking of the balance sheet. Excluding ING Direct US and Canada in 2011, the total EC for 2011 would have been EUR 24 billion and the total RC for 2011 would have been EUR 23.5 billion.

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

	Economic Capital		Regulatory Capital	
	2012	2011	**2012**	2011
Credit risk	**11,875**	14,365	**18,684**	22,474
Add-on credit risk	**4,248**			
Market risk	**6,326**	8,262	**772**	1,124
Business Risk	**1,837**	2,448		
Operational Risk	**1,763**	1,683	**2,836**	2,836
Total banking operations	**26,049**	26,758	**22,292**	26,434

Economic Capital (Bank diversified only) by business line combination

	Economic Capital		Regulatory Capital	
	2012	2011	**2012**	2011
Commercial Banking	**8,019**	9,726	**9,897**	11,615
Retail Banking Benelux	**4,155**	4,445	**5,679**	5,552
Retail Banking Direct & International	**6,518**	9,475	**6,028**	8,783
Corporate Line Bank (1)	**3,109**	3,112	**688**	484
Unallocated	**4,248**			
Total banking operations	**26,049**	26,758	**22,292**	26,434

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

Differences between RC and EC are mainly due to:

- The EC figures shown reflect all diversification effects within ING Bank, including risk reduction between the risk categories; while for RC no diversification is taken into account.
- The credit risk EC is lower than RC due to the fact that Economic Capital (EC) is defined as ING's own methodology for credit risk. It is the amount of capital that is needed at a minimum to cover for Unexpected Losses within a certain confidence level and a certain time horizon. Further credit risk EC includes transfer risk while RC does not;
- The market risk Economic Capital is higher than the Regulatory Capital primarily due to the inclusion of the interest rate risk banking books in Economic Capital. The market risk RC includes a stressed VaR charge, while EC does not; the EC figures take the diversification across risk types into account;
- The EC figures include Business risk, while RC does not;
- The operational risk Economic Capital is lower than the Regulatory Capital mainly due to the application of inter-risk diversification, whilst Regulatory Capital does not encompass inter-risk diversification; and
- A 99.95% confidence level is used for EC, while the confidence level is 99.9% for RC. Correcting for the difference in confidence level will lead to an EC figure that is lower than the RC figure.

In addition to the 'bottom-up' calculated credit risk EC, ING Bank has added EUR 4.2 billion to its internal Economic Capital framework for elements such as concentration risk and model risk. This amount is not yet allocated per business line.

The above risk metrics and risk appetite framework do not cover liquidity risk: the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities, at reasonable cost and in a timely manner, when they come due. ING Bank has a separate liquidity management framework in place to manage this risk, which is described in the Liquidity Risk section of ING Bank.

ONGOING CHANGES IN THE REGULATORY ENVIRONMENT

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

To accomplish this, regulations focus primarily at the following issues:

- The Basel III proposal more stringently aligns risk taking with the capital position of financial institutions via enlarged risk weights for counterparty credit risk. The Basel III proposal narrows the definition of core Tier 1 and Tier 1 capital, and limits a bank's leverage via a ratio that should become part of Pillar 1 of the Basel framework. The Basel Committee has also issued proposals for liquidity and funding requirements via the so-called Liquidity Coverage Ratio and the Net Stable Funding Ratio. The aim of the first metric is to monitor a bank's capability to survive a short-term liquidity stress, where the latter aims to ensure that long term asset activities are similarly funded.
- Apart from the above mentioned proposals, another aim is to reduce 'pro-cyclicality', to avoid that banks would be required to increase their capital in difficult financial times when it is most scarce. Lastly, there is a proposal to introduce additional capital requirements for counterparty credit risk. In addition, the Basel Committee and Financial Stability Board (FSB) are currently considering measures that may have the effect of requiring higher loss absorbency capacity, liquidity surcharges, exposure limits and special resolution regimes for 'systemically important banks' (SIBs) and so-called 'Global' SIBs (G-SIB). ING Bank has been designated as a global SIB by FSB and a domestic SIB by DNB.
- Separate from but in line with the Basel III proposal, on a country level local regulators are becoming more stringent on the maximum credit risk bank subsidiaries and branches are allowed to have on their holding companies. In the absence of a supranational harmonisation this leads to so-called trapped pools of liquidity, i.e. excess liquidity in a country that cannot merely be transferred (unsecured) to a central treasury in another country.

The Basel III proposals and their potential impact are semi-annually monitored via semi-annual monitoring exercises, where ING Bank participates in. Due to such monitoring exercises and on-going discussions within the regulatory environment revisions take place in the original Basel III proposals as for instance has been done for the Liquidity Coverage Ratio in January 2013. For European banks these Basel III requirements will be implemented through the Capital Requirement Directive (CRD) IV, which might deviate in its final state from the original Basel III requirements.

The Basel III accord was originally intended to enter its first phase of implementation on 1 January 2013. This has been extended by the regulators. Nonetheless, ING Bank has been preparing for the functioning of the key Basel III elements and was prepared to implement. Significant management actions have been undertaken on both the liquidity and capital front to adjust the business model and exposure to certain asset classes to minimise the impact of Basel III developments. Examples include reducing short-term funding and shifting significant derivative settlement to Central Clearing Parties. Although not all definitions and parameters of Basel III have been finalised, ING Bank has been making continuous impact analyses of the proposed changes. The overall effect of Basel III on ING Bank's capital and liquidity ratios, even before management actions, was considered to be lower than most peers. The key principles of Basel III have been included in both the Solvency and Liquidity Risk Appetite Framework that are continuously monitored by senior management.

Therefore, Basel III and the implications for ING Bank were the central theme in the January 2012 ING Investor Day. The strategy of the Bank focuses on effective balance sheet management in order to meet all the new requirements. The stricter capital requirements will be met by combining strong continued capital generation with RWA containment. To underpin this, ING Bank disclosed its ambition to reach a Basel III Core Tier 1 ratio in 2013 that is greater than 10%. Via strong capital generation and further continuing balance sheet optimisation efforts, also the Basel III Leverage Ratio will be met. To adhere to the new liquidity and funding requirements strong funds entrusted generation and increased long-term funding will be combined with reduced reliance on short-term professional funding and the transformation of the investment book into a liquidity portfolio.

RISK DEVELOPMENTS IN 2012

Liquidity risk

In 2012, funding and liquidity risk management continued to be an important topic for senior management and the Asset and Liability Committee (ALCO) Bank, as markets remained volatile in respect of the Eurozone uncertainties. External market and regulatory developments and internal financial developments are closely monitored. Regular stress testing and measurement of early warning indicators are, among others, used to provide additional management information. In 2012 the funding and liquidity risk appetite statements were updated. The appetite statement is set and allocated throughout ING Bank. In addition, funding and liquidity usage is steered by means of funds transfer pricing thus embedding funding and liquidity risk management in the total organisation. This all is part of global project that was started in 2011 on new frameworks for funding and liquidity risk management. The implementation of these frameworks will be finalised in the course of 2013.

Capital markets and money markets improved in the course of 2012 and ING Bank continued to have access to funding at acceptable pricing, sufficient long tenors and good volume. Short term professional funding was further reduced and partly replaced by long-term debt, as the bank continues to lengthen its funding profile as part of its balance sheet optimisation programme ahead of Basel III. ING Bank issued EUR 33 billion of long term debt in 2012. Growth in funds entrusted continued to develop favourably at Retail Banking, while within Commercial Banking deposits from corporate treasuries and assets managers decreased. Throughout the credit and liquidity crisis, ING has maintained its liquidity position within conservative internal targets. ING Bank's Loan-to-Deposit ratio, excluding securities that are recorded at amortised costs in loans and advances and the IABF government receivable, improved to 1.13.

Dutch Mortgages

In 2012 the Dutch housing market slowed down significantly due to economic downturn and political uncertainty regarding the housing market. The Dutch housing market is historically characterised by housing shortage, high income tax with deductibility of interest on mortgages, and tax driven mortgage products. Due to elections of a new government in September 2012 and the need of a reduction of the government deficit the tax-deductions where reviewed. During 2012 there was a lack of clarity of the new government plans and economic uncertainty resulting in households postponed buying houses, with a lowering impact on the Dutch house prices. As long as the government plans concerning the total housing market (including reform of the rental market) remain uncertain and consumer confidence is not restored, the housing market coming will not recover early 2013. Although the house prices decreased, the Dutch payment behaviour is good, reflecting in a slightly elevated but still low percentage of non-performing loans by the end of 2012. Given the significant amount of mortgages in our credit portfolio, ING Bank closely follows all developments related to Dutch housing market and its mortgage portfolio.

Business lending Benelux

ING Bank's Business Lending, defined as lending to corporates in the business line Retail Banking, is concentrated within the Benelux. The weak economic environment was reflected by increased risk costs and elevated percentage of non-performing loans. The Netherlands showed the same development as Belgium and Luxembourg, with increased non-performing loans in the categories Builders & Contractors, Food, Beverages and personal care and Transport & Logistics.

Real Estate Finance

ING Bank finances commercial real estate via Real Estate Finance (REF) in various countries over the world, although half of this portfolio is based in the Netherlands. Risk costs and non-performing loans in REF were elevated given deteriorating European commercial real estate markets. REF financing policy is based on cash flow generating prime real estate portfolio, senior secured facilities, relatively low starting LTV's and conservative covenant setting. Construction is less than 0.9% of the total portfolio and at least 70% is pre-sold/pre-rented.

Cybercrime

2012 saw an increase in the world-wide cyber threat and more stringent regulations being introduced regarding cyber security of e-banking (e.g. ECB's Recommendations for the security of Internet Payments). Under the auspices of the Management Board, a Cybercrime Task Force has been set up within ING to ensure a coordinated and effective response to the threat of cybercrime. The Cybercrime Task Force aims to improve knowledge sharing and to structure effective prevention, detection and incident response across ING Bank. The Cybercrime Task Force is chaired by CIO Bank and includes key e-business management, risk, anti-fraud and IT senior management representatives.

In 2012 we have further strengthened our external collaboration against cybercrime with the industry (e.g. national bank associations), law enforcement, government (e.g. Nationale Cyber Security Center) and Internet Service Providers (ISPs). At the beginning and the end of our measures is the customer: we are trying to make the customer aware of the cyber threats/risks and to collaborate with us for a safer internet.

Recovery and Resolution plans

As a consequence of the global financial crisis ING Bank has set up an all-encompassing recovery planning process to enhance the bank's readiness and decisiveness to tackle financial crises on its own strength. Furthermore in the course of 2012, DNB has requested ING Bank to prepare and submit information on the basis of which the Dutch Resolution Authorities will be able to develop a Resolution Plan. ING is diligently working towards providing this information and meeting the deadlines provided by DNB.

CREDIT RISK

The credit risk section provides information on how ING Bank manages, measures and monitors credit risk and will give an insight into the ING Bank portfolio from a credit risk perspective. Prior to providing insight into the portfolio, we will explain how ING Bank ensures that credit risk is properly addressed and managed within ING Bank.

The ING Bank business model is to be a strong predominantly European bank, with leading positions in attractive, stable home markets, with options for future growth beyond Europe. ING Bank primarily extends credit to two types of customers; Retail customers made up largely of individuals and small businesses and Commercial Banking made up of larger corporate, financial, and sovereign counterparties. In general, Retail customers tend to be served by country specific organisations while Commercial Banking counterparties are often multi-jurisdictional and even global. Therefore, it is important that the credit risk management department has both local product knowledge as well as understanding of global industries.

In order to properly assess, monitor, and manage the credit risks over such a broad spectrum of products, industries, and geographies, Credit Risk Management (CRM) is organised both locally and centrally. The local risk management teams have knowledge of specific geographic markets and the products and their risk characteristics. The central risk team focuses on more global industries and customers.

The central risk team is also responsible for setting the ING Bank credit risk policies and standards. The local and central credit risk teams strive to have a consistent risk appetite which is facilitated by a large number of job rotations and a robust credit risk infrastructure that supports the entire credit lifecycle.

The overall credit risk appetite framework allows ING Bank to manage the portfolio and avoid undesired concentrations of credit risk. CRM is supported by dedicated credit risk information systems and internal credit risk measurement methodologies for all types of counterparties. CRM creates consistency throughout the credit risk organisation by providing common credit risk policies, methodologies, and tools across the ING Bank. Credit risk managers use these tools and processes to manage credit risk within ING Bank.

Credit risk management has evolved into a multifactorial discipline and CRM has a responsibility to ensure a common understanding of the contribution of credit risk to ING Bank’s strategy and the diverse aspects of credit risk throughout ING Bank. To accommodate this CRM actively involves stakeholders from the business and other risk departments, but in addition CRM promotes assignments and exchange of employees to facilitate a shared understanding and create an environment of co-operation. CRM informs the ING Bank community about new developments and insights in multiple manners, ranging from presentations, workshops and news alerts.

Credit Risk Definitions

Credit risk is the risk of loss from the default and/or credit rating deterioration of counterparties (including bond issuers). Credit risks arise in ING Bank’s lending, financial market and investment activities. Credit risk exposure is the total amount of outstanding plus the unused portion of commitments. It can be measured on various levels, such as customer, legal or economic one obligor group, product, portfolio, customer type, industry, and country. Each level can in turn be broken down from the consolidated ING Bank NV level to a local branch/unit level. As the distribution of the exposures is of great importance in correctly managing the credit risk exposure, ING Bank has established the credit risk appetite and concentration framework.

CRM uses risk categories to differentiate between the different types of credit risk exposures. All products within ING Bank are aggregated to one of the following risk categories:

- **Pre-settlement risk**: arises when a counterparty defaults on a transaction before settlement and ING Bank has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk (potential or expected risk) is the cost of ING Bank replacing a trade in the market. This credit risk category is associated with dealing room products such as options, swaps, and securities financing transactions. Where there is a mutual exchange of value, the amount of credit risk outstanding is generally based on the replacement value (mark-to-market) plus a potential future volatility concept, using a 3-7 year historical time horizon and a 97.5% confidence level.
- **Money market risk**: arises when ING Bank places short-term deposits with a counterparty in order to manage excess liquidity. As such, money market deposits tend to be short-term in nature. In the event of a counterparty default, ING Bank may lose the deposit placed. Money market risk is measured as the notional value of the deposit, excluding any accrued and unpaid interest or the effect of any impairment.
- **Lending risk**: arises when ING Bank grants a loan to a counterparty, or issues guarantees on behalf of a counterparty. This includes term loans, mortgages, revolving credits, overdrafts, guarantees, letters of credit, etc. The risk is measured as the notional amount of the financial obligation that the counterparty has to repay to ING Bank, excluding any accrued and unpaid interest, discount/premium amortisations or impairments.
- **Investment risk**: is the credit default and risk rating migration risk that is associated with ING Bank’s investments in bonds, commercial paper, securitisations, and other similar publicly traded securities. This can be viewed as the worst-case loss that ING Bank may incur as a result of holding a position in underlying securities whose Issuer’s credit quality deteriorates or defaults. All investments in the banking book are classified in the investment risk category. The primary purpose of ING Bank’s investments in the banking books is for liquidity management.
- **Settlement risk**: is the risk that a counterparty will fail to deliver on financial markets (PS or MM) transaction/contract at Settlement and ING Bank could lose up to 100% of the value expected to be delivered. Settlement Risk arises when there is an exchange of value (funds or instruments) for the same value date or different value dates and receipt is not verified or expected until after ING has given irrevocable instructions to pay or has paid or delivered its side of the trade. The risk is that ING Bank delivers but does not receive delivery from ING Bank’s counterparty. ING manages Settlement Risk in the same way as other risks including a per borrower risk limit structure. However, because of the short term nature and per definition double count of Settlement Risk, ING Bank does not hold provisions or capital for specific Settlement Risk. Although a relatively low risk, ING increasingly uses DVP (Delivery versus Payment) and FITO (First in Then Out) payment techniques to reduce Settlement Risk.

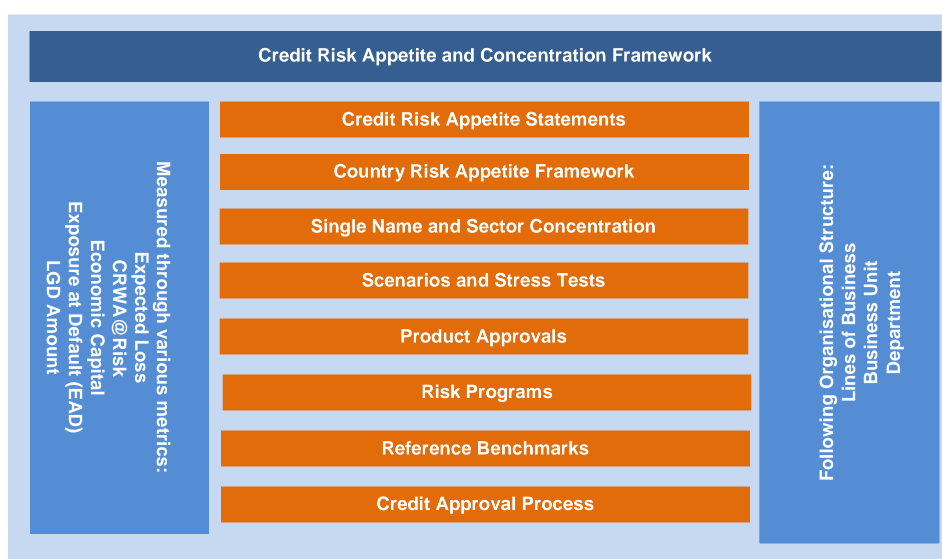
Governance
Credit risk management (CRM) within ING Bank belongs to the second line of defence (the front office being the first) and aligns the credit risk taking with the strategic planning of ING Bank. It is responsible for reviewing and managing credit risk including environmental and social risk for all types of counterparties. CRM consists of line credit risk managers who are responsible for their business lines and manage specific portfolios and experts who support both the line credit risk manager as well as the business with tools like credit risk systems, policies, models and reporting. The CRM General Manager is functionally responsible for the global network of credit risk staff and the heads of the credit risk management functions for the business lines and the corporate staff functions report directly to him.

ING Bank's credit policy is to maintain an internationally diversified loan and bond portfolio, while avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of the top-down risk appetite framework, which sets concentration limits for countries, individual counterparties and counterparty groups and investment activities. The aim is to expand relationship-banking activities, while maintaining stringent internal risk/reward guidelines and controls. To ensure a proper risk reward balance in our portfolios, the risk appetite framework is linked to the Medium Term Planning (MTP) process.

Credit analysis at portfolio level is a function of different concentration levels and various metrics like Economic Capital, Regulatory Capital, Exposure at Default, Probability of Default and Loss Given Default. The risk/reward is monitored and managed at portfolio level to ensure efficient use of ING Bank's capital. Credit analysis at facility level is also risk/reward-oriented in that the level of credit analysis is a function of the risk amount, tenor, structure (e.g. covers received) of the facility, and the risks entered into. Risk Adjusted Return on Capital (RAROC)-based tools are used internally to ensure a proper balance of risk and reward within the portfolio and concentration parameters. ING Bank's credit analysts make use of publicly available information in combination with in-house analysis based on information provided by the counterparty, peer group comparisons, industry comparisons and other quantitative techniques and tools.

Within ING Bank, the ultimate authority to set the risk appetite and approve or decline credit proposals resides with the executive board. The executive board has further delegated authorities, based on amounts and tenors to lower levels of the organisation. Transactions are approved via a dual signatory approval system that requires an individual sign off from both front office and credit risk management. For larger and higher risk credits a committee structure exists whereby the credit risk chair takes the final decision with support of the respective committee members, thereby ensuring accountability. Retail business units have delegated authority to decide within policies and mandates approved by CRM and any decisions outside those policies or above the delegated mandate require a specific credit risk approval.

Credit Risk Appetite and Concentration Risk Framework
The Credit Risk Appetite and Concentration Risk Framework enables ING to prevent undesired high levels of credit risk and credit concentrations within various levels of the ING portfolio.



Credit Risk Appetite
Credit risk appetite is the maximum level of credit risk ING Bank is willing to accept for growth and value creation. This credit risk appetite is linked to the overall Bank-wide Risk Appetite Framework. Articulating the credit risk appetite is a complex task that requires balanced views. It can be expressed in quantitative and qualitative measures. Having a credit risk appetite achieves:
- Clarity over the credit risks that ING Bank can strategically assume; Focused execution in balancing ING Bank's credit risk exposures within the boundaries of ING's strategy, target setting and prudent risk management;
- Consistent communication to different stakeholders;
- Guidelines how to align reporting and monitoring tools with the organisational structure and strategy;

- Alignment of business strategies and key performance indicators of business units with the overall ING Bank credit risk appetite by means of the MTP.

Credit risk appetite is present across different levels within ING Bank, at the portfolio level as well as transaction level. The various credit risk appetite components at the portfolio and transaction level together result in the credit risk appetite framework.

Credit risk appetite statements are defined top-down across the credit risk categories (pre-settlement, money market, lending, investment, but excluding settlement), and connected to ING Bank high-level risk appetite across all risk types (credit, market, business and nonfinancial risk). They consist of a set of high-level credit risk metrics; expected loss, economic capital, risk-weighted assets and exposure at default. For each credit risk metric a boundary is set that is cascaded down and monitored on a monthly basis. The adherence to the boundaries and the pro-active approach to manage the portfolio within the risk appetite boundaries are part of the key performance indicators of the business line managers and as such have a direct impact on their remuneration.

Concentration Risk Framework

The concentration risk framework consists of a number of different components to properly manage and control any concentration levels within the ING portfolio.

Country risk framework

Country risk is the risk specifically attributable to events in a specific country (or group of countries). Country risk is the risk of loss that ING Bank faces associated with lending, pre-settlement, money market and investment transactions in any given country or group of countries, as a result of country risk events. A country risk event can be described as any event or crisis, which relates mostly to large domestic economic, financial and political shocks, as well as transfer or exchange restrictions, affecting all counterparties in a specific country in an indiscriminate way. The occurrence of a country risk event may cause all counterparties in a country to be unable to ensure timely payments, despite their willingness to meet their contractual debt obligations. As such, country risk is an additional factor to be taken into account in the credit approval process of individual customers, as the country risk event probability may impact the default probability of individual counterparties.

To manage country risk effectively, ING Bank uses two components, which together form the country risk framework: The first component is to set a maximum economic capital consumption and the second component is to assign country reference benchmarks, which define the maximum appetite for credit risk, that ING Bank has per country to ensure that exposures and potential future losses do not exceed a certain agreed level. The country reference benchmark is based on the country’s GDP and the funds entrusted locally in that country. In countries where ING Bank is active, the relevant country’s risk profile is regularly evaluated, resulting in a country rating, which is used to set the country reference benchmark. Based on these two components country limits are set and exposures derived from lending, investment, pre-settlement and money market activities are then measured and reported against these country limits on a daily basis.

Single name and sector concentration

ING Bank has established the concentration risk framework in order to identify, measure monitor concentrations at portfolio and/or counterparty level. It consists of single name concentration: losses due to the unexpected jump-to-default of a single counterparty. Sector concentration (systemic risk): substantial increase of the ING Bank risk profile (expressed in increased risk weighted assets) due to the joint deterioration of a group of correlated counterparty/transactions, sensitive to the same external (macro-economic) factor(s) related to their geographic location, exposure class or industry. The risk metrics used for the single name concentration is the loss given default amount.

Scenarios and Stress Tests

Stress testing is a valuable risk management tool. Stress testing evaluates the bank’s financial stability under severe but plausible stress scenarios and assists in decision-making that assures the bank to remain a financially-healthy on-going concern after a severe event occurs. In addition to the bank-wide stress test framework as described in the risk profile section of ING Bank, CRM performs stress tests on a monthly basis in order to continually assess the portfolio risks and concentrations. These monthly stress tests are consistent with the stress scenario as established in the ING Bank wide credit risk appetite framework. The monthly stress tests are reviewed in the Credit Portfolio Committee (CPC) and potential management actions are proposed if necessary.

ING Bank performs periodical stress tests based on a standardised and pre-determined 1-in-10year-stress event (i.e. at 90% confidence level and 1 year horizon) which is similar to the one applied in the solvency risk appetite. Based on this confidence level, a through the cycle rating migration for the entire portfolio is simulated. For this simulated portfolio, provisions, RWA and EC are recalculated to assess what the combined impact of such a year would be. The additional CRWA that ING should allocate in such an event is named CRWA@ Risk. These stress test results are submitted to CPC on a periodical basis, in which the results are explained and discussed. If needed actions are formulated.

Next to the periodical pre-determined stress test related to CRWA@Risk, CRM performs ad-hoc stress tests based on severe but plausible scenarios. These stress tests can be for internal purposes or at the request of the regulators and are input for future Credit Risk Appetite setting. Stress testing is used as an additional safety net within CRM. Through stress tests the impact of severe but plausible downturn scenarios are determined, which might not be captured in the regular rating models (Probability of Default, Loss Given Default and Exposure at Default). Therefore, next to the Pillar 1 and Pillar 2 capital calculations, based on the results of various stress test, ING Bank ensures that adequate levels of capital (and liquidity) are available to sustain such severe but plausible scenarios.

Product Approvals
Across ING Bank the product approval and review process ensures effective management of risks associated with products. It ensures that sound due diligence is performed by relevant stakeholders to ensure that risks (credit, operational, legal etc.) are mitigated.

Risk Programs
Within ING we distinguish between risk programs for retail lending and risk programs for commercial lending business.

The retail risk portfolio program is defined as a set of policies and processes, which are laid down to manage a retail risk portfolio within a predefined risk appetite statement. A retail risk portfolio is defined as a group of sufficiently homogeneous credit assets, where:
- A consistent set of credit policies and processes for approving a high volume of counterparties and transactions could be applied,
- Exposures could be pooled and managed through a set of standard policies and procedures over its entire life cycle.

A risk appetite statement in the context of a retail risk portfolio program is a pre-defined set of minimum performance criteria required to be achieved for ING Bank business labels conducting retail risk portfolio program.

The commercial lending risk program is a detailed analysis of a defined product and/or industry that identifies the major risk drivers and mitigants, the internal business mandate, and proposes the minimum risk (including business) parameters – and potentially the maximum product and/or portfolio limit - to undertake that business. A risk program is always prepared by the Front Office responsible for the internal business mandate and requires an approval from the Global Credit Committee (unless specifically delegated to a region).

Reference Benchmarks
A reference benchmark defines the maximum appetite for credit risk per counterparty group. It is expressed as an EAD Exposure at the concentration risk level, which corresponds to an (maximum) internal capital consumption for credit risk. It is used as a tool in the credit approval process.

Credit Approval Process
The credit approval process ensures that individual transactions are assessed on a name-by-name basis. For each type of counterparty (corporate, banks/financial institution, structured products clients) there is a separate process. The line credit risk managers are organised along the business lines of ING Bank and are specialised in the relevant area of expertise. The credit approval process is supported by, amongst others, a credit approval system which ensures consistency and completeness; a risk rating (PD) system which contains all the risk rating models to ensure a proper rating is given to a counterparty and a limit and exposure monitoring system which subsequently feeds into the credit approval system. The rating model is used to indicate a counterparty's creditworthiness, and to determine the maximum risk appetite that ING Bank may have for a given type of counterparty (reference benchmark). The determination of the delegated authority (the amount that can be approved at various levels of the organisation) also depends on the risk rating. ING Bank has a rating system with in total 22 grades (1=highest rating; 22=lowest rating) and are split in the following categories:
- Investment grade (Risk Rating 1-10);
- Non-investment grade (Risk Rating 11-17);
- Problem Loan grade (Risk Rating 18-22);
  - Restructuring (Risk Rating 18-19)
  - Default (Risk Rating 20-22).

The rating grades categories 1 to 17 are in alignment with the risk grades used by S&P and Fitch/IBCA (AAA-CCC) as well as Moody's (Aaa-Caa1).

Problem Loan management
A problem loan is a loan where there is a reasonable probability that ING Bank may end up with a loss, unless ING Bank intervenes with specific and significant actions. In other words, in this category, an account or portfolio requires a more intensified approach, which may include renegotiation of terms and conditions and/or business/financial restructuring. Problem loans are managed by the Global Credit Restructuring (GCR) or by the Regional Restructuring Units (RRUs) in the various regions and network banks. GCR, which structurally falls under CRM, is the dedicated corporate department unit at the highest level, entrusted with the management of problem loans. Front Office, including mid- and back office functions, remain fully involved and committed to the management of GCR files. GCR's management of problem loans can be divided in:

I. Watch list: An assessment is made whether there may be deterioration in the risk reward relationship. At this stage, no specific and significant intervention from ING Bank is deemed necessary to ensure that the risk reward relationship improves. For severe cases additional monitoring takes place. Theoretically, accounts with watch-list status carry a risk rating of 1 to 19, but would typically have a rating of 15 to 17;
II. Restructuring: A credit enhancement process is needed to achieve a turnaround in the problem loan. This may involve financial and/or business workarounds with the objective of ultimately improving the risk profile. The (credit) relationship is maintained during and after the period of restructuring. Accounts with restructuring status can be rated anywhere in the 15-19 range but typically carry a risk rating of 18 to 19;
III. Recovery: An amicable or forceful exit from the (credit) relationship, where the objective is to lower the risk cost as much as possible. All Recovery status accounts are rated 20, 21 or 22. Based on expected cash flows for loans (above a certain threshold) rated between 20 – 22 specific, provisions are taken to minimise ING Bank's exposure.

	Regular	Watch List	Restructuring	Recovery
Possible ratings	1–19	1–19	15–19	20–22
Typical ratings	1–14	15–17	18–19	20–22
Deterioration in risk	Not significant	Significant	Significant	Significant
Significant intervention	Not required	Not required	Required	Required
Impaired	No	No	No	Yes
Account Ownership	Front Office	Front Office	Front Office	Front Office
Credit Risk Management	Regular	Regular	Credit Restructuring	Credit Restructuring
Primary Manager	Front Office	Front Office	Credit Restructuring	Credit Restructuring
Second Signature	Credit Risk Management	Credit Risk Management	Front Office	Front Office
Accounting provisioning	IBNR	IBNR	IBNR	INSFA/ISFA

Credit Risk capital and measurement

Credit Risk capital

Regulatory Capital (RC) is a law based prudent measure defined by regulators and serves as the minimum amount of Tier 1, Tier 2 and supplementary capital required to absorb for unexpected losses. RC is the minimum amount of capital (based on 99.90% confidence level) that ING Bank must hold from a regulatory perspective as a cushion to be able to survive large unexpected losses.

RWA COMPARISON

Comparison of RWA and risk weights across institutions is inherently challenging. A recent study classified differences in RWA among banks in 3 categories:
1. Risk based drivers that stem from the differences in underlying risk at the exposure/portfolio level and in business models/strategies including asset class mix.
2. Practice-based drivers including approaches to risk management and risk measurement.
3. Regulating environment such as supervisory practices, implementing laws and regulations including national discretion and accounting standards.

Risk Based Drivers

ING Bank portfolio is heavily dominated by secured lending especially in the areas of residential mortgages, structured finance, leasing and commercial real estate. Secured lending tends to have a much lower LGD, given the collateral involved, which is a key driver of RWA. Another key element of the ING business model is the focus on retail exposures collateralised by residential property. The regulatory formula for this exposure class tends to result in the lowest RWA, all other factors being equal.

Practice Based Drivers

ING Bank tries to have an 'early in early out' approach to troubled exposures. This means that ING has a very conservative default definition. This will have a direct impact on the level of RWA. For non-retail customers, ING uses a borrower rating which means that a customer will only have one PD regardless of the type(s) of transactions done with ING Bank. This also means that if one facility is in default, all facilities of the client are in default. ING Bank generally does not use a 'quarantine' period for defaulters. Once a customer is deemed to be performing, a non-default PD will be given to the borrower.

Regulatory Environment

ING Bank is regulated by many host supervisors; however the primary regulating entity in DNB. Several strict interpretations of the Basel Accord are enforced by DNB including the requirement to have at least 85% of the portfolio qualify as AIRB before allowing AIRB implementation. This prevents arbitrage between the different Basel approaches. DNB also has a strict 'significant change' policy that requires all changes to the Basel measurement above a threshold to be reviewed and approved by DNB.

Risk based drivers, practice based drivers and regulatory environment can have a substantial impact on the regulatory capital/RWA of a financial institution. These factors make it challenging to compare capital levels across banks. ING Bank continues to work with industry groups including EDTF to improve the transparent reporting of our capital calculations.

Economic Capital (EC) reflects ING Bank's own view on credit risk, which allows it to be used in decision making processes at transaction level, counterparty level and (sub) portfolio levels. Credit risk and transfer risk capital are calculated on all portfolios which contain credit or transfer risk, including investment portfolios. EC is the minimum amount of capital required to cover for unexpected losses within a 99.95% confidence level and a 12 months' time horizon. It is used throughout ING Bank in the transactional decision making process (mainly commercial banking), in risk adjusted counterparty and portfolio profitability measurement tools (commercial banking and retail), in investment and divestment decisions, in the country risk framework and in concentration risk management such as risk appetite statements (RAS) and the systemic risk reports (sector concentration report).

EC is an important ingredient for the risk adjusted return on capital (RAROC) ratio. RAROC is a risk adjusted profitability measure over economic capital and supports transaction decision-making processes (for example through the ING Bank loan pricer tool). RAROC allows measuring the risk adjusted return of different products and structures within different parts of the organisation along one and the same yardstick. Next to Pillar 2 based RAROC, within commercial banking, a Pillar 1 'sanity check' is performed on transaction level. This sanity check is a 'margin over credit risk weighted asset (CRWA)' ratio, which should exceed a pre-determined level (hurdle), which is tested in the Front Office 'green light committees'.

An important characteristic of the CCRM infrastructure and framework is that models are built for several purposes, including EC, RC and Loan Loss Provision. Since these rating models are broadly used throughout the ING Bank organisation it enforces the compliance to the Basel Use Test requirement.

In order to provide a short overview the main differences between RC and EC, within ING Bank are listed here below:

Conceptual differences between Regulatory Capital and Economic Capital

Regulatory Capital	Economic capital
Use of Regulatory Downturn PD values, which are floored for non-Sovereign exposures	Non-floored economic PD values
Regulatory downturn based LGD values, including a 10% Residential Mortgages LGD floor	Economic LGD values (without downturn factors and without Regulatory floor for Residential Mortgages)
Regulatory (Basel II based) confidence level of 99.90%	Linked to our Risk Appetite, a more conservative confidence level of 99.95% is used
Basel II Scaling-factor of 1.06 is used	No Basel II Scaling-factor is used
For most non-FM and non-trade related finance exposures a regulatory minimum tenor of 1 year is used, for all exposures a 12 month PD is used	For short tenor exposures, the actual tenor is used and for exposures shorter than 1 year the effective PD (not 12 months PD) is used
For OTC derivatives and Repo Like transactions, based on Current Exposure Method (CEM), risk weights are laid down in the law	For OTC derivatives and Repo Like transactions, risk weights are based on internal methodology
The best rated Sovereign exposures (Credit quality step 1, translated into: internal rated 1 up to and including 4) expressed in local currency are under the partial permanent exemption	EC is calculated for all Sovereigns based on the economic PD, LGD, EAD and remaining maturity
For Securitisations the Securitisations Framework is followed (external risk weights based on external ratings)	EC for Securitisations is calculated through the Corporate B2 methodology (based on internal PD, EAD, LGD values and remaining maturity)
CRWA for SA portfolios are based on Regulatory SA rules	For SA and AIRB portfolios the same INCAP methodology apply

EC is calculated using the economic values of rating models (PD, EAD and LGD). In line with regulatory requirements, so-called 'significant changes' to these rating models are communicated to the regulator for approval. Significant changes relate to the impact on CRWA (Pillar 1) or to the significance (size) of the model to the ING Bank portfolio.

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

	Economic Capital		Regulatory Capital	
	2012	2011	**2012**	2011
Credit risk	**11,875**	14,365	**18,684**	22,473
Add-on credit risk	**4,248**			

ING Bank also proposes several credit economic capital additions based on elements such as concentration and model risk. In 2012, EUR 4.2 billion of additional credit risk economic capital was proposed.

Credit Risk Measurement
There are two broad ways to measure credit risk within ING Bank's portfolio, depending on whether the exposure is booked under an ING office which is permitted by the DNB to use the Advanced Internal Rating Based (AIRB) approach, or if it falls under the Standardised (SA) approach. ING Bank does not use the Basel Foundation (FIRB) approach for any portfolio.

Standardised Approach
Unlike the AIRB approach, the standardised approach applies a fixed risk weight to each asset as dictated by the Financial Supervisory Authorities, and is based on the exposure class to which the exposure is assigned. As such, the Standardised Approach is the least sophisticated of the Basel II methodologies and is not as sensitive as the risk-based approach. Where external rating agency ratings are available, they may be used as a substitute to using the fixed risk weightings assigned by the Financial Supervisory Authorities. Because the underlying obligors are relatively small, the underlying obligors tend not to have external ratings.

Advanced Internal Rating Based (AIRB) Approach
There are four elements which drive the Basel II 'risk-based approach' to the determination of the capital base.
Probability of Default (PD): The first is the counterparty's probability of default, which measures a counterparty's creditworthiness in terms of likelihood to go into default. The result of this calculation attempts to measure the senior, unsecured standalone creditworthiness of an organisation without consideration of structural elements of the underlying transactions, such as collateral, pricing, or maturity. Each borrower should have a rating which translates to a PD.

Exposure at Default (EAD): The second element is the counterparty's exposure at default. These models are intended to estimate the outstanding amount or obligation at the moment of default in the future. Since the fact that a counterparty will go into default is not known, and the level of outstandings that may occur on that date is also not known, ING Bank uses a combination of statistical, expert and hybrid models to estimate the Exposure at Default. With the exception of guarantees and letters of credit, the EAD is always equal to or higher than the associated credit risk outstandings, under the assumption that counterparties tend to absorb liquidity from available credit resources before financial problems become apparent to the counterparty's creditors. The EAD is largely a function of the type of credit facility (revolving, overdraft, term) offered to the borrower.

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

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

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

$EL = PD * EAD * LGD$

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

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

Under the RBA, the risk-weighted assets (RWA) are determined by multiplying the amount of the exposure by the appropriate regulatory risk weights, which depend on:
- The external rating or an available inferred rating;
- The seniority of the position; and
- The granularity of the position.

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

Credit Risk Models
Within ING Bank internal Basel models are used to determine the PD, EAD and LGD for regulatory and economic capital. Bank wide, ING Bank has implemented more than 100 models, including various sub models that may be applicable for a specific portfolio.

There are three types of modelling which form the foundation of these PD, EAD and LGD models used throughout the bank.

- **Statistical models** are created where a large set of default or detailed loss data is available. They are characterised by a sufficient number of data points that facilitate meaningful statistical estimation of the model parameters. The model parameters are estimated with statistical techniques based on the data set available.
- **Expert models** are based on the knowledge and experience of experts from both risk management and front office staff and literature from rating agencies, supervisors and academics. These models are especially appropriate for 'Low Default Portfolios', where limited historical defaults exist; thereby reducing the reliability of a statistical model.
- **Hybrid models** contain characteristics of both expert and statistical models.

Next to the model choice, the definition of default is an important starting point for model building. ING Bank uses a framework that integrates elements of the regulatory definition of 'Default' and the loan loss provisioning indicators under IAS 39. The rationale is that several indicators are very close to the indications of an obligor's 'unlikeliness to pay' under Basel II and similar regulations. Integration of both frameworks makes it possible to use the regulatory risk components PD, LGD and EAD in the collective provisioning process under IAS 39, further enhancing ING Bank's compliance with the Basel II 'use test'. Key differences between the parameters used for Loan Loss Provisioning and Regulatory Capital calculations are that Regulatory Capital parameters are typically through the cycle while Loan Loss parameters tend to be more point in time. Additionally, the LGD for Regulatory Capital calculations is based on a down-turn LGD.

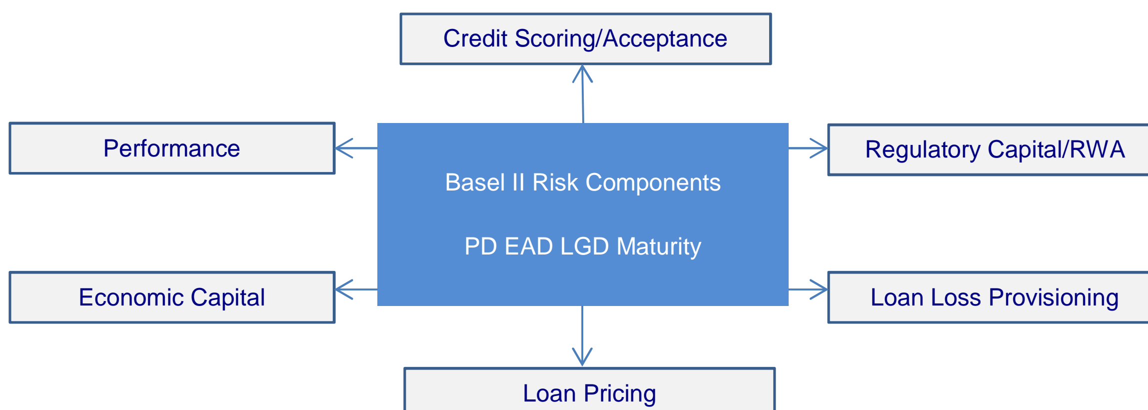
Pre Settlement (PS) measurement models.

For regulatory capital the Pre-Settlement (PS) exposure is calculated using a Marked to market (MtM) plus regulatory-based add-on tables. For internal capital purposes ING Bank uses two methodologies to calculate its Pre-Settlement (PS) exposures. Ideally, all parts of ING Bank would apply identical methodologies at all times. However, it is recognised that the ability to implement risk measurement methodologies is highly dependent on systems capabilities, and in certain cases the benefits of implementing a methodology may not be justified by the costs. Therefore more than one methodology is presently in use at ING Bank.

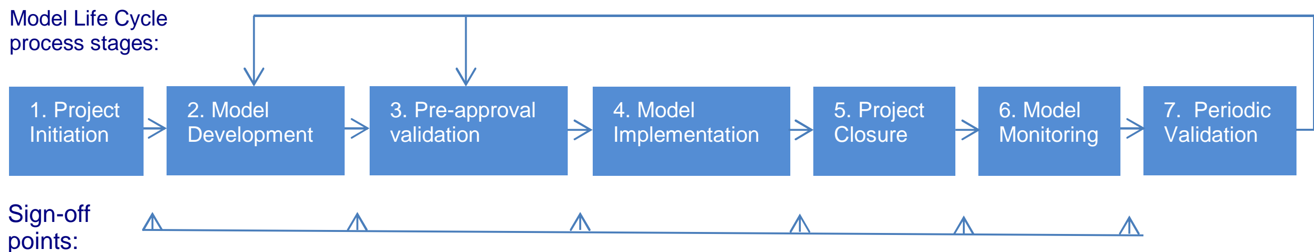
- **MtM plus model based add-on approach**: In this approach, the PS risk is calculated as the sum between the MtM of the trade and the model-based Add-on. The MtM fluctuates through the life of the contract. The model-based Add-on is product-specific, and takes into account remaining time to maturity, profiling per time-buckets etc. Add-ons are updated with a frequency that takes into account the major market changes. This methodology is used for pre-deal exposure assessment of all ING Bank financial markets products and for post-deal risk calculations for financial markets portfolios for which computational efforts and costs associated with implementation of Scenario Simulation approach are not justifiable;
- **Scenario Simulation approach (Monte Carlo approach)**: Scenario Simulation approach is the most complex of the methods for PS risk calculations. This approach is the only approach that fully takes into account the daily market conditions, including correlations between the risk factors and portfolio benefits. This approach is also referred to as Monte Carlo (MC) approach and is currently used for the largest volume of derivative products such as FX and interest rate derivatives. ING Bank is in the process of implementing this approach for more products. The monitoring of the PS exposures and the limit setting for the products within the scope of the MC approach are based on the exposures resulting from the MC approach, the pre-deal check exposure assessment is based on the MtM plus model add-on approach.

In addition to the two approaches ING recognises that certain trading products that are outside of this scope may be deemed insufficiently accurate. For example, highly structured or exotic derivative transactions may differ significantly from the generic transactions used to calculate the Add-ons. For the assessment of risk exposures of such complex products a bespoke calculation is made.

The figure below provides a high level summary of the application of model outcomes (PD, EAD and LGD).



Credit risk model governance
All PD, EAD and LGD models are built according to the ING Bank internal credit risk modelling methodology standards and model life cycle. After thorough review of the documentation by the Model Development Committee (MDC) and Model Validation (MV) the Credit Risk Committee (CRC) approves the models. Local model approval is delegated by the CRC to the MDC. Each model has both a credit risk and a front office co-sponsor. Both the MDC and the CRC have participation from both credit risk officers as well as the front office to ensure maximum acceptance by the organisation. The capital impact from the implementation of approved models is reported to the DNB in a quarterly report. In addition, MV validates each model on an annual basis. During such periodical validation the model performance is analysed via amongst others back testing. Most of the credit models reviewed by Model Validation show a conservative observed performance compared to predicted levels.



Credit risk rating process
In principle all risk ratings are based on a Risk Rating (PD) Model that complies with the minimum requirements detailed in the CRD, the DNB Supervisory Rules and EBA guidelines. This concerns all counterparty types and segments, including countries.

ING Bank's probability of default (PD) rating models are based on a 1-22 scale, which roughly corresponds to the same rating grades that are assigned by external rating agencies, such as Standard & Poor's and Fitch. For example, an ING Bank rating of 1 corresponds to an S&P/Fitch rating of AAA and a Moody's rating of Aaa; an ING Bank rating of 2 corresponds to an S&P/Fitch rating of AA+ and a Moody's rating of Aa1, and so on.

Risk ratings (PD) for performing loans (1-19) are calculated in ING Bank IT systems with internally developed models based on data either manually or automatically fed. Under certain conditions, the outcome of a manually fed model can be challenged through a clearly defined rating appeal process. Risk ratings for non-performing loans (20-22) are set on the basis of an approved subjective methodology by the global or regional restructuring unit. For securitisation portfolios, the external ratings of the tranche in which ING Bank has invested are leading.

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

Rating Models for retail counterparties are predominantly statistically driven and automated, such that they can be updated on a monthly or bi-monthly basis. Models for SME companies, and larger corporates, institutions and banks are manually updated, and are individually monitored on at least an annual basis.

Exposure classes
The Basel II Accord has developed the concept of 'Exposure Classes'. These are essentially groupings of credit risks associated with a common counterparty type or product type. For the AIRB Approach, most of the exposure classes have subcategories. ING Bank has applied the following definitions to determine Exposure Classes:
Governments include Sovereign Government entities, Central Banks and Basel II recognised Local/Regional Authorities as well as Supranational Organisations;
Institutions include all Commercial Banks, non-Bank Financial Institutions, such as Funds and Fund Managers, and Insurance Companies, as well as local and regional government entities not classified as governments;
Corporates includes all legal entities, that are not considered to be Governments, Institutions or Retail Other;
Residential Mortgages include all mortgage loans for residential properties that are not part of a securitisation; and
Retail Other includes all other credit obligations related to Retail SMEs, such as partnerships, one-man businesses and private individuals, such as consumer loans, car loans and credit cards.
Securitisations include securitisation programs for which ING Bank acts as an investor, sponsor or originator.

Under these exposure class definitions, it is possible for a private individual to be included under both residential mortgages and retail other. For other types of counterparties or issuers, there is no potential overlap.

The Pillar 3 disclosure provides detail of the ING portfolio classified by these Exposure Classes. This should be helpful for comparison with other AIRB banks. However, ING Bank does not manage its portfolio according to these exposure classes but based more on geography, customer segment, industry, and product. Therefore, additional portfolio breakdowns are also provided in Pillar 3 that reflect these management classifications of the portfolio.

Securitisations

ING Bank primarily plays three roles in its exposure to securitisations programs which are:

ING Bank as Investor

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

ING Bank as Originator

ING Bank originates own securitisation transactions for economic and regulatory capital purposes, as well as liquidity and funding purposes. Securitisations originated by a company may only be considered for balance sheet de-recognition when the requirements for significant credit risk transfer have been fulfilled. However, for a securitisation transaction to be recognised as for RWA reduction, risk transfer alone may be insufficient due to the increasing impact of the maturity mismatch formula. As a consequence, the RWA of the retained tranches for one of the transactions would be higher than the total RWA of the underlying pool before securitisation. In such cases the RWA calculation for the transaction is performed as if it was not securitised.

ING Bank as Sponsor

In the normal course of business, ING Bank structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients’ receivables or other financial assets to an SPV. The transactions are often funded by the ING Bank administered multi seller Asset Backed Commercial Paper (ABCP) conduit Mont Blanc Capital Corp. (rated A-1/P-1). Mont Blanc Capital Corp. continues to fund itself externally in the ABCP markets. In its role as administrative agent, ING Bank facilitates these transactions by providing structuring, accounting, funding and operations services. ING Bank also provides support facilities (liquidity and program wide enhancement) backing the transactions funded by the conduit. Mont Blanc is fully consolidated into the ING Bank financial accounts.

Credit Risk tools

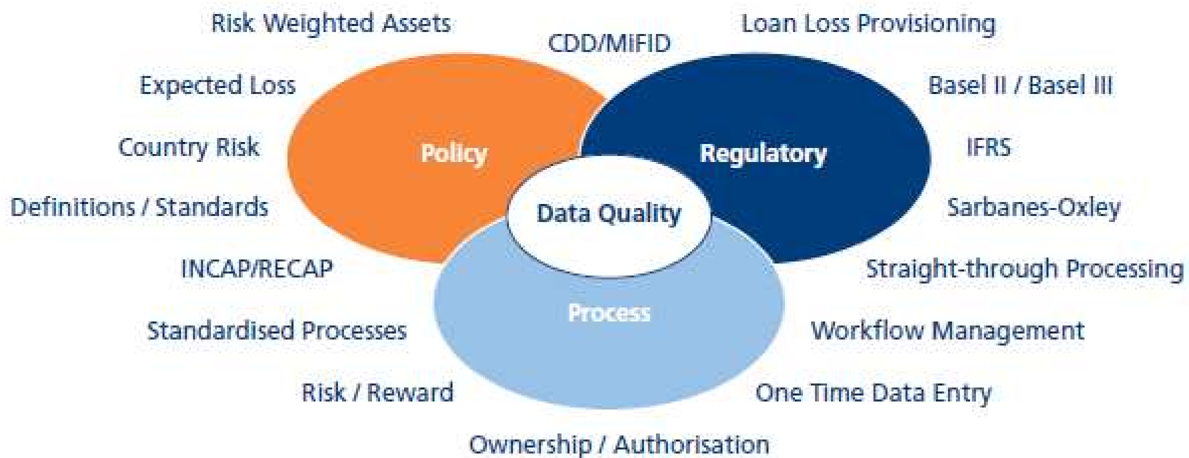
Credit Risk Policies

ING credit risk policies provide for generic rules and roles and responsibilities that should always prevail within ING Bank. While allowance is given for discretionary variation to comply with local regulations, such variations must always comply with the content of a global ING Bank wide credit risk policy and approved by (local) credit risk. All credit risk policies are created according to the policy development standards and reviewed on a regular basis. Each policy has a credit risk sponsor and is created in close consultation with the various stakeholders within credit risk, front office and where applicable other corporate departments. All policies require approval by the Credit Risk Committee (CRC) and where applicable (for instance in case of determining delegated authorities) by the Global Credit Committee (GCC).

Credit Risk systems and data standards

The acceptance, maintenance, measurement, management and reporting of credit risks at all levels of ING Bank is accomplished through promotion of single, common credit risk data standards and the integration into common credit risk tools that support standardised and transparent credit risk practices. ING has chosen to develop the credit risk tools centrally. Corporate Credit Risk Management (CCRM) together with the Bankwide Customer Domain (BCD) jointly designs and operates the tools, the process and the environment while the ING units (the users) provide the data input and various other ING departments and/or external regulators provide the rules, policies, and methodology embedded in the various tools.

The philosophy is to re-use the same data for all purposes, in an integrated approach that overlaps the three key areas of ING Bank policy, the regulatory environment in which we operate, and the daily processes which are active throughout the group. Overlapping these three areas is the essential requirement to ensure data quality standards and discipline remains high. The integrated approach is illustrated in the following diagram.



The CCRM/BCD customer-centric data model conforms strongly to the three core business needs of ING Bank:

- To transact efficiently with our counterparties;
- To be compliant with our internal and external obligations; and
- To monitor the risks we undertake.

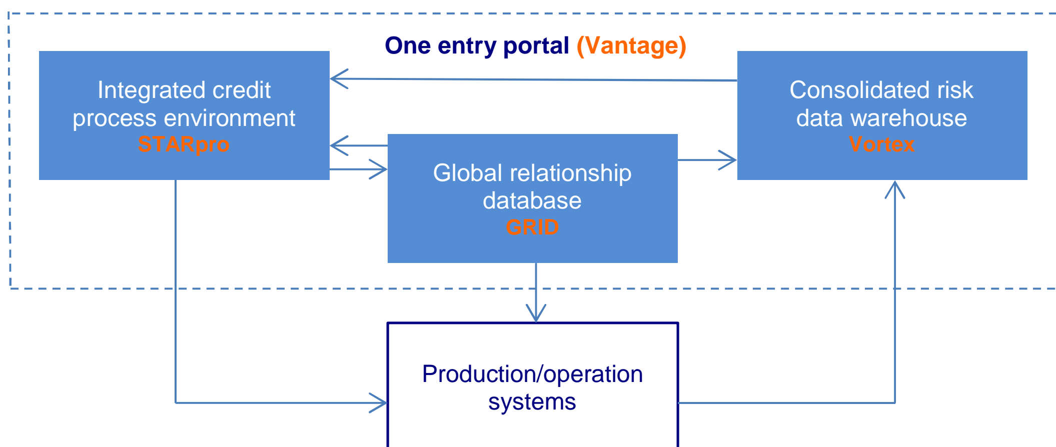
The customer-centric approach ensures that ING Bank can react quickly to changing regulations, business needs and best practices in our dealings with our clients and prospects.

Guiding principles regarding data elements

The guiding principles are that each data element should only be input once, and should have a clear 'home' system or database which is leading throughout all uses of that data element. From the data 'home', the data may then be redistributed to other systems or databases that may require that data in an automated straight through processing (STP) method. Depending on the need, the daa may be transferred in real time, near real time, daily, weekly or monthly. This frequency of underlying data transfer is independent from the data transfer that may take place for consolidation purposes.

The main credit risk systems are all accessed through a portal (Vantage), which also provides global tools for the customer domain (GRID), compliance, and regulatory reporting.

ING Bank main credit risk systems



Global relationship database (GRID)

One global counterparty database for all incorporated entities throughout the world, GRID is leading for all data related to an organisation, such as ownership (legal and economic), legal name, industry code, town and country of residence, town and country of incorporation, customer type, and customer segment. The data in GRID is static, which implies that it does not change (on average) more than once per year.

The organisations in GRID include ING Bank's counterparties and prospects. GRID also contains private individuals, who are in scope when they are Private Banking customers, Ultimate Beneficiary Owners (UBOs), related parties, or cover providers to businesses. GRID also contains ING's contacts.

GRID's cross-reference functionality is essential. It enables us to link company information from different internal and external databases, with different local identification codes. Additionally, ING Bank automatically uploads credit ratings (from S&P, Fitch, and Moody's) and any (new) security ID (CUSIP, SEDOL, Bloomberg ID, or ISIN) on a daily basis, based on this cross-reference structure.

To ensure data integrity, GRID is reconciled on a weekly basis to over 17 external databases. Internally, GRID feeds data to 108 databases and additionally reconciles data for 122 systems.

ING Bank consolidated risk data warehouse (Vortex)

Vortex was built based on the credit risk requirements, which means it thinks, calculates and reports based on this concept. Vortex has three main functions and three main purposes. The three main functions of Vortex;

- Credit Risk Data Warehouse covering close to 100% of ING Bank credit risk exposure;
- Calculation Engine: Vortex calculates country risk, large exposure, exceptions, average limit/Outstanding, provisions, economic capital and regulatory capital;
- Provide reports at a transactional, organisational, counterparty, department or ING Bank entity level.

The three main purposes of Vortex;

- Analysis for decision makers;
- Compliance: Vortex is compliant and meets the requirements set by the regulators;
- Disclosure: Vortex delivers reports to external rating agencies and investor relations.

Integrated credit process environment (STARpro)

STARpro is an integrated suite of applications, which manages various workflow processes related to counterparty on-boarding for most of the commercial and business banking activities. STARpro is actually a series of interrelated functions that are required to seek approval, such as:

- Financial statements import and projection analysis;
- Establishing and appealing risk ratings;
- Customer due diligence (CDD) Risk Level determination;
- MiFID classification determination;
- Environment and social responsibility reviews
- Determining loan pricing;
- Seeking credit risk approval (the analysis);
- Administration of (standardised) documentation;
- Problem loan management and determining the level of ISFA provisions;
- Document management (an electronic library);
- Research reports from external rating agencies (S&P, Fitch, Moody's, and Graydon) as well as internal equity research;
- STARpro automatically receives organisation data from GRID and exposure information from Vortex.

The Financial Statements module provides the user with the ability not only to register a company's financial statements in a common (IFRS-based) format, but also to project the company's future financial position as a result of the transactions contemplated. This allows the common view on the company's financial status to be communicated throughout ING and to form a consistent basis on decision making processes relying on financial information. This data is then aggregated and presented on the (read-only) browser-based Financial Statements component of STARpro. Financial Statements data is automatically forwarded to Risk Rater, where it is incorporated into one of the various probability of default rating models. Risk Rater contains two kinds of rating models:

- Automated, whereby the data for a large number of counterparties is automatically processed from the source systems on a periodic (usually monthly) basis to determine new risk ratings; and
- Manual ratings, which are calculated on an individual basis and where the user is required to also answer additional subjective questions in order to create a rating.

Once a rating is approved the rating results are forwarded in real time to GRID. GRID then redistributes the rating (update) to the subscribing systems.

The Loan Pricer module is used to price loans and investments. It accesses existing data from within Vantage for existing deals and uses this data in the loan pricing component, a tool which assists the user in structuring and optimising a deal, while determining if the transaction meets ING Bank's internal risk/reward requirements. Functionality includes the ability to create and compare different scenarios, and to search for break-even values.

The Approval Package module supports the credit approval process by automating the creation and management of credit application documents and routing them to reviewers and approvers. Approval Package is the tool that collects the data from all of the other modules (including data received from other STARpro modules and all exposure data from Vortex), in order to put together the credit application package. For annual reviews, the user is required to check the existing data (sourced from their local tools via Vortex), and make any requested changes. For new deals, the user (usually an account manager) inputs the entire deal structure (using local source system codes) directly into Approval Package. The tool then has a workflow function to guide the credit application through the credit approval process.

The Problem Loans module is used to create provisions for organisations where the rating is set to 20, 21 or 22 and the outstanding is equal or bigger than the threshold (in general 1 million Euro, in individual cases or for certain units, the threshold could be lower). It also records detailed information on organisations in default. In addition the Problem Loan tool supports the problem loan provisioning process by automating the creation of problem loan applications and routing provisioning proposals to designated reviewers and approvers. It also provides a centralised ING Bank-wide repository for problem loan applications. All relevant policies, regulations and methodologies are as much incorporated in the systems as possible, providing an integrated approach.

Credit Risk reporting

Credit risk reporting is a crucial element of credit risk management. Regulators and ING Bank's management increasingly recognise the value of risk-reporting systems and accessibility of data to monitor trends as well as to keep consistency and credibility in published data. A dedicated credit risk reporting department addresses various reporting requirements as well as key reporting principles.

Role of reporting department

The credit risk reporting department contributes in the following ways to CRM:
- Provides periodic overviews of credit capital, migration of risk weighted assets, concentration overviews by industry/sector/counterparty names required or requested by the DNB and other European regulators;
- Participate in the various exercises/simulations conducted by regulators and other policy-makers by being transparent in the data and analysis shared, to allow useful results and work towards more stable and efficient financial markets;
- Provides senior management and other risk departments an insight showing trends and quantitative as well as qualitative analysis in material risk areas within ING Bank in a comprehensive and simplified manner to facilitate informed decision-making;
- Addresses ad hoc requests from regulators, analysts and rating agencies and other external stakeholders which are driven by current market events impacting specific regions, portfolios or counterparties;
- Serves as a control function by analysing various portfolios and comparing them to certain risk policies. In addition, significant monthly portfolio changes are analysed and reviewed.

ING Bank's reporting principles

The Basel Committee on Banking Supervision (BCBS) released a consultative paper in June 2012, entitled 'Principles for Effective Data Aggregation and Risk Reporting'. The paper stems from a recommendation made by the Financial Stability Board (FSB) and outlines 11 key principles for global systemically important banks to follow. ING Bank has done a self-assessment and rates itself satisfactory or better on all principles. Nonetheless, gaps have been identified in certain sub-portfolios and actions are being planned to further improve the credit information technology and reporting. The following are the key principles based on which this information is obtained and shared:
- Accuracy: Reports made by analysts are peer-reviewed, management reviewed, reconciled with other publications for consistence and validated by responsible departments.
- Timeliness: Up to date information is provided to stakeholders in a timely and dynamic manner to ensure relevance and usefulness in this quickly changing economic environment;
- Completeness: ING Bank's reporting tools capture and aggregate all credit risk data across the banking group providing a complete overview within the depth and scope of ING Bank's operations and risk profile;
- Adaptability: Reporting systems and tools are enabled with various filters and options which allow the reporting department to quickly aggregate risk data to meet a broad range of ad hoc requests;
- Auditability: Data, sources and methods used for reporting are maintained in a proper and clear manner which is audited by external sources to ensure credibility and efficiency.

Credit Risk Portfolio

ING Bank's credit exposure is mainly related to traditional lending to individuals and businesses followed by investments in bonds and other securitised assets. Loans to individuals are mainly mortgage loans secured by residential property. Loans (including guarantees issued) to businesses are often collateralised, but can be unsecured based on internal analysis of the borrowers' creditworthiness. Bonds in the investment portfolio are generally unsecured. Securitised assets such as Mortgage Backed Securities and Asset Backed Securities are secured by the pro rata portion of the underlying diversified pool of assets (commercial or residential mortgages, car loans and/or other assets) held by the security's issuer. The last major credit risk source involves pre-settlement exposures which arise from trading activities, including derivatives, repurchase transactions and securities lending/borrowing and foreign exchange transactions.

Risk rating buckets per line of business

Risk rating buckets are defined based upon the quality of the exposures in terms of creditworthiness, varying from investment grade to problem grade expressed in S&P, Moody's and Fitch/IBCA equivalents.

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

		Commercial Banking		Retail Banking Benelux		Retail Banking International [2]		Corporate Line		Total ING Bank	
		2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
1	(AAA)	**2.9%**	2.9%	**0.0%**	0.0%	**7.6%**	9.6%	**0.8%**	6.1%	**3.3%**	4.5%
2-4	(AA)	**12.6%**	17.7%	**5.1%**	4.2%	**16.0%**	16.0%	**80.5%**	81.9%	**12.5%**	13.8%
5-7	(A)	**19.3%**	20.4%	**5.8%**	5.1%	**21.2%**	17.8%	**9.0%**	10.5%	**15.0%**	15.0%
8-10	(BBB)	**25.5%**	24.6%	**42.6%**	42.8%	**26.7%**	29.2%	**0.8%**	0.7%	**31.1%**	31.3%
11-13	(BB)	**25.4%**	22.4%	**34.6%**	37.3%	**20.9%**	15.9%	**0.2%**	0.3%	**26.7%**	24.1%
14-16	(B)	**8.9%**	8.2%	**6.2%**	5.4%	**5.5%**	8.1%	**0.4%**		**6.8%**	7.3%
17-22	(CCC & Problem Grade)	**5.4%**	3.8%	**5.7%**	5.2%	**2.1%**	3.4%	**8.3%**	0.5%	**4.6%**	4.0%
		100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

(1) Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities. 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.

The relative shifts in rating classes 1 and 17 – 22 for Corporate Line are the results of the run off of certain ING securitisation programs and the inclusion of parts of the ING Direct ALT-A portfolio in the Corporate Line after the sale of ING Direct US, respectively. On a total portfolio level, in absolute numbers, these changes are negligible.

Credit Risk types

Within the Lending portfolio, by nature the largest risk category with 78%, there was an upward shift towards rating classes A and AA. In these buckets a noticeable shift in outstandings was seen from Central Governments to Private Individuals, in line with ING's continuous focus on core clients. In the Investment portfolio there was a shift to better risk categories across the Institutions portfolio. Bond investments especially in Southern Europe were actively de-risked. The decrease in the AA bucket for Money Market is directly related to less deposits given to the Dutch and North American central banks. The decrease in the AAA bucket for Investment is directly related to the divestment of Direct US and Direct Canada.

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

		Lending		Investment		Money Market		Pre-settlement		Total ING Bank	
		2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
1	(AAA)	**1.4%**	1.6%	**12.9%**	18.9%	**9.8%**	1.4%	**3.5%**	2.9%	**3.3%**	4.5%
2-4	(AA)	**6.3%**	5.2%	**45.3%**	38.3%	**35.5%**	71.6%	**11.0%**	17.0%	**12.5%**	13.8%
5-7	(A)	**10.7%**	9.4%	**18.2%**	23.9%	**35.7%**	19.3%	**54.9%**	50.9%	**15.0%**	15.0%
8-10	(BBB)	**36.1%**	37.8%	**11.4%**	13.3%	**13.4%**	2.7%	**17.4%**	18.5%	**31.1%**	31.3%
11-13	(BB)	**31.6%**	31.5%	**9.3%**	2.2%	**5.4%**	4.9%	**10.1%**	8.2%	**26.7%**	24.1%
14-16	(B)	**8.4%**	9.7%	**1.1%**	0.4%	**0.2%**	0.1%	**1.9%**	1.7%	**6.8%**	7.3%
17-22	(CCC & Problem Grade)	**5.5%**	4.8%	**1.8%**	3.0%	**0.0%**	0.0%	**1.2%**	0.8%	**4.6%**	4.0%
		100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

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

Risk industry concentration

ING Bank uses a common industry classification methodology based on the NAICS system (North American Industry Classification System). This methodology has over 1,500 detailed industry descriptions, which are aggregated into 22 industry classes at the highest level. Certain countries require ING Bank to report locally based on other industry classification methodologies, which are generally derived from the NAICS classifications presented here. Residential mortgages are generally only extended to private individuals.

As part of the focus on core clients, ING Bank further reduced its relative exposure to central governments and banks and the financial sector while growing the private individual and corporate portfolios. The category Central Banks reduced considerably as less excess liquidity was deposited at Central Banks.

Risk concentration: ING Bank portfolio, by economic sector [(1)]										
	Commercial Banking		Retail Banking Benelux		Retail Banking International		Corporate Line		Total ING Bank	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Private Individuals	**0.0%**	0.0%	**75.4%**	75.3%	**58.4%**	55.0%			**42.9%**	41.2%
Commercial Banks	**12.8%**	16.2%	**0.2%**	0.2%	**12.3%**	11.1%	**9.2%**	14.9%	**8.1%**	9.8%
Real Estate	**14.9%**	13.0%	**4.6%**	4.5%	**1.1%**	0.9%			**7.0%**	6.2%
Non-Bank Financial Institutions	**11.1%**	10.7%	**0.9%**	1.1%	**8.3%**	14.5%	**10.6%**	4.5%	**6.8%**	9.4%
Central Governments	**9.7%**	10.7%	**0.9%**	0.9%	**4.6%**	6.6%	**79.5%**	48.5%	**6.7%**	6.5%
Natural Resources	**13.3%**	10.9%	**0.4%**	0.4%	**0.7%**	0.4%			**4.9%**	4.1%
Transportation & Logistics	**6.9%**	5.9%	**1.2%**	1.3%	**0.2%**	0.2%			**2.9%**	2.5%
Central Banks	**6.0%**	9.6%	**0.1%**	0.1%	**2.2%**	3.3%		30.7%	**2.8%**	4.6%
Lower Public Administration	**0.5%**	0.4%	**1.9%**	1.4%	**5.9%**	4.4%			**2.6%**	2.1%
Services	**3.4%**	3.3%	**3.1%**	3.3%	**0.5%**	0.3%		0.5%	**2.4%**	2.2%
Food, Beverages & Personal Care	**3.5%**	3.0%	**2.1%**	2.1%	**1.1%**	0.6%		0.0%	**2.3%**	1.9%
General Industries	**3.4%**	3.3%	**1.4%**	1.5%	**1.4%**	0.8%	**0.4%**		**2.1%**	1.9%
Builders & Contractors	**2.7%**	2.4%	**1.9%**	2.0%	**1.3%**	0.8%			**2.0%**	1.7%
Other	**11.8%**	10.6%	**5.9%**	5.9%	**2.0%**	1.1%	**0.3%**	0.9%	**6.6%**	5.9%
Total	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

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

Country Risk

In 2012 a more comprehensive Country Risk Framework was implemented which resulted in enhanced disclosure of country risk information. For comparison reasons, we have used the same framework settings for the 2011 figures.

The largest relative geographic area of growth was Rest of Europe which was mainly due to increased exposure to Private Individuals in Turkey and Poland. Germany was the second region in terms of relative growth which was also due to increased exposure to Private Individuals.

In line with ING Bank's de-risking strategy, the portfolio developments in the Americas showed the biggest relative decline due to the sale of ING Direct US and ING Direct Canada. Exposure in the Netherlands continued to decline mainly due to decreased exposure to the Dutch Central Bank.
Exposure continued to grow in core home markets of Europe, while declining in North America due to the sale of the units ING Direct US and Canada in the course of 2012. This also had a large relative effect and far outweighed any currency movements.

Largest economic exposures: ING Bank lending portfolio, by geographic area [(1)]										
	Commercial Banking		Retail Banking Benelux		Retail Banking International		Corporate Line		Total ING Bank	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	**2011**	**2012**	2011
Netherlands	**15.5%**	18.6%	**72.5%**	73.7%	**0.6%**	3.4%	**76.6%**	83.4%	**31.1%**	29.1%
Belgium	**8.0%**	7.5%	**25.7%**	24.3%	**0.6%**	0.3%	**0.3%**	0.5%	**11.5%**	9.6%
Germany	**4.0%**	4.2%	**0.2%**	0.1%	**39.2%**	25.5%	**2.2%**	5.4%	**12.6%**	10.4%
Rest of Europe	**45.1%**	41.6%	**1.3%**	1.2%	**36.3%**	27.8%	**10.6%**	8.0%	**27.7%**	25.4%
Americas	**15.0%**	16.1%	**0.2%**	0.2%	**1.0%**	28.0%	**10.3%**	2.6%	**6.2%**	15.7%
Asia/Pacific	**11.8%**	11.5%	**0.1%**	0.1%	**22.3%**	15.0%	**0.0%**	0.1%	**10.7%**	9.5%
Rest of World	**0.6%**	0.5%	**0.0%**	0.4%	**0.0%**	0.0%	**0.0%**	0.0%	**0.2%**	0.3%
Total	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

(1) Geographic areas are organisation based and for private individuals based on country of residence.

Credit Risk Mitigation

As with all financial institutions and banks in particular, ING Bank is in the business of taking credit risks in an informed, controlled and measured fashion. As such, the creditworthiness of our customers, trading partners and investments is continually evaluated for their ability to meet their financial obligations to ING Bank. ING Bank uses different credit risk mitigation techniques, of which entering into Master Agreements, Collateral Agreements and CDS contracts are the main techniques used.

Compensation and master agreements

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

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

The use of Central Clearing Parties (CCPs) is becoming an increasing element of the derivative business. CCPs do not really mitigate the counterparty risk. Instead, the credit risk is shifted from Counterparties to CCPs. By year end 2012 the notional Pre-Settlement exposure that was cleared via CCPs increased by 50%.

Collateral policies

During the assessment process of creating new loans, trading limits, or making investments, as well as reviewing existing loans trading positions and investments, ING Bank determines the amount and type of collateral, if any, that a customer may be required to pledge to ING Bank. Generally, the lower the perceived creditworthiness of a borrower or financial counterparty, the more collateral the customer or counterparty will have to provide. Within counterparty trading activities, ING Bank actively enters into various legal arrangements whereby ING Bank and/or counterparties may have to post collateral to one another to cover market fluctuations of their relative positions. Laws in various jurisdictions also affect the type and amount of collateral that ING Bank can receive or pledge. The type of collateral which is held as security is determined by the structure of the loan or position. Consequently, since ING Bank's portfolio is diversified, the profile of collateral it receives is also diversified in nature. The one exception is residential mortgages which comprise a significant part of the lending portfolio. Per definition, residential mortgages are collateralised by housing. ING Bank maintains the residential mortgage collateral in its centralised data base and in most cases uses external data to index the market value.

As part of its securities financing business, ING Bank entities actively enter into agreements to sell and buy back marketable securities. These transactions can take many legal forms. Repurchase and reverse repurchase agreements, buy/sellback and sell/buyback agreements, and securities borrowing and lending agreements are the most common. The amount of marketable securities that ING Bank held as collateral under these types of agreements was EUR 88.4 billion at 31 December 2012 and EUR 74.0 billion at 31 December 2011. Overall open securities financing trades showed a small increase at year end 2012 compared to year end 2011. These amounts exclude the cash leg of the respective transactions, as well as any pledges of securities under Tri-Party agreements (as the underlying is not directly pledged to or owned by ING Bank). As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or repledged in other (similar) transactions. ING Bank is obliged to return equivalent securities in such cases.

Repossession policy

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

Credit derivatives

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

Credit Covers

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

Collateral

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

In the table below the residential mortgage portfolio, the mortgage collateral amounts and the commercial banking related exposures and its attached collaterals are shown. Please note that the figures shown for the AIRB portfolio are based on official regulatory settings, amongst others resulting in collateral values before haircuts, as, if and when applicable. The exposure classes shown are based on Basel II Accord exposure classes. ING Bank records collateral values per facility: for the AIRB portfolio, these figures are based on original cover values, although some business units attempt to update to actual market values. This is inherently difficult in volatile markets. Some facilities have various levels of collateral; others have no collateral at all. Looking at the total figures may not reflect the collateral value per facility.

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

The following table shows the regulatory credit risk exposures at default and cover values per line of business: Retail Banking (comprising both Benelux, Direct & International) and Commercial Banking. Exposures for Retail Banking are reported for the most relevant retail product being Residential Mortgages while the remaining regulatory exposures at default are classified as Retail SME Retail.

Exposures at default for Commercial Banking are reported for the most relevant exposure classes being Institutions, Corporate and Central Governments and Central Banks. Regulatory credit risk exposure at default is inclusive of both on balance and off balance sheet exposures, and of all risk categories.

For each product or category, the cover amounts are then reported for the most relevant collateral categories being Mortgages and Eligible Financial Collateral (including cash and securities), and for the most relevant Promises category being Guarantees. The remaining collaterals and promises are included in the category Other.

In 2012, ING Bank changed the way it allocated guarantees at the request of DNB. The goal was to ensure that no guaranteed risk weight is lower than the risk weight of the guarantor on an unsecured basis. In order to ensure this calculation, ING removed two conservative cover allocation methods related to guarantees. Previously, guarantees were allocated by borrower group instead of facility and a maximum of 100% of the facility was used for guarantees. These two elements have been eliminated in 2012. In addition, ING Lease has begun classifying certain purchase obligations as guarantees. The net effect of these changes is that the amount of guarantees in 2012 is not directly comparable with the 2011 level.

Performing Assets – Cover values including guarantees received - AIRB Portfolio based**

	READ*		Total Credit Covers*****		Mortgages****		Eligible Financial Collateral		Guarantees***		Other	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	**2011**	**2012**	2011	**2012**	2011
Retail												
Residential Mortgages	**289,044**	335,099	**445,727**	505,991	**412,926**	465,778	**n.a**	n.a	**32,636**	39,971	**165**	242
Retail SME	**34,764**	35,987	**31,424**	29,855	**14,604**	16,201	**764**	776	**7,338**	3,897	**8,718**	8,980
Total Retail	**323,808**	371,086	**477,151**	535,846	**427,530**	481,979	**764**	776	**39,974**	43,868	**8,883**	9,222
Commercial												
Institutions	**85,226**	99,703	**14,271**	10,183	**82**	90	**92**	406	**13,528**	9,079	**569**	609
Corporate	**243,508**	265,030	**203,263**	186,030	**79,458**	82,195	**16,518**	12,965	**36,922**	28,965	**70,365**	61,904
Central Governments and Central Banks	**84,462**	107,613	**1,731**	2,879	**135**	83	**3**	12	**1,520**	2,726	**73**	58
Total Commercial	**413,196**	472,346	**219,265**	199,092	**79,675**	82,368	**16,613**	13,383	**51,970**	40,770	**71,007**	62,571
Total	**737,004**	843,432	**696,416**	734,938	**507,205**	564,347	**17,377**	14,159	**91,944**	84,638	**79,890**	71,793

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

The cover tables show a breakdown of ING Bank's retail and commercial portfolios. The Residential Mortgages portfolio relates to private individuals and small and medium sized enterprises. The growth in this portfolio was mainly driven by Germany. After the sale of ING Direct USA and ING Direct Canada, ING Bank's residential mortgage portfolio outstandings decreased to approximately 39% of ING Bank's credit outstandings.The Financial Institutions portfolio is comprised of commercial banks and non-bank financial institutions. Corporates range from large enterprises to small and medium sized companies. Central governments and central banks consist of all governmental layers, from local to national and central banks. The decrease in this portfolio was mainly driven by exposure in The Netherlands.

Loan-to-Value (LTV)

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

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

ING Bank's residential mortgage portfolio outstandings amount to EUR 296 billion, making up 39% of the total ING Bank credit risk outstandings. The average LTV of the total residential mortgage portfolio amounts to 79% (2011: 75%).

In the cover table below the performing and nonperforming Residential Mortgages in the Retail SA portfolio are shown, together with the original cover values.

Cover values Residential Mortgages - SA Portfolio based

	READ*		Mortgages**	
	2012	2011	**2012**	2011
Retail				
Residential Mortgages Performing Assets	**11,334**	10,528	**26,216**	25,342
Residential Mortgages Problems Assets	**26**	16	**93**	106
Total Residential Mortgages	**11,360**	10,544	**26,309**	25,448

* Regulatory Exposure At Default based on Basel II Accord.
** Based on original cover value.

Credit quality

Since the beginning of the crisis, increases in past due obligations, impaired loans, provisions and problem loans in general have occurred in the ING credit risk portfolio. Due to the continued economic pressure and low investor appetite, the restructuring of files is getting more complicated and as a result, the average turnaround time of the files at Global Credit Restructuring has increased. In the work out practice, ING faces an increasing number of situations where the traditional Plan A is not a realistic possibility. Plan A generally consists of an amicable restructuring agreement with the present owner and, sometimes, the executive management, based on debt reduction, additional collateral or external equity versus improved conditions and risk/reward profile for the bank. Other cases demand another arrangement or a Plan B – a lender led solution where the bank(s) temporarily take ownership or take the company through, prepackaged, insolvency to find a new strategic partner, which can add value in terms of liquidity, synergies and management. Successful restructuring outcomes are more difficult to achieve.

Past-due obligations

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

Credit quality: ING Bank portfolio, outstandings

	2012	2011
Neither past due nor impaired	**712,020**	849,283
Past due but not impaired (1–90 days) [(1)]	**6,579**	6,649
Impaired [(2)]	**14,928**	13,382
Total	**733,527**	869,314

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

Aging analysis (past due but not impaired): ING Bank portfolio, outstandings [1]	2012	2011
Past due for 1–30 days	**5,350**	5,455
Past due for 31–60 days	**1,142**	1,111
Past due for 61–90 days	**87**	83
Total	**6,579**	6,649

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

ING Bank considers past due loans to be those loans where any payment of interest or principal is more than one day past due. The methodology is principally extended to loans to private individuals, such as residential mortgage loans, car loans, and other consumer loans. For business loans (governments, institutions, corporates), ING Bank has adopted a policy to classify the obligor as a problem loan as quickly as possible upon the occurrence of a payment default. This can even occur before a payment default has taken place. Therefore, the concept of past due loans does not exist for these types of obligors (and hence the reason why certain exposure classes show no figures).

As a general rule, ING Bank considers business loans as non-performing after a payment default of fourteen days. This is much stricter than required under the Basel 2.5 definition.

Forbearance

Forbearance activities are activities that are employed in order to maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. Such arrangements include extended payment terms, a reduction in interest and/or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures and other modifications. Forbearance may be an effective measure to avoid default, foreclosure or repossession, but there remains a risk that default, foreclosure or repossession may still occur, despite forbearance being offered.

ING Bank applies forbearance activities to a limited extent in accordance with its Retail Loan Modification policy. Each ING Bank business unit that applies forbearance activities has established clear criteria to determine a client's eligibility for a loan modification, procedures to verify a client's representations and specific approval mandates. Such criteria, procedures and mandates are approved by local credit risk management. Credit risk management monitors the performance of clients with modified loans at least on a monthly basis.

Clients that are offered a loan modification, and who have accepted such modification, are assigned a specific risk rating and PD. A loan modifications is, on itself, not considered as a credit default trigger, but may be applied to loans that are in default based on other triggers. For significant loan modifications, the difference between the net present value of expected future cash flows before and after the modification is charged to the profit and loss account and added to the loan loss provision. All modified loans are flagged in the credit risk systems. Loan modifications include one or more of the following (i) tenor extension, (ii) temporary interest-only payments, (iii) loan consolidation and (iv) refinancing.

In certain circumstances ING grants borrowers postponement and/or reduction of loan principal and/or interest payments for a temporary period of time to maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. When such postponement and/or reduction of loan principal and/or interest payments is executed based on credit concerns it is also referred to as 'forbearance'. In general, forbearance represents an impairment trigger under IFRS. In such cases, the net present value of the postponement and/or reduction of loan and/or interest payments is taken into account in the determination of the appropriate level of loan loss provisioning as described below. If the forbearance results in a substantial modification of the terms of the loan, the original loan is derecognised and a new loan is recognised at its fair value at the modification date.

ING Bank does not have a wide spread forbearance practice leading to financial losses in its business units. Most of the renegotiated loans are typically not impaired – which is valid for all loans where the renegotiated terms are (still) based on current market rates and contractual agreed cash flows are expected to be collected in full during the life of the loan. Modifications of loans which do not affect payment agreements, such as restructuring in relation to loan elements including collateral, structure and (waivers of) covenant rights, are not seen as sufficient indicators of impairment in themselves.

In Corporate Banking, (potentially) problematic loans are typically assessed on an individual basis and the occurrence of an impairment (or Basel II) default trigger – including the 'unlikely to pay' default trigger. This assessment is done on a quarterly basis, and will lead to the calculation of a loan loss provision whenever ING Bank estimates that not all contractual cash flows will be collected over time – in which case the loan asset is considered no longer 'money good.'

In Retail Banking, the (re)modified loans are segregated from the other parts of the loan portfolio for collective impairment assessment to reflect the possibility of higher losses in this segment and to recognise the financial loss that already has occurred – e.g. the contractual agreed interest rate reduction for a period of time. The applicable Model PD's and LGD's for these loan portfolios are – also on a quarterly basis - monitored whether they still reflect the historical and also latest loss observations – and will be adjusted when this is no longer the case.

ING knows three different types of loan assets in which a (definite, non-recoverable) financial loss was incurred.

- Corporate Banking: Troubled Debt Restructuring (risk rating 20)
- Corporate Banking: Fair Value Adjustment (risk rating better than 20)
- Retail Banking: (re)Modified Loans to Private Individuals (mostly Mortgages)

ING defines a loan as a Troubled Debt Restructuring (TDR) when a combination of the following is applicable (i) the loan is already impaired, (ii) NG Bank will or is likely to incur a loss by means of concessions agreed with the Borrowers and (iii) The company will not be liquidated, i.e. can be restructured and made financially healthy again. Within ING Bank, TDRs have a risk rating of 20. Impaired Borrowers that are unable to reach a consensual restructuring will either repay or will likely end up in liquidation and, in the latter case, be risk rated 21 or 22 (and are not considered to be TDR). Likewise all (potentially) problematic Borrowers, regardless of label being Watch list, Restructuring or Recovery, and where ING has not (yet) agreed to a concession leading to a financial loss, are not considered to be TDRs.

In all three cases, ING has incurred, or will incur a financial loss, which was accepted for non-commercial reasons. In the TDR case, the (loan loss) provision will be at least equal to the financial loss incurred.

Corporate Banking: Troubled Debt Restructurings
The total portfolio of loans classified as TDR amounted to EUR 1.2billion in 2012.

Corporate Banking: Troubled Debt Restructuring		
Region	**2012**	2011
UK	**533**	536
Netherlands	**479**	276
Germany	**98**	102
India	**73**	52
Poland	**53**	29
Italy	**14**	15
Austria	**4**	4
Russia	**2**	3
Czech Republic	**1**	2
Total	**1,257**	1,019

Corporate Banking: Fair Value Adjustment
There are loan situations where we have entered into a troubled debt restructuring (and have incurred a financial loss) but where we expect the Borrower to fully perform the restructured debt service. In such a case, the Borrower may be upgraded to a regular/performing Risk Rating – implying that the restructured debt is money good – while the loss is reflected in a Fair Value Adjustment to the original asset. In such a case the original loan asset will be derecognised and administered/rebooked as a new loan however with a lower carrying value than the original loan value – the difference being the fair value adjustment. As per 2012, ING Bank recognised EUR 189 million (2011: EUR 97.2 million) of Fair Value adjustments on EUR 1.3 billion of original exposure (EUR 1.1 billion in 2011) for the Corporate Lending.

Corporate Banking: FVA on Corporate Loans		
Region	**2012***	2011*
UK	**730**	553
Spain	**485**	485
Total	**1,215**	1,038

* Outstandings at moment of FVA.

Retail Banking: (re)Modified Loans to Private Individuals
ING Bank applies forbearance activities to a limited amount in accordance with the Retail Loan Modification policy. Under this policy, each ING bank business units should have clear criteria to determine a client's eligibility for a loan modification, procedures to verify client's presentation and specific approval mandates. Credit Risk Management monitors the performance of clients with modified loans at least on a monthly basis. All modified loans are flagged in the credit risk systems. Clients that are offered a loan modification, and who have accepted such modification, are assigned a specific risk rating and PD.

In the Retail Banking environment the (re)modified loan will normally reflect a fair value adjustment as in the Corporate Banking environment. In most cases, the (re)modification will lead to an interest reduction during the tenor of the loan. The financial loss, expressed as Net Present Value loss (or again Fair Value Adjustment), will be calculated as the difference between the market conform interest and the actual agreed interest x the tenor of the (re)modified loan, or NPV((Market Interest - Contractual Interest) x tenor in years). The outcome of this calculation will be deducted from the original carrying value of the loan, the original loan asset will be derecognised and replaced by a new FVA asset with a lower carrying value, reflecting the financial loss incurred.

As per 2012, ING Bank Retail reported EUR 291 million (EUR 1.6 billion in 2011) of Loan Modifications:

Retail Banking: Remodified Loans, outstandings and number of clients					
		Outstanding		Clients	
Region	Customer Segments	**2012**	2011	**2012**	2011
Belgium	Consumer Lending & Mortgages	**139**	127	**913**	725
Australia	Mortgages	**60**	43	**265**	196
Spain	Mortgages	**52**	30	**304**	173
UK	Mortgages	**25**	12	**65**	35
Italy	Mortgages	**7**	6	**62**	54
Romania	Consumer Lending & Mortgages	**5**	12	**316**	566
Poland	Consumer Lending & Mortgages	**2**	1	**327**	173
Luxembourg	Mortgages	**1**		**3**	1
Netherlands*	Mortgages	**n.a**		**n.a**	
Turkey	Consumer Lending & Mortgages		1	**19**	182
US	Mortgages		1,364		3,417
Germany	Consumer Lending & Mortgages				
Total		**291**	1,596	**2,274**	5,522

* ING Domestic Bank Netherlands has a loan modification policy where modified customers are considered in default. These loans are tracked as defaulters and not under the Retail Loan Modification policy. These clients are not included in the above table. This is a conservative approach as most of these clients are current on their obligations. ING is considering to transfer these clients from the default category to remodified loans in order to provide better comparison to other Dutch mortgage providers and other international markets. As per 31 December 2012, the number of modified loans which are tracked as defaulters at ING Domestic Bank Netherlands is around 3,000, which represents around EUR 0.6 billion in outstanding amount.

Impaired loans

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

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

Impaired Loans: ING Bank portfolio, outstandings by economic sector (1)		
	2012	2011
Private Individuals	**4,370**	4,790
Real Estate	**3,723**	2,671
Builders & Contractors	**1,087**	774
Transportation & Logistics	**954**	797
Food, Beverages & Personal	**846**	784
General Industries	**649**	819
Services	**550**	718
Other	**2,749**	2,029
Total	**14,928**	13,382

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

The largest sector remained private individuals and is a function of the large mortgage portfolio of ING Bank. The sale of ING Direct Canada and especially ING Direct US reduced the amount of private individuals in default. On the contrary, the amount of exposure to real estate customers in default increased sharply during 2012. This was largely the result of the deterioration of commercial real estate markets in many countries where ING is active.

Provisions

There are three types of provisions that have to be made and accounted for:

- **Individually Significant Financial Asset (ISFA) Provisions**: for those loans where specific, individualised provisions are still required. These are generally loans that exceed the threshold amount. The threshold amount varies per business unit, but generally is nil in the international units, and EUR 1 million in the 'home markets'. These provisions are made using an estimated future recovery methodology and then applying a net present value concept. The future cash flows are based on the restructuring officers' best estimate of when/if recoveries will occur. Recoveries can be from any source, such as the sale of collateral, on-going cash flows, sale of a business/subsidiary, etc. ISFA provisions are all calculated using a common tool across ING Bank.
- **Incurred But Not Recognised (IBNR) Provisions**: are made for the 'performing' loan portfolio as an estimate or proxy for the losses/defaults that may have already occurred in the portfolio, but which ING Bank has not yet determined or recognised. These provisions are based on a modified expected loss methodology. The primary modification is that the PD time horizon (12 months) is shortened to periods of 3, 6, or 9 months, depending on the type of obligor. Generally, the larger the obligor, the shorter the PD time horizon. IBNR provisions are calculated centrally using a common tool across ING Bank.
- **Individually Not Significant Financial Asset (INSFA) Provisions**: are made for acknowledged problem loans (ratings 20-22) that are below the threshold amount. Due to their small size, the IFRS-EU rules permit a statistical approach to measuring these provisions. Therefore, the calculation is based on the same statistical formula that is used to determine IBNR Provisions and is also calculated centrally using a common tool across ING Bank.

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

ING Bank holds specific and collective provisions of EUR 3,415 million and EUR 1,336 million, respectively (2011: EUR 3,040 million and EUR 1,133 million respectively), representing the difference between the amortised cost of the portfolio and the estimated recoverable amount discounted at the effective rate of interest. In addition, there is EUR 753 million (2011: EUR 777 million) in provisions against the performing portfolio. The 2011 figures are including ING Direct USA and Canada.

Provisions: ING Bank portfolio [1]

	Commercial Banking		Retail Banking Benelux		Retail Banking International		Total ING Bank	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Opening Balance	**2,039**	1,855	**1,751**	1,641	**1,160**	1,699	**4,950**	5,196
Changes in the composition of the group		-3			**-13**	-565	**-13**	-568
Write-offs	**-717**	-373	**-793**	-494	**-172**	-437	**-1,682**	-1,304
Recoveries	**41**	66	**90**	37	**11**	9	**142**	112
Increase/(decrease) in loan loss provision	**955**	479	**833**	603	**337**	588	**2,125**	1,670
Exchange or other movements	**-14**	15	**-17**	-36	**14**	-134	**-17**	-156
Closing Balance	**2,304**	2,039	**1,864**	1,751	**1,337**	1,160	**5,505**	4,950

(1) The 2011 figures are excluding ING Direct USA.
The 2012 figures are excluding ING Direct UK held for sale.

The economic distress had its impact on the development of the risk costs in 2012. Since 4Q11, risk costs have remained at elevated levels.

Large parts of the Investment portfolio and real estate development exposures are not part of the loan book and thus evaluated for impairment instead of provision. The Global Impairment Meeting is a quarterly process that reviews all assets that qualify against the IFRS impairment test.

Credit Covers Problem Assets

The table hereunder shows the cover values per credit risk category classified based on Retail and Commercial Banking products. In the ING Bank master scale which ranges from 1 being the best rating to 22 being the worst rating, Problem Assets are the Assets with ratings in the range 20–22. All other are called Performing Assets and are shown in the table below.

Problem Assets – Cover values including guarantees received - AIRB Portfolio based**

	READ*		Total Credit Covers*****		Mortgages****		Eligible Financial Collateral		Guarantees***		Other	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	**2011**	**2012**	2011	**2012**	2011
Retail												
Residential Mortgages	**3,605**	4,072	**4,232**	4,206	**3,949**	3,979	**n.a**	n.a	**281**	223	**3**	5
Retail SME	**1,661**	1,503	**2,100**	1,199	**923**	843	**30**	8	**854**	148	**293**	261
Total Retail	**5,266**	5,575	**6,332**	5,405	**4,872**	4,822	**30**	8	**1,135**	371	**296**	266
Commercial												
Institutions	**769**	784	**4**	4					**4**	4		
Corporate	**9,142**	7,493	**8,812**	6,194	**4,627**	3,320	**353**	485	**1,127**	397	**2,704**	1,990
Central Governments and Central Banks	**1**	1										
Total Commercial	**9,912**	8,278	**8,816**	6,198	**4,627**	3,320	**353**	485	**1,131**	401	**2,704**	1,990
Total	**15,178**	13,853	**15,148**	11,603	**9,499**	8,142	**383**	493	**2,266**	772	**3,000**	2,256

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

Please see above analysis regarding collateral and other covers for analysis.

MARKET RISK

Market risk is the risk that movements in market variables, such as interest rates, equity prices, foreign exchange rates, credit spreads and real estate prices, negatively impact the bank's earnings, market value or liquidity position. Market risk either arises through positions in trading books or through the banking (non-trading) book positions. The trading positions are typically held short-term, while the banking book positions are intended to be held in the long-term (or until maturity) or for the purpose of hedging other banking book positions.

Governance

Within ING Bank, market risk (including liquidity risk) falls under the supervision of the ALCO function with ALCO Bank as the highest approval authority. ALCO Bank determines the overall risk appetite for market risk. The ALCO function is regionally organised. The business lines Retail Banking (both Benelux and International) and Commercial Banking are represented within the respective regional and local ALCO's. The ALCO structure within ING Bank facilitates top-down risk management, limit setting and the monitoring and control of market risk. This ensures a correct implementation of the ING Bank risk appetite.

The Market Risk Management department (MRM) is the designated independent department that is responsible for the design and execution of the bank's market risk management functions in support of the ALCO function. The MRM structure recognises that risk taking and risk management to a large extent occurs at the regional/local level. Bottom-up reporting allows each management level to fully assess the market risk relevant at the respective levels.

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

Model Disclosure: Economic Capital for Market Risk

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

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

Economic Capital for market risk for the mortgage portfolios within ING Retail Banking (both Benelux and International Banking) and ING Commercial Banking is calculated for embedded option risk (e.g. the prepayment option and offered rate option in mortgages). The embedded options are hedged using a delta-hedging methodology, leaving the mortgage portfolio exposed to convexity and volatility risk.

Real estate price risk includes the market risks in both the investment portfolio and the development portfolio of ING Commercial banking. The real estate price risk for the investment portfolio is calculated by stressing the underlying market variables.

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

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

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

	Economic Capital [1]		Regulatory Capital	
	2011	2010	**2011**	2010
Market risk	**6,326**	8,262	**772**	1,124

(1) This includes model risk

The market risk Economic Capital is higher than the Regulatory Capital primarily due to the inclusion of the interest rate risk in banking books in Economic Capital. The main drivers for the decrease in market risk Economic Capital are the sale of ING Direct US and to a lesser extent due to divestments in the real estate portfolio. The decrease in market risk Regulatory Capital is due to position changes and more volatile scenarios dropping out of the VaR calculation.

Market Risk in Trading Books

Within the trading portfolios, positions are maintained in the professional financial markets. These positions are often the result of transactions with clients and may serve to benefit from short-term price movements. Market risk arises in the trading portfolios through the exposure to various market risk factors, including interest rates, equity prices, foreign exchange rates and credit spreads.

Governance

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

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

Fair values of financial trading assets and liabilities

Fair values of financial assets and liabilities that are quoted in active markets are determined by using quoted market prices. Where quoted prices are not available, other pricing sources and valuation techniques are used to determine fair value.

Other pricing sources can be independent market vendors, brokers or market makers, or recent transactions. The range of prices obtained from these pricing sources can diverge. The choice of one or the other pricing source can therefore result in different estimates of fair value. Selecting the most appropriate price within this range requires expertise and judgement.

Valuation techniques range from discounting of cash flows to valuation models. Such models may be based on relevant factors such as the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour. Some of these price factors require various assumptions which imply that valuation models are subjective by nature. According to what valuation technique is used and what assumptions are made, the obtained fair value can be different.

All valuation techniques used are subject to a model governance framework. Model governance refers to a set of policies and procedures that have to be strictly followed and that cover the complete lifecycle of a model, i.e. its development, validation, approval, implementation and maintenance. The pillars of model governance are independent validation and periodic review. Such a review aims to determine whether a model still is appropriate for its intended use. Where models are used for valuation, there can be uncertainty on the assumptions of the underlying models and/or parameters. In those cases where significant uncertainty on assumptions arises, a model risk valuation adjustment is applied.

In general, positions are valued taking the bid price for a long position and the offer price for a short position. In cases where positions are marked at mid-market prices, a fair value adjustment is calculated.

To include credit risk in the fair valuation, ING applies both credit and debit valuation adjustments. Own issued debt and structured notes that are valued at fair value are adjusted for credit risk by means of a debit valuation adjustment. Additionally, derivatives valued at fair value are adjusted for credit risk by a credit valuation adjustment. This credit valuation adjustment is of a bilateral nature; both the credit risk on the counterparty as well as the credit risk on ING are included in the adjustment. All market data that is used in the determination of the CVA is based on market implied data. Additionally, wrong-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty decreases) and right way risk (when exposure to a counterparty is decreasing and the credit quality of that counterparty increases) are included in the adjustment. ING applies CVA also to for pricing credit risk into new external trades with counterparties. All credit and debit valuation adjustments and their exposures are managed centrally on a global level.

Market Risk Management Product Control has the role to identify or challenge the pricing sources as well as determining the parameters that will be used in the valuation models. When using valuation techniques, the identified sources used for the calculations are independently challenged, reviewed and validated on a regular basis, most of it daily. In order to guarantee the highest quality of the used market data, ING uses a single in house developed infrastructure. Information is received from external data vendors (e.g. Bloomberg, Reuters and others) and plausibility checks are in place to determine the correctness and consistency of the data. Price testing is performed on listed products to assess whether the process of valuation has led to an appropriate fair value of the position.

In this context, a global and local parameter committee have been set up. Finance, Market Risk Management Product Control and Front Office are represented in these committees and discuss numerous topics regarding the product valuation and decide on the outcome of price testing as well as valuation adjustments.

To secure segregation of duties between Front Office and Market Risk Management Product Control, the systems for pricing and price testing are secured in order to prevent unauthorised access.

Reference is made to Note 30 ‘Fair value of financial assets and liabilities’ for the basis of the determination of the fair values of the financial instruments and related sensitivities.

Model Disclosure of Trading Risk Measures

Value at Risk

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

Limitations

VaR has some limitations. VaR uses historical data to forecast future price behaviour. Future price behaviour could differ substantially from past behaviour. Moreover, the use of a one-day holding period (or ten days for regulatory capital calculations) assumes that all positions in the portfolio can be liquidated or hedged in one day. In periods of illiquidity or market events, this assumption may not hold. Also, the use of 99% confidence level means that VaR does not take into account any losses that occur beyond this confidence level.

Back testing

Back testing is a technique for the on-going monitoring of the plausibility of the VaR model in use. Although VaR models estimate potential future results, estimates are based on historical market data. In a back test, the actual daily result is compared with the 1-day VaR. In addition to using actual results for back testing, ING Bank also uses hypothetical results, which measure results excluding the effect of intraday trading, fees and commissions. When the actual or hypothetical loss exceeds the VaR an ‘outlier’ occurs. Based on ING Bank’s one-sided confidence level of 99% an outlier is expected once in every 100 business days. In 2012, like in 2011, there was no occurrence where a daily trading loss exceeded the daily consolidated VaR of ING Commercial Banking. ING Bank reports the results of this back testing to DNB on a quarterly basis.

Basel 2.5 / CRD III
As of 31 December 2011 the Basel requirements on Stressed VaR and the Incremental Risk Charge (Basel 2.5) have come into force in European legislation (CRD III), complementing the use of VaR. ING follows this framework for its regulatory capital calculations since Q4 2011.

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

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

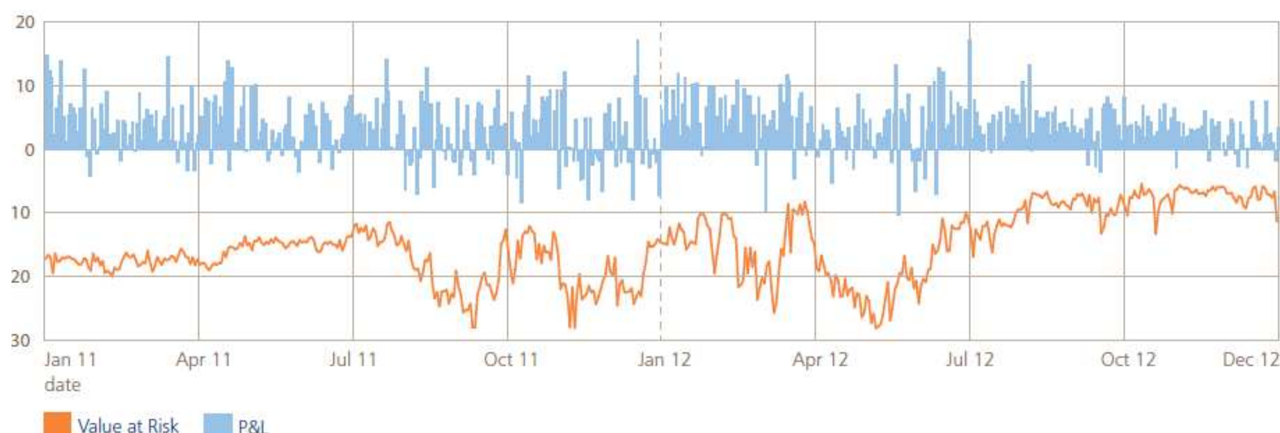
The liquidity horizon has been set to the regulatory minimum of three months for all positions in scope. Given the types of products in ING Bank's trading portfolio ING considers this horizon to be conservative. We have demonstrated that ING Bank could still actively trade its positions that are significant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

Stress testing
Stress testing is a valuable risk management tool. Stress testing evaluates the bank's financial stability under severe but plausible stress scenarios and assists in decision-making that assures the bank to remain a financially-healthy on-going concern after a severe event occurs. In addition to the bank-wide stress test framework as described in the ING Bank risk profile section, MRM performs separate stress tests to monitor market risks under extreme market conditions. Since VaR in general does not produce an estimate of the potential losses that can occur as a result of extreme market movements, ING Bank uses structured stress tests for monitoring the market risk under these extreme conditions. Stress scenarios are based on historical as well as hypothetical extreme events. The result of the stress test (also called event risk) is an estimate of the profit and loss caused by a potential event and its world-wide impact for ING Commercial Banking. The event risk number for the ING Commercial Banking trading activity is generated on a weekly basis. Like VaR, event risk is limited by ALCO Bank.

ING Bank's event risk policy is based on a large set of possible stress scenarios per risk type (fixed income, equity, foreign exchange, credit and related derivative markets). For example, for equity products we assume both a crisis scenario (prices decreasing) as well as a bull scenario (prices increasing). Stress parameters are set per country. Scenarios are calculated based on events happening independently, jointly by region, or in all countries simultaneously. This way, for each risk type, a large set of scenarios is calculated. The worst scenarios per market are combined across markets by assessing both independent events per market, and worst events happening in all markets at the same time.

Other trading controls
VaR and event risk limits are the most important limits to control the trading portfolios. Additionally, limits have been set on SVaR and IRC. Furthermore, ING Bank uses a variety of other controls to supplement these limits. Position and sensitivity limits are used to prevent large concentrations in specific issuers, sectors or countries. In addition to this, other risk limits are set with respect to the activities in complex derivatives trading. The market risk of these products is controlled by product specific limits and constraints.

Risk Profile
The following chart shows the development of the overnight VaR under a 99% confidence interval and a 1-day horizon versus daily trading profits and losses. The overnight VaR is presented for the ING Commercial Banking trading portfolio for 2011 and 2012.



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

Risk Measures for Internal Model Approach Portfolios [1]								
	Minimum		Maximum		Average		Year end	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Interest rate	**4**	9	**21**	21	**10**	15	**4**	12
Equity	**3**	1	**9**	18	**5**	7	**4**	7
Foreign exchange	**1**	1	**6**	4	**3**	2	**2**	2
Credit spread	**2**	6	**6**	8	**4**	7	**3**	6
Diversification [1]					**-9**	-12	**-7**	-12
Total VaR	**5**	12	**28**	29	**13**	19	**7**	15
Stressed VaR (10-day, 99%)	**56**	104	**171**	182	**100**	139	**89**	117
Incremental Risk Charge (1-year, 99.9%)	**244**	363	**451**	545	**344**	445	**291**	368

(1) The total VaR for the columns Minimum and Maximum cannot be calculated by taking the sum of the individual components since the observations for both the individual markets as well as total VaR may occur on different dates.

VaR decreased during the year due to position changes and more volatile scenarios dropping out of the VaR calculation.

Regulatory Capital

According to the Dutch regulation, regulatory capital for trading portfolios can be calculated using the standardised approach or an internal model approach. ING Bank received approval from the DNB to use an internal Value-at-Risk (VAR) model to determine the regulatory capital for the market risk in most trading books of ING Bank. Market risk capital of CAD2 trading books is calculated according to the Basel 2.5 framework, using an internal Value at Risk (VaR), Stressed VaR (SVaR) and Incremental Risk Charge (IRC) model, where diversification is taken into account. On the other hand, market risk capital of CAD1 books is calculated using standardised fixed risk weights. In 2012, capital on all trading books is performed under the Internal Model Approach, except for securitisations which are calculated under the Standardised Approach. Mismatches in FX risk from the banking books are also incorporated under the Standardised Approach.

Regulatory Capital				
			2011	2010
	SVaR	**VaR**	**Total**	**Total**
Interest rate/Credit spread	**206**	**46**	**252**	484
Equity	**54**	**10**	**64**	142
Foreign exchange	**54**	**14**	**68**	27
Incremental Risk Charge			**360**	437
Total Internal Model Approach			**744**	1,090
Standardised model (1)			**28**	34
Total Regulatory Capital			**772**	1,124
Market Risk Weighted Assets (2)			**10**	14

(1) Standardised model is applied to FX positions in trading and banking books and to securitisations in the trading books. The capital requirement for securitisations, which equals 100% of outstanding exposure amounts to EUR 3 million.
(2) Amounts are in EUR billions.

Movement in risk levels is mainly due to changes in trading positions and less volatile markets.

Sensitivities
The following tables show the largest trading foreign exchange positions and interest rate and credit spread sensitivities. The credit spread sensitivities are furthermore split in different risk classes and sectors.

Most important foreign exchange positions (year-end 2012)			
	2012		2011
Foreign exchange		**Foreign exchange**	
US Dollar	**-302**	Chinese Yuan	355
Chinese Yuan	**178**	US Dollar	-282
Taiwan Dollar	**151**	Czech Koruna	-155
Russian Ruble	**-37**	Taiwan Dollar	-44
Czech Koruna	**33**	Bulgarian Lev	-43

Most important interest rate and credit spread sensitivities (year-end 2012)			
amounts in thousands of euros	**2012**		2011 (3)
Interest Rate (BPV (1))		**Interest Rate (BPV (1))**	
United States	**-124**	Eurozone	482
South Korea	**-122**	Mexico	-98
Russia	**-84**	South Korea	-82
Taiwan	**80**	Czech Republic	76
Eurozone	**64**	Russia	-71
Credit Spread (CSO1 (2))		**Credit Spread (CSO1 (2))**	
Finland	**-278**	Germany	-903
Korea	**-192**	Netherlands	774
Netherlands	**126**	Korea	-231
Russia	**-119**	Mexico	-226
Norway	**-100**	Finland	-125

(1) Basis Point Value (BPV) measures the impact on value of a 1 basis point increase in interest rates or credit spreads.
(2) Credit Spread Sensitivity (CS01) measures the impact on value of a 1 basis point increase in credit spreads.
(3) 2011 Interest Rate BPV figures are restated due to the exclusion of CAD3 books formerly under the trading governance.

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

amounts in thousands of euros **Credit Spread (CSO1 [1])**		**2012** **Corporate**	**2012** **Financial Institutions**	2011 Corporate	2011 Financial Institutions
Risk classes					
1	(AAA)	**-4**	**-124**	-5	-16
2-4	(AA)	**-38**	**-65**	-12	-49
5-7	(A)	**-42**	**-247**	15	-256
8-10	(BBB)	**23**	**-68**	-50	-42
11-13	(BB)	**-40**	**-25**	-14	-24
14-16	(B)	**-12**	**-4**	-18	-8
17-22	(CCC and Problem Grade)	**-47**	**-2**	2	-21
Not rated		**-1**	**-16**	-1	0
Total		**-161**	**-551**	-82	-416

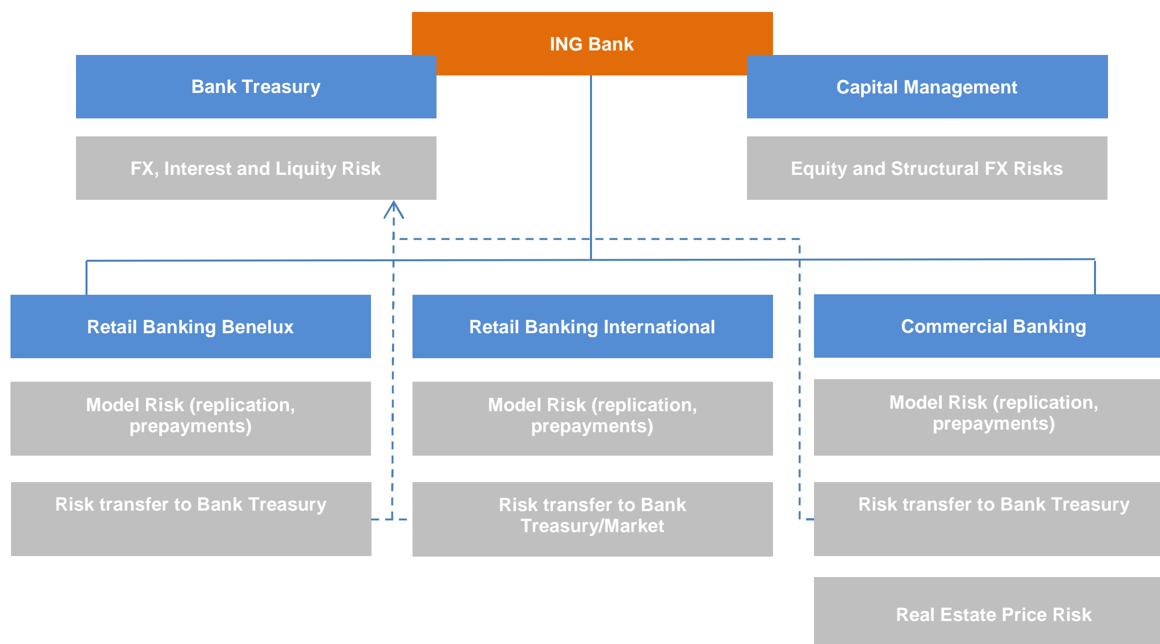
(1) Credit Spread Sensitivity (CS01) measures the impact on value of a 1 basis point increase in credit spreads.

Market risk in Banking Books

ING Bank makes a distinction between trading and banking (non-trading) books. Positions in banking books can originate from the market risks inherent in commercial products that are sold to clients. Both the commercial products, and the products used to hedge market risk exposures in these products are intended to be held until maturity, or at least for the long-term. ING Bank distinguishes the following types of market risk in banking books:

- Interest Rate Risk;
- Foreign Exchange (FX) Risk;
- Equity Price Risk; and
- Real Estate Price Risk.

An important element of the management of market risks in the banking books is the process of risk transfer. In this process the interest rate, FX and liquidity risks are transferred through matched funding to Bank Treasury, where it is centrally managed. The scheme below presents the transfer and management process of market risks in the banking books:



Interest Rate Risk in Banking Book

Interest rate risk in the banking books is defined as the exposure of a bank's financial condition to adverse movements in interest rates originated from positions in the banking books.

Governance: Interest Rate Risk framework

The management of interest rate risk follows the Interest Rate Risk in the Banking Book framework as approved by ALCO Bank. This framework describes roles and responsibilities, risk metrics, and policies and procedures related to interest rate risk management are defined. Furthermore, on an overall level, a risk appetite for interest rate risk is set, which is translated into limits for interest rate risk metrics.

The ING Bank approach to interest rate risk management, as set forth in this framework, is centralisation of risks from commercial books (that capture the products sold to clients) to central interest rate risk books. This enables a clear demarcation between commercial business results and results on unhedged interest rate positions.

ING Bank distinguishes three types of activities that generate interest rate risk in the banking books:
Investment of own capital (by Capital Management);
Commercial business (e.g. retail business); and
The strategic interest rate position (Bank Treasury).

Below the three activities are described in more detail:

Capital Management is responsible for managing the investment of own funds (core capital), more information can be found in the Capital Management section. Capital is invested for longer periods, targeting to maximise return, while keeping it stable at the same time.

Commercial activities result in interest rate risk, as for example repricing tenors of assets differ from those of liabilities. Linear interest rate risk is transferred from the commercial business to the treasury books (Bank Treasury), based on estimations of customer behaviour. The originating commercial business is ultimately responsible for estimating customer behaviour, leaving convexity risk and (unexpected) customer behaviour risk with the commercial business.

Customer behaviour risk is defined as the potential future value loss due to uncertainty in the behaviour of clients towards embedded options in commercial products customer behaviour risk is reported as part of business risk Economic Capital. The risk transfer process takes place on a monthly basis, but more often if deemed necessary, for instance in volatile markets. The customer behaviour in relation to mortgages, loans, savings and demand deposits is modelled by MRM, based on extensive research. Models and parameters are backtested regularly and updated when deemed necessary. In the modelling of savings and current accounts different elements play a role: pricing strategies, outstanding and expected volumes and the level and shape of the yield curve. The analyses result in an investment rule for the various portfolios. With respect to mortgages and loans, prepayment behaviour and the interest sensitivity of the embedded offered rate options are modelled.

Convexity risk is defined as the sensitivity towards interest volatility and second order changes in the interest rate. Convexity risk is a result of products that contain embedded options, like mortgages. In some cases, convexity risk is transferred from the commercial books to treasury books using swaption and cap/floor contracts.

Bank Treasury manages the strategic interest rate position. The main objective is to maximise the economic value of the book and to generate adequate and stable annual earnings within the risk appetite boundaries set by ALCO Bank.

Risk Profile
In the following sections, the interest rate risk exposures in the banking books are presented. Previous year figures have been adjusted to include all banking book exposures. ING Bank uses risk measures based on both an earnings and a value perspective. Earnings Sensitivity (ES) is used to provide the earnings perspective and the Net Present Value (NPV)-at-Risk and Basis Point Value (BPV) figures provide the value perspective.

Earnings Sensitivity (ES)
ES measures the impact of changing interest rates on (pre-tax) IFRS-EU earnings. The ES figures in the table below reflect an instantaneous shock up of 1% and a time horizon of one year. Management interventions are not incorporated in these calculations.

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

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

	2012	2011 [1]
By currency		
Euro	**47**	-1
US dollar	**3**	-66
Pound sterling	**1**	-11
Other	**17**	37
Total	**68**	-41

(1) Please note that 2011 figures are restated for ING Direct Canada, ING Direct USA, and banking books that were included in trading risk Section h in 2011.

In 2012 short-term interest rates remained at low levels in both the Eurozone and the US. The earnings sensitivity for an upward shock has changed from a negative to a positive impact. A positive earnings sensitivity implies that when rates increase, the positive impact on interest received on assets is larger than the negative impact of interest paid on liabilities. Earnings are per 2012 year end relatively insensitive to rate changes.

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

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

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

NPV-at-Risk banking books (1% instantaneous upward shock to interest rates)

	2012	2011[(1)]
By currency		
Euro	**-2,092**	-1,885
US dollar	**-75**	-78
Pound sterling	**12**	-28
Other	**15**	-45
Total	**-2,140**	-2,036

(1) Please note that 2011 figures are restated for ING Direct Canada, ING Direct USA, and banking books that were included in trading risk section in 2011.

NPV-at-Risk increased during 2012. An overall increase of 104 million is shown. This results on one hand from an increase in the duration of the investment of capital as a result of a larger capital base and the lower interest rate environment. Furthermore, in the on-going Eurozone crisis, savings are expected to more closely track the development in market rates, resulting in lower liability durations and therefore lower (positive) NPV-at-Risk for savings exposures, specifically in Germany.

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

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

BPV per currency banking books

Amounts in thousands of euros	2012	2011[(1)]
By currency		
Euro	**-18,824**	-16,127
US dollar	**-656**	-848
Pound sterling	**382**	-164
Other	**1**	-230
Total	**-19,097**	-17,369

(1) Please note that 2011 figures are restated for ING Direct Canada, ING Direct USA, and banking books that were included in trading risk Section in 2011.

In line with the increase in NPV-at-Risk, the overall bpv increased with EUR 1.7 million. As for NPV-at-Risk this results from the increase in the duration of the investment of capital and the higher tracking rate between the client savings rates and market rates.

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

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

Governance – FX Translation result

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

Risk profile – FX Translation result

The following table presents the currency exposures in the banking books for the most important currencies:

Net banking currency exposures banking books

	Foreign Investments		Hedges		Net Exposure	
In EUR million	**2012**	2011	**2012**	2011	**2012**	2011
US Dollar	**2,847**	7,641	**-198**	-2,677	**2,649**	4,964
Pound Sterling	**-1,841**	-997	**1,756**	1,048	**-85**	51
Polish Zloty	**1,714**	1,404	**-818**	-628	**896**	776
Australian Dollar	**2,686**	3,165	**-1,763**	-2,459	**923**	706
Turkish Lira	**2,168**	1,830	**-574**	-425	**1,594**	1,405
Chinese Yuan	**1,511**	1,269	**-152**	-154	**1,359**	1,115
Canadian Dollar	**0**	1,230	**-2**	-919	**-2**	311
Korean Won	**1,256**	1,135	**-975**	-909	**281**	226
Indian Rupee	**287**	178	**0**	0	**287**	178
Other currency	**3,026**	3,122	**-1,794**	-2,190	**1,232**	932
Total	**13,654**	19,977	**-4,520**	-9,313	**9,134**	10,664

The US dollar Foreign Investments decreased significantly in 2012 as a result of the sale of ING Direct US and the corresponding Capital One Financial shares.

The Pound sterling Foreign Investments decreased significantly mainly due to losses occurred at ING Direct UK related to the announced sale and derisking actions in the investment portfolio, the hedges were adjusted accordingly.
The Canadian dollar position became nil due to the sale of ING Direct Canada.

In order to measure the remaining sensitivity of the target core Tier 1 ratio against FX rate fluctuations, the core Tier 1 ratio at Risk (cTaR) measure is used. It measures the drop in the core Tier 1 ratio from the target when stressing a certain FX rate. The stress scenarios for the FX rates that are used for calculating the cTaR, are presented in the last two columns. Only the scenarios that negatively impact the target core Tier 1 ratio are presented: depending on whether the actual foreign currency position is above or below the target position, the worst case scenario is either a negative or positive movement. A positive stress scenario means that the foreign currency appreciates against the Euro. For the US dollar this means that at the end of 2012 the target core Tier 1 ratio would decrease by 0.08% in absolute terms (e.g. from 10.08% to 10.00%) if the US dollar appreciates by 15%. Back testing shows that the strategy was effective in 2012; the core Tier 1 ratio was hardly affected by changing FX rates.

Core Tier 1 ratio sensitivity ING Bank

	cTaR		Stress Scenario	
	2012	2011	**2012**	2011
Currency				
US Dollar	**0.08%**	0.12%	**15%**	15%
Pound Sterling	**0.05%**	0.04%	**15%**	15%
Polish Zloty	**0.01%**	0.01%	**-15%**	-15%
Australian Dollar	**0.02%**	0.00%	**-20%**	20%
Turkish Lira	**0.01%**	0.00%	**-25%**	25%
Chinese Yuan	**0.00%**	0.00%	**15%**	15%
Canadian Dollar	**0.00%**	0.00%	**10%**	-10%
Korean Won	**0.00%**	0.00%	**-15%**	-15%
Indian Rupee	**0.02%**	0.02%	**20%**	20%

Equity price risk in banking books

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments whose value reacts similarly to a particular security, a defined basket of securities, or a securities index. ING Bank maintains a strategic portfolio with substantial equity exposure in its banking books. This equity exposure mainly consists of the investments in associates of EUR 841 million (2011: EUR 827 million) and equity securities held in the available-for-sale (AFS) portfolio of EUR 2,634 million (2011: EUR 2,466 million). The value of equity securities held in the available-for-sale portfolio is directly linked to equity security prices with increases/decreases being recognised (except in the case of impairment) in the revaluation reserve. During the year ended 31 December 2012 the revaluation reserve relating to equity securities held in the Available-for-Sale portfolio fluctuated between a monthend low amount of EUR 1,082 million (2011: EUR 1,226 million) and a high amount of EUR 1,643 million (2011: EUR 1,706 million). Investments in associates are measured in accordance with the equity method of accounting and the balance sheet value and therefore not directly linked to equity security prices.

Equities Unrealised Gains and Losses in the AFS portfolio		
	2012	2011
Gross unrealised gains	**1,385**	1,292
Gross unrealised losses		-45
Total	**1,385**	1,247

Total capital requirement for equity price risk under the Simple Risk Weight Approach at 31 December 2012 results in EUR 201 million (2011: EUR 207 million).

Real Estate price risk in banking books

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

ING Bank has two main different categories of real estate exposure on its banking books: First, the own buildings ING Bank occupies, and second development assets, which is mostly consisting of former Real Estate Development and Real Estate Investment Management activities.

ING Bank's real estate exposure in the banking books (i.e. including leverage and committed purchases) is EUR 3.3 billion. For market risk management purposes, the total real estate exposure amounts to EUR 3.2 billion since property from foreclosures (EUR 0.05 billion) and third party interests (EUR 0.04 billion) is excluded.

ING Bank has EUR 0.5 billion out of EUR 3.3 billion recorded at fair value through profit and loss. The remaining EUR 2.8 billion is booked at cost or is revalued through equity (with impairments going through profit and loss).

In total, real estate market risk exposure in the banking books decreased by EUR 0.8 billion mainly as a result of divestments (EUR –0.6 billion) and negative fair value changes and impairments (EUR –0.2 billion). A split on the real estate exposures per continent and sector based on the risk management view is seen below.

Real Estate market risk exposure in banking books (by geographic area and sector type)					
	2012	2011		**2012**	2011
Continent			**Sector**		
Europe	**2,246**	2,918	Residential	**366**	582
Americas	**328**	334	Office	**1,144**	1,500
Australia	**159**	196	Retail	**1,281**	1,407
Asia	**271**	380	Industrial	**79**	157
Other	**165**	147	Other	**299**	329
Total	**3,169**	3,975	Total	**3,169**	3,975

LIQUIDITY RISK

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

Governance

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

In line with market practice and regulatory guidance, ING Bank's liquidity risk framework is a reflection of a multi-tiered approach, whereby risk principles are implemented, monitored and controlled in conjunction with both first and second line functions within the Bank.

In line with this approach liquidity risk is measured, managed and controlled from three different angles, namely a structural, a tactical and a contingency point of view.

Liquidity position management
ING Bank manages its liquidity position by:
- Funding lending activities by longer term liabilities (including funds entrusted);
- Maintaining sufficient liquid investments and short term deposits;
- Maintaining capacity to generate additional cash, amongst others by means of securitisations.

Liquidity Risk Management
MRM is responsible for determining adequate policies and procedures for managing liquidity risk and for monitoring the compliance with these guidelines.

Risk framework
In 2012, in continuation of the development of an enhanced liquidity risk framework in 2011, activities were undertaken in order to further implement and embed the liquidity risk framework in the organisation, in line with CRD II and ILAAP regulatory requirements.

ING's liquidity risk framework incorporates all relevant risk principles with regard to the daily and on-going management of liquidity and funding risk. The framework contains the risk boundaries and describes the related metrics to monitor and control on- and off-balance sheet positions, across the major currencies.
The framework incorporates a holistic view on managing liquidity and funding risk, whereby the defined risk appetite statements provide guidance to the organisation with regard to size, form and content of the balance sheet.

The risk appetite statements are also directly linked to liquidity stress testing. In accordance with Dutch Central Bank guidelines, ING Bank's liquidity positions are stress tested on a monthly basis under a scenario that is a mix between a market event and an ING Bank specific event. Additional stress testing exercises are undertaken on consolidated and local level on a periodic and ad-hoc basis. The outcome of stress tests provides input to any contingency measures and follow-up required.
In view of emerging macro-economic risks in the Eurozone, ING has increased its focus on the exposures across the Eurozone and taken additional measures to limit and manage these risks.

Next steps were made to prepare the organisation for the upcoming implementation and following observation requirements of Basel III/CRD IV.
In 2012, ING Bank established a dedicated Bank Treasury function which is responsible for the first line execution of liquidity management.

Risk profile
ING Bank has the following funding and liquidity risk management objectives:
- The structural mismatch in expected liquidity tenors of ING Bank's assets and liabilities per significant currency is capped;
- A pro-active compliance with home/host regulatory liquidity limits;
- The time-to-survive in a funding stress situation should extend multiple quarters;
- Funding of all longer-term assets and investments by stable and longer-term liabilities;
- Eliminate geographical dependencies with respect to intra-group funding;
- Diversification of funding profile, across funds providers, instrument types, geographic markets, tenors and currencies.

These risk appetite statements are incorporated in the manner in which liquidity risk is monitored and measured.

Structural liquidity risk
Structural liquidity risk is the risk that the structural, long-term balance sheet cannot be financed timely or at a reasonable cost.

For the purpose of managing structural liquidity risk, a specific advisory committee to ALCO Bank exists. This committee which consists of key representatives from Bank Treasury, Finance, MRM and Capital Management focuses on all liquidity risk aspects from a going concern perspective. The main objective of the committee is to maintain a sound liquidity profile through:
- Maintaining a well-diversified mix of funding sources in terms of instrument types (e.g. unsecured deposits, commercial paper, long term bonds or repurchase agreements), fund providers (e.g. professional money market players, wholesale and retail clients), geographic markets and currencies; the structural mismatch in expected liquidity tenors of ING Bank's assets and liabilities per significant currency is capped. Funding concentrations are monitored monthly by ALCO Bank;
- Actively managing access to the capital markets by regularly issuing public debt in all material markets and the maintenance of investor relations;
- Holding a broad portfolio of eligible assets that can be utilised to obtain secured funding, e.g. from the repo market or Central Bank; in this respect the total marketable/Central Bank eligible collateral position (including cash) amounts to EUR 199 billion (MtM);

- Management of liquidity gaps, taking into account the asset mix and both the secured and unsecured funding opportunities of ING Bank; and
- Maintaining a funds transfer pricing (FTP) mechanism in which ING Bank's cost of liquidity is adequately reflected both under a going concern and a contingency perspective. The FTP mechanism also serves to make the business aware of liquidity costs and that these are also properly incorporated in product evaluation and pricing.

Maintenance of the liquidity profile is also reflected in the adherence to regulatory liquidity limits, both at home and host regulatory level.
As regulatory requirements on a local level increase, the objective is to reduce or eliminate dependencies on intra-group funding.

With respect to funding sources, ING Bank manages its balance sheet prudently, whereby short-term funding is primarily utilised for short-term assets and we are decreasing these types of funding sources. Consequently, the bank aims to fund all longer term assets and investments by stable and longer term liabilities. In the first half of 2012, the uncertainty with regard to economic developments in Europe and possible implications for the Eurozone led to US MM Funds being more restrictive in funding European counterpartie. Monitoring and control of this funding is effectuated through a dedicated USD funding and liquidity risk framework which includes limits and measures in case of contingencies. In the table below, the various funding sources are presented in the funding mix.

ING Bank Funding Mix

	2012	2011
Funding type		
Retail deposits	**45%**	42%
Corporate & other deposits	**22%**	20%
Interbank (incl. central bank)	**6%**	9%
Lending/repurchase agreement	**3%**	7%
Public debt	**21%**	19%
Subordinated debt	**3%**	3%
Total	**100%**	100%

The funding mix remained well diversified and according to targets set. Deposits accounted for 67% of the total funding mix, improved from 62% per 2011 year end. Ultimo 2012 the Loan-to-Deposit ratio (excluding securities at amortised costs and IABF receivable) equals 1.13.

Tactical liquidity risk
Liquidity risk which is resulting from short-term cash and collateral positions is managed in the risk framework from a tactical liquidity risk perspective. The day-to-day management of the overall short-term liquidity risk of ING Bank is delegated to Bank Treasury Amsterdam, while regional and local Bank Treasury departments manage liquidity in their respective regions and locations. Within Bank Treasury, the focus is on the daily and intraday cash and collateral positions and the policy is to manage and sufficiently spread day-to-day funding requirements.

Contingency liquidity risk
Contingency liquidity risk specifically relates to the organisation and planning for liquidity management in time of stress. Within ING Bank, for contingency purposes, a specific crisis team – consisting of key Board Members, representatives from staff departments (e.g. Finance, Risk and Capital Management) and Bank Treasury – is responsible for liquidity management in times of crisis. Throughout the organisation adequate and up-to-date contingency funding plans are in place to enable senior management to act effectively and efficiently in times of crisis.

Stress Testing
Stress testing is a valuable risk management tool. Stress testing evaluates the bank's financial stability under severe but plausible stress scenarios and assists in decision-making that assures the bank to remain a financially-healthy on-going concern after a severe event occurs. In addition to the bank-wide stress test framework as described in the ING Bank risk profile section, ING Bank produces on a regular basis several stress test reports with respect to our funding and liquidity position. Some of these stress tests are regulatory driven, and others which are based on internal stress scenarios:
- On a weekly basis ING reports an internal liquidity stress scenario. This report shows the development of the liquidity buffer during a 3-month-stress period, on a consolidated level and for the main entities, and split in EUR and USD.
- On a monthly basis ING reports a number of stress scenarios, based on regulatory requirements:
  - 1-month DNB liquidity buffer, according to DNB regulation.
  - Liquidity Coverage Ratio (LCR), based on Basel III and draft CRD IV regulation.

On ad-hoc basis ING Bank has performed additional stress tests related to the funding and liquidity position. Overall stress testing is an integral part of the liquidity and funding risk management framework and serves as input for the risk appetite statements as well as for the contingency funding plan.

Contingency funding plans address both temporary and long-term liquidity disruptions, triggered by either a general market event or an ING Bank specific event.

NON-FINANCIAL RISK

The Non-Financial Risk (NFR) department encompasses the Operational and Compliance risk management teams. It ensure s appropriate risk controls in these areas by setting clear and accessible policies and minimum standards which are embedded in ING Bank business processes in all business lines. An infrastructure is in place to enable management to track incidents and non-financial risk issues. A comprehensive system of internal controls creates an environment of continuous improvement in managing non-financial risk. ING Bank uses this knowledge (including lessons learned from incidents) to improve the control of key risks.

ING Bank believes that fully embedding controls preserves and enhances the trust of its customers, staff and shareholders and so is essential to building sustainable businesses. ING Bank's Business Principles set the foundation for the high ethical standards ING Bank expects of all business activities. ING Bank's Business Principles require all staff to conduct themselves, not only within the letter of laws and regulations, but also with integrity, being open and clear, respectful, and responsible.

Governance

At all levels in the organisation Non-Financial Risk Committees (NFRCs) are established that identify, measure and monitor the operational and compliance risks of the region or business unit with appropriate quality of coverage (granularity) and to ensure that appropriate management action is taken by the responsible line managers at the appropriate level of granularity. NFRCs, chaired by the CEO of the entity, steer the risk management activities of the first and second line of defence in their entities.

The Head of Non-Financial Risk is responsible for developing the framework of policies and standards within ING Bank and for monitoring the quality of non-financial risk management in the business lines. The Bank NFRC is the primary approval and oversight committee. The Non-Financial Risk dashboard (NFRD) enables management to focus on the ten operational risk areas through the quarterly report on regional, divisional and Bank level.

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

Framework

ING Bank has a comprehensive framework for Operational and Compliance risks. This supports and govern the process of identifying, mitigating, measuring and monitoring non-financial risks thus reflecting the stages described in the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission).

The risk appetite (defined as the acceptable and authorised maximum level of risk) is set in each of the NFR risk areas and must be adhered to. This risk appetite is monitored quarterly through the Non-Financial Risk Dashboard which reports the key non-financial risk exposures.

Processes are in place to identify key threats, vulnerabilities and the associated risks which might cause adverse events. Event identification is performed proactively and precedes a risk assessment. Different techniques for event identification exist within ING Bank, e.g. Risk & Control Self-Assessments, scenario analysis, external events inventories, internal incident analysis (e.g. lessons learned based on information from incident reporting), key risk indicator events and threat scans.

At least once a year business units and departments perform a Risk & Control Self-Assessment with involvement of the business and their Operational Risk, Compliance, Legal and Finance departments.

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

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

Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the related risk of reputation loss, as well as legal risk but strategic risks are not included. Effective operational risk management leads to more stable business processes (including IT systems) and lower costs.

Internal and External Fraud Risk

ING Bank continues its strong commitment to preventing any involvement in Banking Fraud. This requires ensuring sufficient allocation of resources and funds for incident investigation and incident management across all business lines. Phishing and Trojans are increasingly becoming more sophisticated but card skimming also remains an important area of focus for fraud risk.

Cybercrime

There continues to be an increase in the world-wide cyber threat and more stringent regulations are being introduced regarding cyber security of e-banking (e.g. ECB's Recommendations for the security of Internet Payments). Under the auspices of the Management Board, a Cybercrime Task Force has been set up within ING Bank to ensure a coordinated and effective response to the threat of cybercrime. The Cybercrime Task Force aims to improve knowledge sharing and to structure effective prevention, detection and incident response across the ING Bank.
In 2012 ING Bank further strengthened collaboration against cybercrime with the industry (e.g. national bank associations), law enforcement, government (e.g. Nationale Cyber Security Center) and Internet Service Providers (ISPs).

AMA framework and model

In the past two years, ING Bank renewed the different elements of the AMA model and framework: the risk assessment approach, use of a bank wide set of Key Risk Indicators, Risk Appetite Statement, set of Key Controls, registration of risk controls, incidents and issues in a central database and the Operational Risk Capital model. This enables ING Bank and its divisions to manage Operational Risk Capital based on a strong AMA framework and governance.

AMA Model

The AMA model of ING Bank used for regulatory capital reporting follows the Loss Distribution Approach (LDA) and is based on both external and internal loss data exceeding EUR 1 million. The model is adjusted for the specific measured quality of control in a business line. This provides an incentive to local (operational risk) management to better manage operational risk.

Transition to a new Operational Risk capital model

In 2011, ING built a new Operational Risk Capital model in which, the risk profile is more closely tailored to the internal profile of ING Bank and its divisions by using scenario data for capturing severe risks and internal loss and Risk & Control Self-Assessment data for capturing day-to-day risks. The business has a strong role in assessing scenario severities and the Operational Risk Management function in validating the results. This model will be applied from 2013 onwards.

Conceptual differences between Operational Risk model used for Regulatory Capital and Economic Capital

Regulatory Capital	Economic capital
Confidence level of 99.90%	Confidence level of 99.95%
No interrisk diversification applied	Interrisk diversification applied
Operational Risk scenarios used for validation	Operational Risk scenarios included in calculation
Assessment of severe risks mainly driven by External Loss Data	Assessment of severe risks driven by a mix of scenarios and External Loss Data
Internal loss data used for capturing day-to-day risks	Internal loss and Risk & Control Self-Assessment data use for capturing day-to-day risks
Scorecard approach to assess the level of control	Key Control Testing to assess the level of control
Confidence level of 99.90%	Confidence level of 99.95%

Risk profile

The AMA capital for the fourth quarter of 2012 amounts EUR 2,836 million. This equals the reported AMA capital of last year because of an imposed capital floor of EUR 2,836 million.

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

	Economic Capital		Regulatory Capital	
	2012	2011	**2012**	2011
Operational Risk	**1,763**	1,683	**2,836**	2,836

Compliance Risk

Compliance risk is defined as the risk of impairment of ING Bank's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, ING Bank policies and standards and the ING Bank Business Principles. In addition to reputational damage, failure to effectively manage compliance risks could expose ING Bank to fines, civil and criminal penalties, and payment of damages, court orders and suspension or revocation of licenses, which would adversely impact customers, staff, shareholders and other shareholders of ING. Clear and practical policies and procedures are embedded in ING Bank business processes in all Business Lines. Systems are in place to enable management to track current and emerging compliance risk issues, to communicate these to internal and external stakeholders, and to drive continuous improvement. ING Bank appreciates that good compliance risk management involves understanding and delivering on the expectations of customers, staff, shareholders and other stakeholders, thereby strengthening the quality of key relationships.

Governance

Compliance Risk Management function

The Chief Compliance Officer (CCO) is the General Manager of the Compliance Risk Management department. This is an independent function responsible for developing and establishing the Bank-wide Compliance Risk Management Charter & Framework, establishing the Minimum Standards for managing compliance risks and assisting and supporting the Management Board Bank in managing ING Bank's compliance risks.

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

To avoid potential conflicts of interest, it is imperative that the Compliance Officers are impartial and objective when advising business management on Compliance Risk in their business unit, region, country or entity. To facilitate this, a functional reporting line to the next higher level Compliance Officer is in place. The functional reporting line has clear accountabilities relating to objective setting, remuneration, performance management and the appointment of new Compliance Risk Management staff as well as obligations to veto and escalate.

Scope

The Compliance Risk Management function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry. The Compliance Risk Management function actively educates and supports the business in managing compliance risks such as, but not limited to, money laundering, terrorist financing, sanction and export control compliance, conflicts of interest, proper sales and trading conduct and protection of customer interests.

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

Extra-territorial regulations

Financial institutions continue to be closely scrutinised by regulatory authorities, governmental bodies, shareholders, rating agencies, customers and others to ensure they comply with the relevant laws, regulations and standards. Bank regulators and other supervisory authorities in Europe, the US and elsewhere continue to oversee the activities of financial institutions to ensure that they operate with integrity and conduct business in an efficient, orderly and transparent manner.

ING is fully committed to complying with all applicable sanction legislation and with all obligations and requirements under those applicable laws including freezing and reporting obligations with regard to transactions involving a US, EU or UN Sanction Targets. In addition ING designates specific countries as Ultra High Risk and prohibits client engagements and transactions (including payments or facilitation) involving those countries. Certain exceptions on this policy are allowed after express and case-specific consent, and provided that the applicable sanctions laws and regulations are met. At present, the specified countries are Myanmar, North Korea, Sudan (North Sudan and South Sudan), Syria, Iran and Cuba. Each of these countries is subject to a variety of EU, US and other sanctions regimes. Cuba, Iran, Sudan, and Syria are identified by the US as state sponsors of terrorism and are subject to US economic sanctions and export controls.

ING Bank has had a sanctions policy in place since 2007 and has a mandate to run down any existing commitments. As such, remaining exposure and contacts arise solely in the context of the Bank's on-going efforts to run down the legacy portfolio of commitments.

ING Bank seeks to meet the standards and expectations of regulatory authorities and other interested parties (e.g. Governments/NGO bodies) through a number of initiatives and activities, including scrutinising account holder information, payment processing and other transactions to support compliance with regulations governing money laundering, economic and trade sanctions, bribery and other corrupt practices.

ING continuously enhances its compliance risk management programme to ensure that ING complies with international standards and laws.

Furthermore ING has an on-going objective to continuously strengthen the Financial Economic Crime (FEC) controls related to: Managing Anti-Money Laundering (AML), Combat Terrorist Financing (CTF); and Export Trade and Sanction risks. Hence ING implemented Policies on Financial Economic Crime that provide a clear statement on Financial Economic Crime in order to guard against any involvement in criminal activity, and to participate in international efforts to combat money laundering and the funding of terrorist and criminal activities.

Regulatory measures and law enforcement agencies investigations

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

Enhancements implemented are designed with the aim to support the compliance culture and preventing practices of this nature occurring in the future.

Main developments in 2012

Regulator relationships

Bank Compliance Risk Management continued its policy of investing in pro-active relationship building with regulators in the jurisdictions wshere ING Bank operates, by striving for an open two-way approach to communication and cooperation in identifying and mitigating compliance risks for ING Bank as well as seeking to contribute to the regulatory debate going forwards.

Promoting Integrity Programme

Bank Compliance Risk Management, together with Human Resources and Corporate Communications & Affairs, continued with the roll-out of the Promoting Integrity Programme (PIP), a global employee education programme focusing on ING Bank's values (including the ING Bank Business Principles) and the role they play in the business and workplace. Short e-modules were developed on Financial Economic Crime, Information Technology, Business Continuity and Gifts, Entertainment and Anti-Bribery, and were followed by managerled dialogue sessions, where employees discussed what integrity means for them and how the Business Principles and ING Bank Policies and standards can be applied in their daily work.

Gifts, Entertainment and Anti-Bribery Policy

ING Bank issued a revised Gifts, Entertainment and Anti-Bribery Policy to reinforce its importance, taking into account the changing regulatory landscape (e.g. recent interpretations of the US Foreign Corrupt practices Act) as well as the associated increase of focus by regulators and other interested parties on this topic. Guidance documents, briefings and training were also developed to ensure the appropriate level of understanding across the business.

Learning

Continuous global education and awareness training was provided in face to face sessions and e-learn modules and new resources on topics such as Continuity Risk (covering business continuity, crisis management and disaster recovery), Gifts, Entertainment and Anti-Bribery, FEC (Financial and Economic Crime and Customer Suitability were added to the library. Compliance Risk Management also continued its mandatory global Compliance Officer Training programme for all new compliance officers in ING Bank.

BUSINESS RISK

Business Risk for ING Bank has been defined as the exposure to value loss due to fluctuations in volumes, margins and costs, as well as customer behaviour risk. It is the risk inherent to strategy decisions and internal efficiency. The calculation of Business Risk Capital is done by calculation of two components,

(i) Expense risk relates to the (in)flexibility to adjust expenses, when that is needed.

(ii) Customer behaviour risk relates to clients behaving differently than expected and the effect that this behaviour can have on customer deposits and mortgage pre-payments. The customer behaviour risk is calculated by stressing the underlying assumptions in the models for behavioural assets and liabilities.

Each of these components is calculated separately, and combined to one business risk figure via the variance-covariance methodology.

ING INSURANCE

ING INSURANCE RISK MANAGEMENT GOVERNANCE

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

The Management Board Insurance EurAsia (MBE) consists of 8 members, including the members of the ING Group Executive Board, and is responsible for managing risks associated with the insurance activities in Europe and Asia. The Board US Incorporated consists of 6 members, including the members of the ING Group Executive Board, and is responsible for managing risks associated with the insurance activities in the United States (ING Insurance US).

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

In 2011, ING has completed the divestment of its Latin American pensions, life insurance and investment management operations. This transaction was the first major step in the divestment of ING's insurance and investment management activities. In 2012, ING Insurance and investment management activities in Asia and its reinsured Japan SPVA businesses in Corporate Reinsurance are classified as held for sale and as discontinued operations. In the remaining section of ING Insurance EurAsia, the risks of the discontinued operations in Asia have been removed from the figures in 2011 and 2012.

Governance

Risk governance ensures a robust and responsive governance structure that adequately manages the risks ING is exposed to and effectively responds to adversity so as to preserve ING's financial position as determined by the risk appetite.

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

Ongoing changes in the regulatory environment

Amidst the current and on-going crisis, it is inevitable that regulation will seek more certainty from undertakings. Regulation will impact insurers in many ways which will require adaptation and alignment with internal views. Inter alia, regulation will seek to ensure undertakings maintain capital adequacy. Regulation will also provide impediments to risk-based pricing in the form of anti-discrimination restrictions whereby certain risk factors will not be allowed for risk-based pricing and provisioning.

ING Risk Management will take these developments into account preparing for the new regulatory environment. The involvement in industry associations such as the CRO Forum, CFO Forum and Pan European Insurance Forum (PEIF) keeps ING close to these developments and enables responsive action in this regard.

- The most important regulatory focus for the insurance industry is the continued development by the European Union of the Solvency II capital adequacy framework. Solvency II is intended to be the European, economic, risk-based and market-consistent regime whereby capital requirements are directly dependent on an insurer's assets and liabilities. However, some of the proposed measures currently under discussion are considered unduly conservative and deviate from economic principles. It is therefore very important that the Solvency II framework, as originally envisaged, will become market-based, avoid pro-cyclicality and adequately reflect the position of insurance undertakings during market volatility. The EU politicians and regulators drafting the framework should therefore ensure that the measures to be implemented are robust enough throughout the cycle. ING Insurance EurAsia is working actively with relevant stakeholder in the insurance industry to advise EU politicians and regulators to come up with concrete proposals that realise these objectives;
- The insurance business is affected by regulatory action, for instance regulations affecting taxes, pension regulation and customer protection. In the first quarter, the European Court of Justice ruled that price differentiation based on gender for any insurance products sold in the European Union is not allowed from 21 December 2012 onwards. This will only impact new business and exclude repricing and extensions. ING Insurance EurAsia will adapt to these impediments such that ING Insurance EurAsia will continue to provide protection offerings to the current, prospective and future policyholders;
- State insurance regulators in the United States and the National Association of Insurance Commissioners (NAIC) regularly re-examine existing US laws and regulations applicable to insurance companies and their products. The NAIC adopted the Valuation Manual for Principles Based Reserving of Life Insurance and Annuity products at their December 2012 meeting. The Manual now must be adopted by 42 states prior to becoming effective. The NAIC also adopted the Risk Management and Own Risk and Solvency Assessment Model Act (the 'ORSA Model Act') in 2012. This Act requires companies to do an ORSA by 1 January 2015.

IFRS reserve adequacy test

As per 31 December 2012, the reserves for ING Insurance remained adequate above the prudent 90% confidence level, and all business lines exceeded the 90% confidence level with the exception of the US Closed Blocked Variable Annuities (VA), which improved from EUR –3.2 billion at year-end 2011 to EUR –1.7 billion at year-end 2012, driven by assumption and model changes as well as market performance during the year. That improvement was offset by a decline at Insurance Benelux as a result of derisking and low interest rates as well as new mortality tables in the Netherlands.

If the aggregate reserves for a business line fall below the 50% confidence level, the shortfall must be recognised immediately in the profit and loss (P&L) account. Such a charge may be triggered in Asia as ING divests its business units in the region, because a reserve inadequacy in Japan is currently compensated by a surplus in other units. The reserve inadequacy for the Japanese insurance business, including the VA guarantees reinsured by ING Reinsurance, was approximately EUR 0.4 billion at the 50% confidence level at 31 December 2012. This is comprised of an inadequacy of approximately EUR 0.9 billion for the closed block VA, offset by a sufficiency of EUR 0.5 billion for the corporate-owned life insurance business. The nature and timing of any P&L charge from such reserve inadequacy depends on the closing of other divestments in Asia as well as various options currently under investigation for ING Life Japan. Further announcements will be made if and when appropriate.

New mortality tables in The Netherlands

The Dutch Bureau of Statistics (CBS) published their bi-annual update of mortality projections in the Netherlands, which are used by the Dutch insurance businesses. The update had no impact on the IFRS P&L, but is reflected in the IFRS reserve adequacy test and the capital ratio (IGD ratio) for ING Insurance. The impact on the IGD ratio was approximately 4 percentage points. Nationale-Nederlanden established an additional provision for longevity more than 15 years ago to cover the risk related to increasing life expectancy in the group pension business. Upon renewal, group pension contracts are recalculated and, to date, any required increase in the provision for insurance contracts due to mortality has been offset against the longevity provision.

ING INSURANCE EURASIA

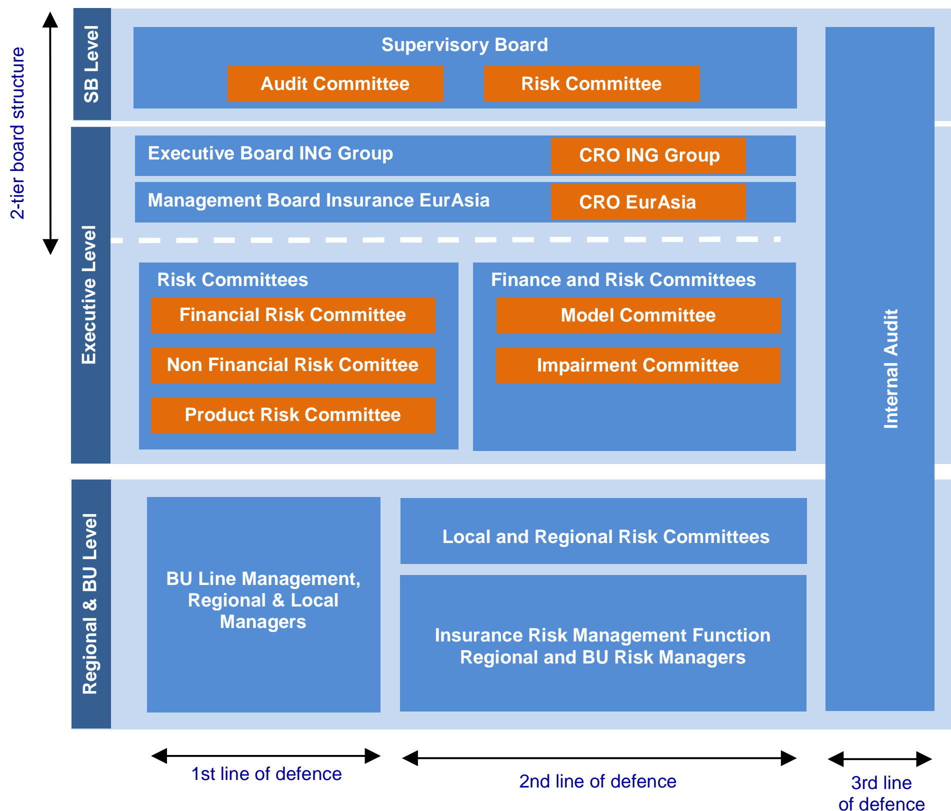
MISSION AND OBJECTIVES

Risk is at the heart of the insurance business model. Adding value to clients and shareholders by appropriately pooling and diversifying risks is the core function. Insurance risks are borne by accepting premiums from policyholders which in turn are invested, thereby generating return potential and market risks. Risk Management is the basis for creating value for policyholders and shareholders. The willingness to take risks and ability to appropriately manage the risks we accept and those we do not accept is of paramount importance.

ING's approach to risk management is facilitated by a risk appetite framework that establishes the risks the company wishes to acquire, avoid, retain and/or remove in its pursuit of its strategic objectives. The risk appetite framework combined with the risk measurement framework is the basis for our day to day risk management execution. Business units report regularly on their risk profile.

RISK GOVERNANCE

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



Board level risk oversight

ING Insurance EurAsia has a two-tier board structure consisting of the MBE, including the Executive Board members of ING Group and the Supervisory Board Insurance EurAsia.

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

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

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

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

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

Executive Level

The MBE is supported by two committees with regards to risk:

- Finance and Risk Committee

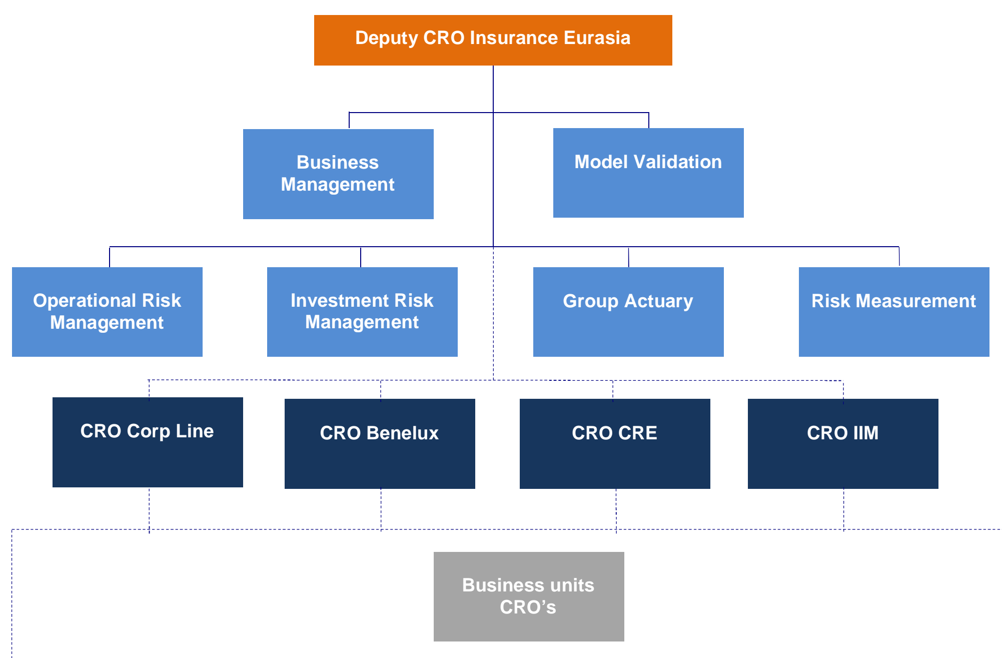
  The primary responsibility of the committee is to align finance and risk decisions that have an impact on internal and/or external reporting of ING Insurance EurAsia. This includes advising on, (pre-) approving, reviewing and taking actions on issues that impact the financial condition of ING Insurance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

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

Risk Management Function

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

The CRO delegates day-to-day Risk Management within ING Insurance EurAsia to the Deputy CRO. The Deputy CRO department consists of several risk functions that support the overall Risk Management function. Doug Caldwell joined as CRO of ING Insurance EurAsia as of December 2012. A new reporting structure will become effective in 2013.



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

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

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

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

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

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

RISK APPETITE FRAMEWORK
Our risk appetite determines what risk our companies wish to acquire, to avoid, to retain and/or to remove. It defines our attitude to risk we would like to and are able to take in the near future and consists of risk preferences, our risk tolerances, our risk limits and controls. The risk appetite is determined for each of our business units. The risk appetite framework combined with our risk measurement framework is the basis for our day to day risk management execution. Business units report regularly on their risk profile.

	Description
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, tolerance, and limit structure includes the 'Available Financial Resources over Economic Capital' ratio (AFR/EC), leverage ratios, IFRS earnings sensitivities, local capital sensitivities, and concentration risks. The AFR/EC ratio is defined as the Available Financial Resources (AFR) over the amount of capital required for the current net asset value to absorb unexpected losses in a scenario based on a 99.5% confidence level with a one year time horizon. The confidence interval and horizon are aligned to Solvency II.

Risk Monitoring
ING Insurance EurAsia uses various tools to monitor its risk exposures – ensuring we remain within our risk appetite. A robust risk appetite combined with our governance frameworks ensures timely response to address any exposures that breach our risk appetite. Below we list the main risk controls that are in place to monitor risk and allow management to take risk mitigating actions or revisit our risk appetite to ensure it still lies within our risk capacity:

- Financial risks are reported to the Risk Committee of ING Insurance EurAsia at each level of the organisation through Financial Risk Dashboards. The risk committee monitors the exposures versus the tolerances and limits and can decide to take mitigating actions or waivers. Waivers need to be asked upfront. Capital ratios are reported to the Management Board through the Capital Adequacy Report;
- Investment risks are reported at group level to the Risk Committee of ING Insurance EurAsia through the Investment Risk Dashboard and the Liquidity Risk Report. The Risk Committee monitors the exposures versus the tolerances and limits and can decide to take mitigating actions or waivers. Waivers need to be asked upfront;
- Furthermore, the investment mandate process, the New Investment Class Approval and Review Process (NICARP), policies and procedures on investment risk are monitored by the Financial Risk Committee;
- Underwriting risk is monitored mostly through the product approval process (PARP) at business line and business unit level. Adequacy of our technical reserves is monitored and reported at all levels of the organisation;
- The non-financial risks are monitored through the non-financial risk dashboard (NFRD) process at all levels in the organisation. The NFRD provides management at all organisational levels with information about key operational, compliance and legal risks and incidents.

Model Risk
Model governance and validation should ensure that the models that are used are valid for their intended use. Model validation is reporting quarterly on their findings to the Finance & Risk Committee. All models in scope are classified as according to their materiality based on internal classification.

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

Risk Profile
Risk type description
ING Insurance EurAsia identifies the following main types of risk that are associated with its business:

- Insurance risk – risks such as mortality, morbidity, longevity and property and casualty (P&C) associated with the claims under insurance policies it issues/underwrites; specifically, the risk that premium rate levels and provisions are not sufficient to cover insurance claims;

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

Discontinued operations
In 2012, ING Insurance and investment management activities in Asia Pacific and its reinsured Japan SPVA businesses in Corporate Reinsurance are classified as held for sale and as discontinued operations. Risks in the discontinued operations have and will be actively managed according to ING best practices. The main risk in Asia Pacific remains interest rate risk. This is mainly present in South Korea and management continues to take actions to reduce this risk.

Sales agreements have been reached for Malaysia, Thailand, Hong Kong/Macau and India insurance operations. For Malaysia, the sale was completed in December.

The remaining part of the ING Insurance EurAsia risk management paragraph will exclude the discontinued operations. The 2011 comparative numbers have been restated accordingly.

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

Model disclosure
ING quantifies the impact of the following types of risk in its EC model:
- Market Risk – Most asset are individually (re)valuated under different economic scenarios. The rest of the assets (mortgages) and the financial component of the liabilities are replicated by the business units using a finite set of standard financial instruments. The replication is based on stochastic cash flows produced by the local actuarial systems using a set of economic scenarios. The quality of the replication is monitored by several statistical criteria, including R-squared, and benchmarked against market value sensitivities;
- Credit default Risk – Calculated on portfolios which contain credit or transfer risk, including investment portfolios. The EC is calculated based on the following seven drivers: Probability of Default (measure of the standalone creditworthiness of individual debtors), Exposure at Default (estimated size of the financial obligation at the moment of default in the future), Loss Given Default (estimated recovery value of the underlying collateral or guarantees received (if any) and the unsecured part), Industry of the debtor, Country of the debtor, Remaining tenor of the underlying transactions and Type of Assets;
- Insurance Risk – Calculated by the business unit for all sub-risks for Life, Morbidity and P&C Risk;
- Business Risk – Calculated by the business unit for Persistency, Expense and Premium-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 a sufficient number of scenarios to simulate market risks and credit default risk. A dependency structure is used to reflect correlations between risk drivers when generating the economic scenarios. The scenarios are calibrated based on the historical time series of the market risk drivers using relevant available historical data. Volatilities and correlations are calibrated to represent the distribution on a quarterly frequency. For each of the scenarios the market value of assets and liabilities and the change in value of the Market Value Surplus (MVS) is recalculated. Sorting the results and selecting the 99.5% worst change in MVS result provides the Economic Capital for the given level of aggregation.

The EC numbers for business and insurance risk are calculated in local systems based on industry data, experience studies and expert judgement. These EC numbers are aggregated with the EC for market risk and credit default risk, taking into account diversification. Operational risk capital is treated as an add-on and therefore not part of the diversification between risk types.

For EC calculation ING Insurance EurAsia uses a one-year time horizon. The Economic Capital model will continue to be updated to reflect most recent market data, developments in best practices, and regulations such as Solvency II.

Risk profile

The following table presents the reconciliation from the EC 2011 for ING Insurance EurAsia as reported in the Annual Report 2011, to the comparable basis for ING Insurance EurAsia 2012. This reflects changes in scope, models and methodology. All risk figures disclosed in the remaining part of ING Insurance EurAsia will be on comparable basis to 2012.

Economic Capital 2011 reconciliation	
amounts in billions of euros	2011
As reported for ING Insurance EurAsia in 2011	10.3
Exclude ING Insurance Asia Pacific discontinued operation	-3.8
ING Insurance EurAsia excluding discontinued operation	6.5
Change in models and methodology	-0.9
ING Insurance EurAsia 2011 excluding discontinued operation, on a basis comparable to 2012	5.6

The exclusion of ING Insurance Asia Pacific entities relates to all business units in Asia Pacific, ING's Insurance and investment management businesses and the reinsured Japan SPVA businesses in corporate reinsurance that have been classified as discontinued operations and that were considered in last year's EC. Reference is made to Note 23 'Discontinued operations'

In 2012, ING Insurance EurAsia revisited and refined Economic Capital methodologies. This resulted in an overall decrease of EC of EUR 0.9 billion as per year end 2011. This is mainly driven by changes in market risk methodology. In 2011 the impact of several future model changes was anticipated and the changes were fully implemented in 2012. The main changes leading to a lower market risk EC were driven by lower than anticipated contributions of spread and equity risk. Furthermore the methodology to capture equity and interest rate option hedges was refined, leading to a lower equity and interest rate risk EC. Simultaneously, EC increased for business risk which was updated to better capture risk for expense risk and persistency. The tables below start with the restated figures for EurAsia after these model changes.

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

Economic Capital break-down ING Insurance EurAsia excluding discontinued operations (99.5%) by business line		
	2012	2011
Insurance Benelux	**4,324**	4,331
Insurance Central & Rest of Europe	**1,082**	808
Corporate Line Insurance Eurasia [(1)]	**462**	457
Total Insurance EurAsia excluding discontinued operation	**5,868**	5,596

(1) Corporate Line Insurance EurAsia includes funding activities at ING Insurance EurAsia level, Capital Management transactions and corporate reinsurance.

While the figures above are shown by business line, the diversification across ING Insurance EurAsia businesses is calculated across business units. The increase in Central and Rest of Europe was mainly due to a change in mass lapse assumptions driven by Solvency II. Total diversification across ING Insurance EurAsia's business units and the Corporate Line Insurance is 28% (2011: 31%).

Economic Capital for ING Insurance EurAsia increased from 2011 to 2012 primarily due to increases in insurance and business risk, partly offset by significant de-risking activities in the Benelux and overall lower market valuations leading to a lower market risk. The decrease in credit default risk due to a methodology change was offset by a lower diversification of this risk with other risk categories. The Economic Capital assigned to Corporate Line Insurance EurAsia primarily relates to foreign exchange translation risk of the market value surplus of the business units in non-euro countries to the euro.

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

Economic Capital break-down ING Insurance EurAsia excluding discontinued operations (99.5%) by risk category		
	2012	2011
Insurance risk	**1,921**	1,642
Market risk	**3,153**	3,404
Credit default risk	**357**	557
Operational risk	**391**	344
Business risk	**2,337**	2,118
Diversification across risk types	**-2,291**	-2,469
Total insurance operations EurAsia excluding discontinued operation	**5,868**	5,596

INSURANCE RISK

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

Model disclosure

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

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

Economic capital

Economic Capital ING Insurance EurAsia excluding discontinued operations (99.5% undiversified) by risk category		
	2012	**2011**
Mortality	**1,296**	1,119
Morbidity	**283**	263
P&C	**342**	260
Total Insurance Risk	**1,921**	1,642

The mortality risk EC increased because of a mortality table update in the Netherlands and lower interest rates which increased the value of the longevity risk. The P&C risk mainly increased due to an improved implementation of the expected exposure with respect to new business within one year.

Sensitivities

IFRS Earnings sensitivities for Insurance risks excluding discontinued operations		
	2012	2011
Mortality	**-28**	-21
Morbidity	**-99**	-99
P&C	**-82**	-75

Overall exposure to insurance risks did not change significantly during 2012. Annual review of actuarial assumptions for Insurance risk is reflected in the numbers presented in the IFRS Earnings sensitivities above.

Mitigation

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

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

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

BUSINESS RISK

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

Model disclosure

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

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

Economic capital

Economic Capital ING Insurance EurAsia excluding discontinued operations (99.5% undiversified) by risk category		
	2012	2011
Business Risk	**2,337**	2,118

Economic Capital increased mainly due to an increase in persistency risk and to a lesser degree a higher expense risk, as a result of further alignment to the Solvency II regulatory framework.

MARKET RISK

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

Model disclosure

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

	Description	Key Drivers
Interest Rate	Impact of interest rate changes 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.

	Description	Key Drivers
Interest Rate	Impact of interest rate changes on the value of assets and liabilities. AFR & IFRS earnings sensitivities: - Measured by the impact of a 30% upwards and downwards shock relative to the ten year swap rate. Minimum shock is floored at 50 basis points and capped at maximum 150 basis points. Shocks are applied to forward rates up to the last available tenor of the interest rate curve.	IFRS Earnings: Guaranteed separate account pension business in the Netherlands. AFR & EC: Embedded options in the guaranteed separate account pension business in the Netherlands.
Equity	Impact of changes in equity prices which impacts direct equity exposure and loss of fee income from unit linked, pension and fund business. AFR & IFRS earnings sensitivities: - Measured by the impact of a 25% upwards and downwards movement in equity prices.	IFRS Earnings, AFR & EC: Direct equity exposure and embedded options in guaranteed separate account pension business in the Netherlands.
FX	Impact of losses related to changes in exchange rates. AFR & IFRS earnings sensitivities: - Measured by the impact of a 10% up and down movement of currencies compared to the euro.	IFRS Earnings, AFR & EC: Translation risk of IFRS Earnings and AFR from non-euro businesses.
Implied Volatility (Equity & Interest Rate)	Impact of losses on assets and liabilities due to movements in the volatility implied from market option prices. AFR & IFRS earnings sensitivities: - For interest rate measured by the impact of a relative increase of 30% in implied volatilities. - For Equity measured by the impact of a relative increase in implied volatilities based on tenor: 80% for tenors less than 1 year, up 30% for tenors between 1and 3 years, up 20% for tenors between 3–7 years and up 10% for tenors of 7 years and above.	IFRS Earnings, AFR & EC: Embedded options in: - guaranteed separate account pension business in the Netherlands.
Credit Spread	Impact of an increase in credit spreads on investments in fixed income securities offset by movements in the liquidity premium on the liabilities. AFR & IFRS earnings sensitivities: - Measured by the impact of a relative increase based on multiplying duration by a rating based shock (e.g. single A shock is 110 basis points). - AAA and AA rated government bonds and home government bonds in local currency are excluded, exception only applicable to Greek bonds. - Shocks for structured credit are 50% higher than for corporate and government bonds. - Liquidity premium is shocked by 50 basis points up to a certain tenor depending on the currency (e.g. EURO 15 years, USD 30 years). In order to avoid double counting, only Credit Spread risk for AFR is measured.	IFRS: Impaired assets in Greece. AFR & EC: Debt securities in all regions. Liquidity premium offset primarily in the Benelux because liquidity premiums are positively correlated with credit spreads.
Real Estate Price Risk	Impact on the value of Real Estate assets because of a change in earnings related to Real Estate activities and/or a change in required investor yield. AFR & IFRS earnings sensitivities: - For AFR this is measured by the impact of a 15% drop in real estate prices for all real estate holdings. - For IFRS Earnings this is measured by the impact of a 15% drop in real estate prices only for the minority holdings and direct for all real estate revalued through P&L. Other holdings will be included in case of possible impairments caused by the drop in prices.	IFRS Earnings, AFR & EC: Real estate holdings in the Benelux.

Economic Capital

Economic Capital ING Insurance EurAsia excluding discontinued operations (99.5% undiversified) by risk category		
	2012	**2011**
Market Risk	**3,152**	3,404

Economic capital reduced due to a higher offset of the Liquidity Premium in a credit spread up scenario due to an increased duration of our liabilities. Furthermore a better matching of assets and liabilities resulted in lower interest rate and interest rate implied volatility risk. These decreases in Economic Capital were partly offset by reduced positions in equity put options.

Sensitivities

Sensitivities for market risks excluding discontinued operations				
	AFR	**IFRS Earnings**	AFR	IFRS Earning
		2012		2011
Interest Rate Up	**97**	**-61**	306	-91
Interest Rate Down	**-59**	**103**	-310	314
Equity Up	**674**	**354**	708	133
Equity Down	**-596**	**-425**	-158	124
Real Estate	**-780**	**-762**	-802	-778
FX	**-199**	**-34**	-189	-21
Credit Spread	**336**	**-3**	332	-26
Implied Volatility	**-104**	**14**	-153	-16

The Available Financial Resources are currently mainly sensitive to declining equity and real estate prices. Compared to 2011 the downward interest rate sensitivity was reduced by hedges put in place in the Benelux. The downward equity sensitivity increased compared to 2011 as a result of reduced positions in equity put options.

The IFRS earnings are largely sensitive to interest rate movements and a decline in real estate and equity prices. During 2012 the sensitivities for real estate risk remained fairly stable. The Interest rates sensitivities compared to 2011 are primarily influenced by the additional hedges put in place in the Benelux. The equity sensitivities have increased compared to 2012 as equity prices have increased and hedges expired and were not renewed during 2012.

During a period of declining interest rates, profitability may suffer as a result of a decrease in the spread between interest rates earned on assets and interest rates credited to insurance policyholders and annuity contract owners. An extended period of declining interest rates may cause ING Insurance EurAsia to change the long term view of the interest rates that can be earned on the investments.

REAL ESTATE

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

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

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

Real Estate Exposure Profile by sector type exclusing discontinued operations				
Sector	Revalued through P&L	Not revalued through P&L	Revalued through P&L	Not revalued through P&L
		2012		2011
Residential	**123**	**898**	109	967
Office	**732**	**539**	886	605
Retail	**1,462**	**371**	1,596	379
Industrial	**406**		440	
Other	**156**	**591**	212	518
Total	**2,879**	**2,399**	3,243	2,469

As at 31 December 2012, ING Insurance EurAsia has EUR 3.2 billion of real estate related investments (excluding leverage). ING Insurance EurAsia's real estate exposure (i.e. including leverage) is EUR 5.3 billion of which EUR 2.9 billion is recognised at fair value through P&L and EUR 2.4 billion is not revalued through P&L, but is either booked at cost or is revalued through equity (with impairments going through P&L). In total, real estate exposure decreased by EUR 434 million, mainly as a result of negative fair value changes (EUR 172 million), disposals (EUR 130 million), sale of ING Insurance Malaysia (113 million) and other decreases such as impairments (EUR 19 million).

CREDIT RISK

The main credit risk for ING Insurance EurAsia stems from the bond portfolio. This risk is measured through the credit spread risk economic capital that is part of the market risk methodology. The spread risk captures differences in risk (and diversification) between rating classes and regions. For corporate bonds, the concentration risk on individual issuers is also managed with rating based issuer & lending limits that prevent large exposures in one (group of related) single name(s). An outright loss given default limit serves as the final backstop for corporate exposures. Government exposures are separately monitored. The credit risk profile is monitored and reported in the Investment Risk Dashboard.

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

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

The economic capital for credit default risk on residential mortgages, term loans (including private placements) as well as the credit default risk on OTC derivatives, money market lending and reinsurance is measured by looking at each issuer's probability of default (PD) and stressed loss given default (LGD).

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

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

Model disclosure

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

	Description	Key Drivers
Credit Default	Impact of a default of counterparties on IFRS earnings and EC. IFRS earnings sensitivities [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 excluding discontinued operations (99.5% undiversified) by risk category

	2012	2011
Credit Default Risk	**357**	557

The drop in credit default risk is mainly from aligning the ING Insurance EurAsia's model with Solvency II guidelines. Note that the lower Economic Capital of the updated credit default model is offset by a lower diversification benefits with other risks.

Sensitivities

IFRS Earnings sensitivities for Insurance Credit Risks excluding discontinued operations

	2012	2011
Credit Default	**-79**	-129

Risk Profile

ING Insurance EurAsia's goal is to maintain well diversified investment grade portfolio while avoiding large risk concentrations. ING Insurance EurAsia diversifies and limits the credit portfolio with regard to rating classes, industries and geography. The risk of the traded fixed income portfolio is (mainly) measured through the Spread Risk model as well as the Interest Risk model. The risk of the non-traded fixed income and money market products is (mainly) measured with the Credit Default model. The specific risks are contained through the mandate restrictions, the combined Group issuer and lending concentration limit framework and the separate pre-settlement and money market limit frameworks. Please note that for all of the following tables, the figures exclude all ING intercompany exposures and include volume effects.

Risk Classes: ING Insurance EurAsia portfolio excluding discontinued operations, as % of total outstandings [1]

		2012	2011
1	(AAA)	**33.8%**	41.5%
2-4	(AA)	**22.8%**	13.1%
5-7	(A)	**16.3%**	19.2%
8-10	(BBB)	**11.3%**	8.9%
11-13	(BB)	**4.8%**	5.3%
14-16	(B)	**1.1%**	0.8%
17-22	(CCC & Problem Grade)	**0.4%**	0.4%
	Unrated	**9.5%**	10.8%
		100.0%	100.0%

(1) Based on lending, pre-settlement, money market and investment activities. The ratings reflect probabilities of default and are based on ultimate parent. Collateral is not taken into consideration.

The changes in the ING Insurance EurAsia rating class distribution over 2012, as reflected in the table above, were mainly caused by the following events: in January 2012, S&P downgraded 9 European sovereigns, among which France and Austria (from AAA to AA+), Spain (from AA– to A) and Italy (from A to BBB+). Spain was later further downgraded to BBB+ (in April) and in October, to BBB–. In addition, EUR 750 million (historical cost value) of equities was sold in 2012 as an active derisking measure by Insurance Benelux and reinvested in high-quality (mainly sovereign) bonds. The above-mentioned changes explain the decreases in the AAA and A buckets, and the significant increases in the AA and BBB buckets. Part of the decrease in the AAA bucket by the above-mentioned downgrades was offset by derisking measures (such as the above-mentioned reduction of equity exposure) which led to (re)investments in highly-rated sovereigns such as Germany, the Netherlands, Finland (all AAA).

Risk Concentration: ING Insurance EurAsia portfolio excluding discontinued operations , by economic sector [1]		
	2012	2011
Central Governments	**48.2%**	44.1%
Non-Bank Financial Institutions [2]	**17.5%**	20.4%
Commercial Banks	**10.5%**	10.2%
Private Individuals	**7.6%**	8.1%
Real Estate	**3.5%**	3.2%
Utilities	**1.8%**	1.9%
Natural Resources	**1.2%**	0.9%
Automotive	**1.2%**	1.3%
Other	**8.5%**	9.9%
Total	**100.0%**	100.0%

(1) Based on lending, pre-settlement, money market and investment activities.
(2) Non-Bank Financial Institutions include (per 31 December 2012) EUR 6.5 billion of securitisations (mainly RMBS and ABS).

The main changes in 2012 are the increase in central governments exposure as a result of derisking into higher-rated governments, and the decrease of exposure on non-bank financial institutions.

Largest economic exposures: ING Insurance EurAsia portfolio excluding discontinued operations, by geographic area [1]		
	2012	2011
Netherlands	**30.1%**	31.6%
Germany	**17.1%**	15.8%
France	**9.7%**	10.4%
Belgium	**6.2%**	5.4%
United Kingdom	**6.2%**	6.6%
Austria	**4.6%**	4.0%
Spain	**3.5%**	4.3%
Italy	**3.1%**	3.9%
Rest of Europe [2]	**12.4%**	12.7%
Americas	**5.9%**	4.1%
Asia/Pacific	**1.1%**	1.0%
Rest of World	**0.1%**	0.2%
Total	**100.0%**	100.00%

(1) Country is based on the country of incorporation of the ultimate parents of issuers/borrowers, all types of issuers/borrowers are included.
(2) Other GIIPS countries (31 December 2012 compared to 31 December 2011): Ireland (1.1%, from 1.7%), Portugal (0.2%, from 0.5%), Greece (0.3%, from 0.2%)

From a geographic perspective the main changes are driven by derisking activities through sales and redemptions (GIIPS countries, Netherlands) and re-allocating to low-risk investments (Germany, Austria, Finland). For the Netherlands this contains swapping credit into sovereign exposure. New investments were done in Americas.

Security lending and repo business
ING Insurance EurAsia entities can enter into securities transactions. These transactions can take many legal forms. Repurchase and reverse repurchase agreements and securities borrowing and lending agreements are the most common. The amount of marketable securities that ING Insurance EurAsia lent/sold/repoed under these securities transactions at 31 December 2012 was EUR 2.8 billion (2011: EUR 7.8 billion). The corresponding amount of marketable securities held as collateral under these securities transactions at 31 December 2012 was EUR 3.3 billion (2011: EUR 8.4 billion). The reduced volume can be explained by the adoption of a lower maximum (cap) for these securities transactions for the Dutch insurance entities, combined with stricter collateral criteria for security lending, which led to less demand.

These amounts include pledge of securities posted as collateral, securities received as collateral under a transfer of title and cash received as collateral. As a general rule, the securities that have been received as collateral under these transactions are eligible to be resold or pledged in other (similar) transactions when there is a transfer of title. ING is obliged to return equivalent securities in such cases to its counterparties and ING receives equivalent securities from its counterparties.

Credit and Counterparty Risk Mitigation
ING Insurance EurAsia uses different credit risk mitigation techniques. For OTC derivatives, the use of ISDA Master Agreements accompanied with Credit Support Annexes is an important example. For retail lending portfolio's - mortgages on the house and pledges of insurance policies or investment accounts of clients are important elements of credit risk mitigation. Other forms of credit risk mitigation include reinsurance collateral.

The table below shows the covers values for ING Insurance EurAsia, with the exception of covers received for derivatives and securities lending/(reverse) repo's.

Covers Values ING Insurance EurAsia excluding discontinued operations (1)

				2012
	Total outstanding amount	**Mortgages (2)**	**Other covers**	**Total covers**
Asset categories				
Investment	**61,057**		**1**	**1**
Residential Mortgage	**5,399**	**4,560**		**4,560**
Lending	**2,081**		**75**	**75**
Other	**3,687**			
Grand Total	**72,224**	**4,560**	**76**	**4,636**

(1) This excludes collateralisation of derivative exposures and for security lending/(reverse) repo's activities.
(2) The cover value for mortgages includes a haircut in case of a forced sale. The value of this haircut is equal to the value of the haircut applied to the 2011 cover values in the table below.

Covers Values ING Insurance EurAsia excluding discontinued operations (1)

				2011
	Total outstanding amount	Mortgages (2)	Other covers	Total covers
Asset categories				
Investment	58,120		7	7
Residential Mortgage	5,530	4,402		4,402
Lending	2,485		118	118
Other	3,301			
Grand Total	69,436	4,402	125	4,527

(3) This excludes collateralisation of derivative exposures and for security lending/(reverse) repo's activities.
(4) The cover value for mortgages includes a haircut in case of a forced sale. The value of this haircut is equal to the value of the haircut applied to the 2012 cover values in the previous table (2012 cover values).

Impairments and provisions

The credit portfolio is under constant review. For bonds and other fixed income securities, criteria for impairing include, but are not limited to, expected and actual credit losses, resulting from e.g. failure to pay, market information about expected and actual credit losses and other evidence that the issuer cannot meet its payment obligations. For equities, a significant or longer-term decrease of the market value below cost price is taken into account as indicator for impairment.

With regard to loans, all loans with past due financial obligations of more than 90 days are automatically reclassified as impaired. For the wholesale lending portfolios there are generally reasons for declaring a loan impaired prior to being 90 days past due. These include, but are not limited to, ING Insurance EurAsia's assessment of the customer's perceived inability to meet its financial obligations, or the customer filing for bankruptcy or bankruptcy protection. In some cases, a material breach of financial covenants will also trigger a reclassification of a loan to the impaired category. ING Insurance EurAsia identifies those loans as impaired loans when it is likely that the principal and interest amounts contractually due will not be collected in accordance with the contractual terms of the loan agreements, based on current information and events. A formal analysis takes place quarterly to determine the provisions for possible bad debts, using a bottom-up approach. For retail loans, collective provisions are formed (at portfolio level) based on historical loss experience corrected for actual circumstances. In addition, specific provisions can be formed at the individual loan level. Conclusions are discussed in the Impairment Committee, which advises the Management Board on specific provisioning levels.

In 2012, impairments on bonds and ABS totalled EUR 16 million, mainly related to one issuer.

The below table reflects provisions related to personal loans and mortgages (almost all of the provisions are related to Insurance Benelux).

Provisions: ING Insurance EurAsia portfolio excluding discontinued Operations		
	2012	2011
Opening balance	**80.4**	71.0
Write-offs	**-24.1**	-11.7
Recoveries	**0.4**	1.9
Increase/(decrease) in loan loss provision	**12.1**	19.7
Exchange differences		-0.3
Other changes		-0.2
Closing balance	**68.8**	80.4

Retail mortgage loan portfolio's: past-due obligations and problem loans
The following table illustrates the amount of loans in (payment) arrears for the retail mortgage loan portfolio.

Aging analysis (past due but not impaired) outstandings excluding discontinued operations (1)		
	2012	2011
Past due for 1–30 days	**98**	74
Past due for 31–60 days	**23**	19
Past due for 61–90 days	**10**	13
Past due for more than 90 days	**24**	20
Total	**155**	126

(1) Based on residential mortgages only.

In 2012, EUR 66 million of the total retail mortgage loan portfolios was classified as a problem loan (Q4 2011: EUR 60 million) which is a combination of rating and past dues.

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

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

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

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

Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios. The liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested.

Under the terms of our Over-The-Counter Derivative International Swaps and Derivatives Association, Inc. ('ISDA') Agreements, we may receive from, or deliver to, counterparties, collateral to assure that all terms of the ISDA Agreements will be met with regard to the Credit Support Annex ('CSA'). Currently the amount received exceeds the amount delivered. Analysis show this balance will remain positive under stressed scenarios.

OPERATIONAL RISK

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

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

The Operational risk function works with the Operational Risk Management (ORM) Scorecard process to evaluate yearly the embedding level of the ORM Framework in each business. Policies and minimum standards governing the framework are kept in the policy house.

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

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

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

Economic Capital

Economic Capital ING Insurance EurAsia (99.5% undiversified) excluding discontinued operations by risk category

	2012	2011
Operational Risk	**391**	344

COMPLIANCE RISK

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

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

ING Insurance EurAsia has a policy not to enter into new relationships with clients from internationally sanctioned countries and processes remain in place to discontinue existing relationships involving these countries.

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

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

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

ING INSURANCE US

Risk management of ING Insurance US includes risk management of the business lines Insurance US, Insurance US Closed Block VA and certain US based operations of ING IM and Corporate Line Insurance. Legally this business is directly or indirectly part of the legal entity ING US, Inc. ('ING US'). To the extent possible risk management has been organised in line with the anticipated stand-alone future of ING US following an initial public offering ('IPO'). Until the IPO Group exercises an overview role through the Supervisory Board, the Executive Board and through participation in certain Committees.

MISSION AND OBJECTIVES

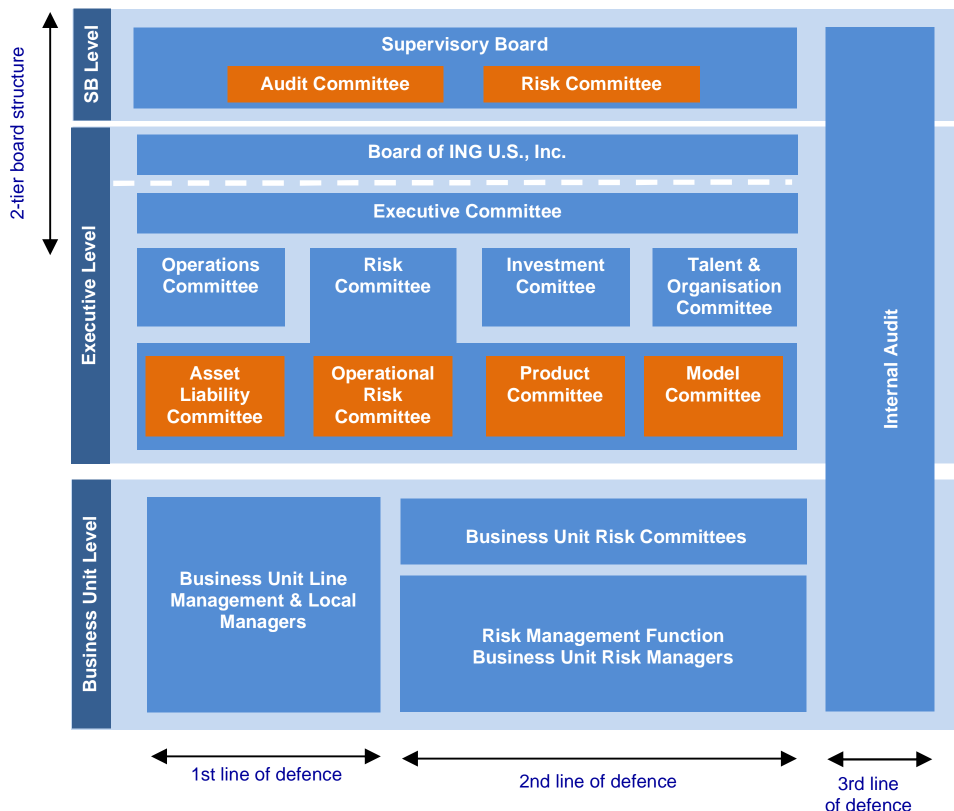
As a financial services company active in investments, insurance and retirement, ING US is exposed to a variety of risks. The mission of risk management in ING US is to fully integrate risk management into daily business activities and strategic planning. This is achieved by providing value added insights on risk issues to drive informed decision-making that maximises the value of ING US.

The following principles support this objective:

- Maintaining functional independence;
- Facilitating transparent communication to internal and external stakeholders on risk management and value creation;
- Providing formal checkpoints to facilitate adherence to internal and external compliance requirements;
- Monitoring products and portfolios to ensure they are appropriately approved and managed;
- Maintaining transparency of the risk profile of ING US, manage to avoid surprises;
- Keeping delegated authorities consistent with the overall ING US strategy and risk appetite.

RISK GOVERNANCE

The risk governance for ING US is based on the 'three lines of defence' framework which facilitates the management of risk in line with the risk appetite as defined by the Board of ING U.S., Inc. and ratified by the Supervisory Board. Risk governance is implemented through the multi-tiered structure described below. This structure facilitates communication and provides appropriate forums in which to raise issues, to make decisions and to enforce limits/controls.



Board level risk oversight
ING US has a two-tier board structure consisting of the Board of ING U.S., Inc. and the Supervisory Board.

The Supervisory Board is responsible for overseeing the policies of the Board of ING U.S., Inc., the general course of affairs of the Company and its businesses. For Risk Management purposes the Supervisory Board is assisted by two sub-committees:

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

To the extent that the committees do not determine otherwise, the Chief Risk Officer (CRO) attends the meetings of both committees. The Board of ING U.S., Inc. is responsible for managing the risks associated with the activities of ING US. The responsibilities of Management ING US include ensuring the risk management and control systems are effective and ING US complies with relevant legislation and regulations. The Board of ING U.S., Inc. reports and discusses these issues on a regular basis with the Supervisory Board, and reports to the Audit Committee on a quarterly basis on ING US's risk profile versus its risk appetite.

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

Executive Level
The Board of ING U.S., Inc. has delegated certain tasks to the Finance and Risk Committee. The primary responsibility of the committee is to align finance and risk decisions that have an impact on internal and/or external reporting.

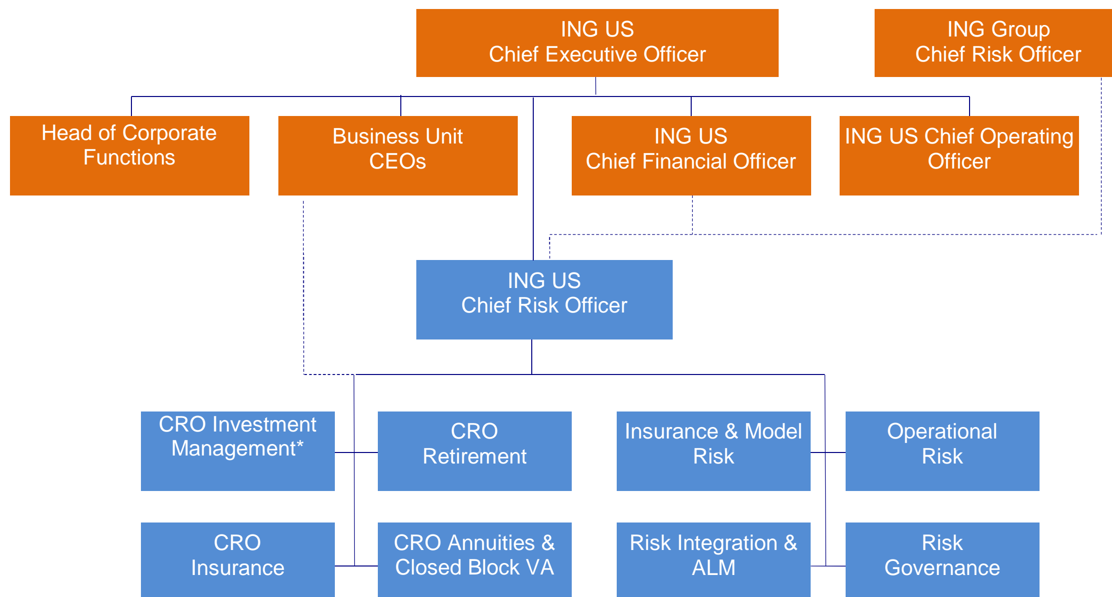
On a more detailed level for risk related issues the Board of ING U.S., Inc. relies on the Executive Committee which has delegated risk related tasks to the following committees:

- Risk Committee
  - Advises the Board of ING U.S., Inc. on all financial and non-financial risks.
  - Approves risk policies, determines risk appetite and monitors limits and tolerances.
  - Assists the EC by focusing on ING US risk management and capital issues, and partners with the US Investment Committee to review/monitor investment related issues.
- Investment Committee
  - Assist the EC in the oversight of investment related issues for ING US.
  - Determine and monitor investment policies and guidelines for ING US entities.
  - Review and approve the Strategic Asset Allocation targets of the business units and recommend changes to company policies and investment guidelines that address General Account investments, or other investments for which the company is at risk.
- Risk committees are established at the ING US and business unit levels. The Risk Committee has a number of sub-committees focussing on different risk areas:
  - Asset Liability Committee
    - Reviews methods and techniques for calculating Asset Liability Management risk, advises about limits, monitors breaches in the risk limits, and considers remediation.
    - Addresses balance sheet management, statutory capital requirements, and liquidity needs and recommends to the US Risk Committee.
  - Model Committee
    - Oversees all models and model validation risk issues across ING US.
    - Approves assumption, model, methodology changes and updates for all corporate models, and business unit models above the established thresholds.
    - Recommends model policies and guidance to the US Risk Committee.
  - Operational Risk Committee
    - Oversees all non-financial risk across ING US - operational, compliance, legal and reputation risk.
    - Recommends action on reported risks and what risks ING US is willing to accept.
  - Product Committee
    - Oversees insurance product risk issues across ING US.
    - Provides guidance and best practices through the product development and approval process.

Risk Management Function

The ING Group CRO has delegated the day-to-day Risk Management within ING US to the ING US Chief Risk Officer (CRO). The ING US CRO directly reports to the ING US CEO and functionally reports to the ING Group CRO. The ING US Chief Risk Officer bears primary and overall responsibility for the risk management function within ING US, which identifies, measures, monitors and reports risk within ING US The risk function maintains and updates the policy framework, develops and maintains risk methodologies and advises on the risk tolerance and risk profile. The CRO makes sure both the Supervisory Board and Board of ING U.S., Inc. are well informed and understand ING US's risk position at all times.

The ING US CRO's department consists of corporate and business unit risk functions that support the ING US's risk management activities. The business unit CROs report to the ING US CRO. The Corporate Enterprise Risk Management (ERM) function addresses all risks facing ING US It is an independent function that enables a clear separation of duties between Risk, Finance and Investment. ERM facilitates information flow across the enterprise by providing formal checkpoints and forums where risk issues are discussed and informed decisions made. ERM enables risk measurement and analysis into corporate decision-making.



* Includes Capital Markets Risk

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

Reserve adequacy
US ERM ensures that the total insurance liabilities of ING US are tested for adequacy taking into account the insurance premium rate levels and the uncertainty of future returns on investments. This is done by evaluating insurance liabilities using current best estimate assumptions and inclusion of a risk margin for prudency. The assumed investment earnings are a combination of the run-off of portfolio yields on existing assets and new money and reinvestment rates. For new money and reinvestments long-term best estimate assumptions are taken into account, although current new money rates are used for the short-term reinvestments.

Policies
ING has a framework of risk policies, procedures, guidance notes, and practice notes in place to create consistency throughout the organisation and to define minimum requirements for corporate areas and business units. The governance framework of the business units aligns with this framework and meets local (regulatory) requirements. Senior Management is responsible for ensuring that policies, procedures and standards are implemented and followed. Policies, procedures, guidance and practice notes are regularly reviewed and updated via the relevant risk committees to reflect changes in markets, products, guidance and best practices.

Model governance
Model governance is achieved through the ING US Model Committee. This committee provides oversight for models and assumptions owned or managed within the corporate functions and acts as an escalation point for models or related changes that have a financial impact over a set materiality threshold.

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

	Description
Risk Appetite	A qualitative measure defining the playing field ING US wants to act in. Driven by ING US's financial and rating targets, local capital requirements, and business strategy.
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.

Risk exposures are managed by ING US according to the following risk metrics, and limits are set on these metrics that are consistent with the organisation's risk tolerance. These risk metrics are computed on the basis of market and non-market sensitivities of two primary financial quantities:

- US Regulatory Capital Requirements - Defined as a multiple of the minimum capital required by the National Association of Insurance Commissioners (NAIC) with consideration of the capital requirements deemed appropriate to maintain the ratings level issued to the operating companies by various rating agencies along with additional requirements for the Cayman Islands based subsidiary Security Life of Denver International (SLDI) (more detail is described in the Regulatory Capital section below); and
- IFRS Earnings.

The risk limit framework described above operates within ING Group's risk limit framework. ING US is in the process of implementing additional risk metrics including one based on U. S. GAAP earnings and another that is a variation on the US regulatory capital sensitivities described herein. ING US also is considering the expansion of its risk limit framework to include various stress scenarios.

Financial Risks
For financial risks, the risk tolerance is translated to risk limits assuming moderate stress scenarios.

- US Regulatory Capital Requirements sensitivities – The sensitivity, under moderately adverse market and credit stress scenarios, of the excess of available statutory capital above the level targeted by ING US and described in the Regulatory Capital section below;
- IFRS Earnings sensitivities – The sensitivity, under moderately adverse market and credit stress scenarios, of realised pre-tax earnings of the insurance operations over a 12-month period.

Other limit structures exist at both the corporate and business unit level. Examples include, but are not limited to, the following:

- Issuer concentration limits;
- Mortality concentration limits;
- Catastrophe and mortality exposure retention;
- Minimum liquidity requirements;
- Investment and derivatives guidelines and limits.

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

Non-Financial Risks
To ensure robust non-financial risk management, which also reflects the risk tolerance levels, ING US monitors the full implementation of ING US's risk policies, minimum standards and implementation guidelines, and business units demonstrate that appropriate steps have been taken to control their operational and compliance risk. ING US applies scorecards to measure the quality of internal controls within a business unit. Scoring is based on the ability to demonstrate that the required risk management processes are in place and effective within the business units.

Non-Financial Risk Dashboard
The Non-Financial Risk Dashboard (NFRD) is a quarterly report that is discussed at the meetings of the Supervisory Board, Board of ING U.S., Inc. and ING US management bodies. The NFRD provides management at all organisational levels with information on their key operational, compliance and legal risks. The NFRD is based on defined risk tolerance and a clear description of the risks and responses enabling management to prioritise and to manage operational, compliance and legal risks.

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

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

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

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

	Description	Key Drivers
Mortality	Within mortality risk there are two main parts: - Positive mortality risk exists when more insureds die 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 Insurance Solutions.
Morbidity	Morbidity or Health insurance covers insurance indemnifying or reimbursing losses (e.g. loss of income) caused by illness or disability, or for expenses of medical treatment necessitated by illness or disability. Morbidity risk comprises the risk of variability of size, frequency and time to payment of future claims, development of outstanding claims and allocated loss adjustment expenses (ALAE) for morbidity product lines over the remaining contract period.	Earnings sensitivity to morbidity risk (e.g. sickness, disability, accidental death, workers' compensation, medical insurance) is present in the Employee Benefits business.

Sensitivities
Mortality and morbidity sensitivities are calculated on a diversified basis assuming a normal distribution and a specified mortality/morbidity scenario for calibration. The largest contribution to the mortality sensitivity comes from the Individual Life business while the morbidity sensitivity comes from the Employee Benefit business.

IFRS Earnings Sensitivities for Insurance Risks	US Excl. CB-VA		CB-VA	
	2012	2011	**2012**	2011
Mortality	**-23**	-19	**-1**	-7
Morbidity	**-49**	-49		

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

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

- Tolerance limits for life insurance risk are set per insured life and significant mortality and morbidity events affecting multiple lives such as pandemics;
- Reinsurance is used to manage risk exposure and exposure to reinsurers is managed according to the ING US reinsurance credit risk policy;
- ING US is currently reviewing our mortality concentration limits in order to better assess our need to obtain protection from catastrophic losses resulting from events such as terrorism.

BUSINESS RISK
Business risk for insurance is the risk insurance operations accept as consequence of choosing to be in the business. In practice this can be defined as the exposure to the possibility that experience differs from expectations with respect to expenses, the run-off of existing business (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).

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

The sensitivities shown are calculated at the business unit level and cover US domiciled insurance entities. The sensitivities are based on moderately adverse shocks to underlying risk factors as described in the following table:

	Description	Key Drivers
Interest Rate	- 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	General account business.
Implied Volatility (Equity & Interest Rates)	- Impact of losses related to changes in foreign currency exchange rates. - Measured by the worst case impact of a 10% up and down movement for each currency.	
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.	
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 US earnings sensitivities are dominated by credit, equity and interest rate exposure.

ING US has no significant earnings sensitivity to Foreign Exchange Rates as ING US is managed on a local currency basis and therefore there is no translation risk to the Group reporting currency included in the sensitivities. ING US also has no significant earnings exposure to non-US currencies. From the ING Group perspective, there may be translation risk between ING US USD based operations and ING Group EUR basis.

ING US earnings sensitivities to market risk factors are shown in the tables below. Taking into account diversification between risk factors, ING US (excluding CB-VA) is exposed to a EUR 0.9 billion decrease in expected IFRS Earnings within the context of the market and non-market sensitivity analysis. At 31 December 2011, ING US (excluding CB-VA) was exposed to a EUR 1.0 billion in expected IFRS Earnings within the context of the market and non-market sensitivity analysis. The changes from 2011 to 2012 are the result of many factors including:

- Changes in credit exposures, as discussed in the Credit Risk Section below, leading to a reduction in default risk and an increase in spread risk;
- Sales of Limited Partnership assets, reducing earnings sensitivity to equities;
- Changes in hedge positions, leading to a reduced exposure to interest rates.

IFRS Earnings Sensitivities for Market Risks [1, 2]

	US Excl. CB-VA	
	2012	2011
Interest Rate Up	**58**	72
Interest Rate Down	**-77**	-146
Equity	**-244**	-293
Credit – Default	**-283**	-355
Credit – Spread	**-236**	-188

(1) FX and real estate sensitivities do not have a material impact.
(2) Sensitivities are calculated at business unit level.

Estimated CB-VA Immediate Earnings Sensitivities at 31 December 2012 Immediate Change in Equity Market	-25%	-15%	-5%	+5%	+15%	+25%
Earnings sensitivity before RAT Policy Impact	1,150	700	250	-100	-350	-550
RAT Policy Impact (RAT50)	0	0	0	0	0	0
Total Estimated Earnings Sensitivity	1,150	700	250	-100	-350	-550
RAT 50 Sufficiency	100	300	550	750	850	1,000

The table above exhibits the sensitivity of CB-VA earnings to immediate changes in equity markets. For example, as of 31 December 2012 it is estimated that if equity markets were to immediately increase by 25%, CB-VA would be exposed to an immediate EUR 0.55 billion decrease in IFRS earnings. This immediate sensitivity is not directly comparable to the 12 month sensitivities shown in the preceding table.

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

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

Real Estate Exposure	2012	2011
Total	**123**	125

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

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

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

The exposure to the investment grade rating qualities increased in 2012 and the exposure to the below investment grade rating qualities decreased, pointing at an improvement in the overall quality of the credit risk portfolio. The 17–22 category largely consists of unrated exposures. The exposure to assets actually rated CCC or below has further reduced in 2012 and is only 2% of the portfolio per 31 December 2012.

Risk Classes: ING US portfolio, as % of total outstanding [(1)]

			ING US
		2012	2011
1	(AAA)	**15.0%**	16.5%
2-4	(AA)	**15.0%**	13.7%
5-7	(A)	**27.5%**	25.3%
8-10	(BBB)	**26.2%**	24.0%
11-13	(BB)	**3.5%**	3.8%
14-16	(B)	**3.5%**	3.9%
17-22	(CCC & Problem Grade)	**9.3%**	12.8%
Total		**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 change shown for Non-Bank Financial institutions which decreased by 3.3%. This category largely consists of special purpose vehicles that issue RMBS, ABS and CMBS securities. Net sales of these assets resulted in the reported reduction.

Risk concentration: ING US portfolio, by economic sector [(1)]

		ING US
	2012	2011
Non-Bank Financial Institutions	**35.3%**	38.6%
Real Estate	**8.3%**	8.5%
Central Governments	**7.3%**	8.2%
Natural Resources	**7.1%**	6.9%
Utilities	**6.1%**	6.0%
Commercial Banks	**4.5%**	4.4%
Food, Beverages & Personal Care	**4.1%**	3.6%
Chemicals, Health & Pharmaceuticals	**3.5%**	3.1%
Private Individuals	**2.5%**	2.2%
Telecom	**2.2%**	2.2%
General Industries	**1.7%**	2.1%
Other	**17.4%**	14.2%
	100%	100%

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

ING US largely invests in financial instruments issued in the United States, as required by regulation. The decrease in exposures to the Netherlands is related to the transfer of the note reflecting the obligations of the Dutch Government related to the Alt-A RMBS sales transaction in 2009 to ING Group Bonds and private placements issued by Western European corporations reduced in 2012 from 9.3% per 31 December 2011 to 8.2% per 31 December 2012. It still accounts for the majority of the non-US exposure.

Largest economic exposures: ING US portfolio, by geographic area [1]		
		ING US
	2012	2011
United States	79.6%	77.4%
Netherlands	3.9%	5.7%
Rest of Europe	8.2%	9.3%
Rest of Americas	5.1%	4.4%
Asia/Pacific	3.1%	3.0%
Rest of World	0.1%	0.2%
Total	100%	100%

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

Securities Lending Business

As part of its securities financing business, ING US entities actively enter into agreements to sell and buy back marketable securities. These transactions can take many legal forms. Repurchase and reverse repurchase agreements, buy/sellback and sell/buyback agreements, and securities borrowing and lending agreements are the most common. The amount of marketable securities ING US provided as collateral under these types of agreements was EUR 0.5 billion per 31 December 2012 and EUR 0.8 billion per 31 December 2011. The change is caused by reduced liquidity requirements.

Mitigation

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

- The entire block of commercial mortgages (EUR 6.6 billion per 31 December 2012) is collateralised with mortgages on real estate properties. The weighted average loan to (most recent) value of this portfolio was 55% per 31 December 2012 which is unchanged from December 2011;
- The EUR 11 billion private placement portfolio is partially collateralised with assets pledged to the consortium of lenders. Also, financial covenants that have been agreed with the different borrowers protect us structurally against any kind of subordination. At least 80% of the assets in this portfolio is either structurally unsubordinatable (i.e. implicitly secured), and another 10–20% explicitly secured;
- The policy loan portfolio (EUR 1.7 billion per 31 December 2012) is fully collateralised by the cash value of the underlying insurance policies;
- The gross counterparty risk exposure to reinsurance companies (EUR 5.7 billion per 30 September 2012) is largely collateralised with assets held in trust (EUR 2.5 billion), letters of credit (EUR 2.0 billion), or funds withheld (EUR 1.1 billion). Please note however that some exposures are over collateralised and that there is a total of EUR 1.6 billion of uncollateralised reinsurance counterparty risk exposure;
- Exposure to financial institutions related to OTC derivative-transactions is largely collateralised, in line with ISDA Master Agreements accompanied by Collateral Support Agreements that have been signed with these counterparties. As per 31 December 2012, ING US was holding net collateral of EUR 0.55 billion supporting a market value exposure of EUR 0.70 billion;
- Exposures related to Securities Lending, Reverse Repo, and exchange traded instruments are also collateralised.

Problem Loans

Problem loans are defined as commercial mortgage loans that are 60 days or more in arrears, as that is the point where there is a probability that the full principal and interest may not collected. ING US does not have any material problem loans. As soon as commercial mortgage loans become non-performing, the collateral is typically liquidated or the loan is sold.

Impaired loans and provisions

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

LIQUIDITY RISK

Liquidity risk refers to the risk that a company is unable to settle financial obligations when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions. As with other market risks, liquidity risk falls under the supervision of the Risk Committee function. Under the volatile market circumstances in 2012, funding and liquidity risk remains an important topic on the agenda of senior management and the Risk Committee that needs continuous monitoring and management. External market and regulatory developments and internal financial developments are closely monitored. Regular stress testing and measurement of early warning indicators are, among others, used to provide additional management information.

ING US defines two levels of liquidity management. Short-term liquidity, or cash management covers the day-to-day cash requirements under normally expected or likely business conditions. Long-term liquidity management takes into consideration various expected and adverse business conditions, which might result in the inability of realising the current market values of the assets. The assets might only be sold at a further distressed price simply due to the lack of liquidity. Stress liquidity management looks at the company's ability to respond to a potential crisis situation. The day-to-day and ongoing cash management allows for a more proactive response to potential liquidity problems in distressed markets. Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in a base case and under several stressed scenarios. Liquidity risk is evaluated separately by legal entity because of certain regulatory restrictions on the transfer of assets between legal entities.

ING US principal available sources of liquidity are product charges, investment income, proceeds from the maturity and sale of investments, proceeds from debt issuance and borrowing facilities, repurchase agreements, contract deposits and securities lending. Primary uses of these funds are payments of policyholder benefits commissions and operating expenses, interest credits, investment purchases, derivative collateral requirements and contract maturities, withdrawals and surrenders. ING US liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested.

Under the terms of ING US Over-The-Counter Derivative International Swaps and Derivatives Association, Inc. ('ISDA') Agreements, ING US may receive from, or deliver to, counterparties, collateral to assure that all terms of the ISDA Agreements will be met with regard to the Credit Support Annex ('CSA'). The terms of the CSA call for ING US to pay interest on any cash received equal to the federal funds rate ('Federal Funds Rate'). As of 31 December 2012, EUR 675 million of net cash collateral related to derivative contracts was being held. As of 31 December 2012, ING US delivered EUR 25 million and EUR 9 million of cash collateral related to derivative contracts and credit facilities, respectively. As of 31 December 2011, EUR 585 million of net cash collateral related to derivative contracts was being held. As of 31 December 2011, ING US delivered EUR 31 million and EUR 9 million of cash collateral related to derivative contracts and credit facilities, respectively. As of 31 December 2010, EUR 10 million of net cash collateral related to derivative contracts was being held. As of 31 December 2010, ING US delivered EUR 39 million and EUR 9 million of cash collateral related to derivative contracts and credit facilities, respectively. The collateral held and delivered is included in Payables under securities loan agreements, including collateral held and Short-term investments under securities loan agreements, including collateral delivered, respectively, on the Consolidated Balance Sheets. In addition, as of 31 December 2012, 2011 and 2010, ING US delivered securities as collateral of EUR 0.8 billion, EUR 1.0 billion and EUR 0.8 billion, respectively, which was included in Securities pledged on the Consolidated Balance Sheets. Collateral requirements are monitored on a daily basis and incorporate changes in market values of both the derivatives contract as well as the collateral pledged. Market value fluctuations are due to changes in interest rates, spreads and other risk factors.

OPERATIONAL RISK

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

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

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

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

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

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

COMPLIANCE RISK

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

The Scope of the Compliance function

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

The Compliance function

In ING US, the Compliance function is an independent control and risk management department. The ING US Chief Compliance & Ethics Officer reports directly to the ING US Chief Legal Officer, who is a member of the Board of ING U.S., Inc. The ING US Chief Compliance & Ethics Officer also has a functional reporting line to the ING Group Chief Compliance Officer.

Compliance Risk Management Framework

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

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

Main Compliance developments in 2012

- Policies & Procedures: ING US Compliance reviewed and prepared drafts of an updated Code of Business Conduct and Ethics, along with new or refreshed Corporate Compliance Policies tailored to the US business and regulatory regime. These are expected to be issued and implemented in conjunction with the planned separation of ING US businesses;
- Technology Enhancements: ING US Compliance enhanced technology and tools to improve compliance risk management in the areas of anti-money laundering, position reporting and personal trading;
- Enterprise Functions: ING US Compliance implemented certain enterprise-wide compliance processes to support functions across business lines, including advertising review, inspections and compliance training;
- Extra-territorial Laws: The UK Bribery Act was effective 1 July 2011 and is deemed applicable to ING's business globally. Accordingly, the ING Group Gifts, Entertainment and Anti-Bribery Policy was amended to comply with the UK Bribery Act, and ING US will adopt and implement policies that align with the regulatory and Group requirements;
- Employee Compliance Training: Continuous education and awareness training was provided through the ING Learning Center, with four required Corporate Responsibilities Courses for all ING US employees, in addition to targeted courses where deemed necessary.

REGULATORY CAPITAL

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

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

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

As of 31 December 2012, US regulatory capital was at USD 7.9 billion producing an RBC ratio of 526%.

Regulatory Capital Sensitivities
ING US calculates regulatory capital sensitivities on the Risk-Based Capital model in order to provide insights into how the amount of available capital in excess of regulatory required capital changes with an increase or a decrease in different market risk factors under moderate stress scenarios that correspond approximately with a 1-in-10 year event. Regulatory capital sensitivities are calculated in aggregate for the US domiciled regulated insurance entities, and include the effects of the sensitivities on the capital of SLDI.

The sensitivities shown are calculated at the business unit level and cover US domiciled insurance entities. The sensitivities are based on moderate shocks to the following underlying risk factors:
- Interest rates;
- Equity;
- Credit (credit default and credit spread risk);
- Foreign exchange;
- Real estate.

The shock scenarios applied for regulatory capital sensitivities are the same as those shown in the Market Risk section for Earnings at Risk. The regulatory capital sensitivity in aggregate is calculated by combining the joint impact of the various market stress events calculated by taking into account the correlations between risk types.

Sensitivities
The table below presents market risk sensitivity figures before diversification between risks

Regulatory Capital Sensitivities [1, 2]

	US Excl. CBVA		CB-VA	
	2012	2011	**2012**	2011
Interest Rate Up	**-23**	2	**258**	24
Interest Rate Down	**-24**	-50	**-246**	-226
Equity	**-82**	-149	**-129**	-17
Credit - Default	**-240**	-272	**-6**	-8
Credit – Spread [3]	**-462**	-475	**-19**	-21
Mortality [4]	**-19**	-15	**-1**	-4
Morbidity [4]	**-32**	-32		

(1) 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) Includes changes in liabilities anticipated with an increase on spreads.
(4) Mortality and morbidity sensitivities are calculated on a diversified basis assuming a normal distribution and a specified mortality/morbidity scenario for calibration.

The changes from 2011 to 2012 are the result of many factors including:
- Changes in credit exposures, as discussed in the Credit Risk section above, leading to a reduction in default risk;
- Sales of Limited Partnership assets, reducing US ex CB-VA sensitivity to equities;
- Introduction of Stable Value hedging program, leading to reduced exposure to interest rates in US ex CB-VA;
- Model and assumption refinements in CB-VA, leading to an increase in equity sensitivity.

Taking into account diversification between risk factors, ING US (excluding CB-VA) is exposed to a EUR 0.9 billion decrease in regulatory capital and CB-VA is exposed to a EUR 0.4 billion decrease in regulatory capital within the context of the market and non-market sensitivity analysis. As of 31 December 2011, the comparable amounts were EUR 1.0 billion and EUR 0.3 billion, respectively.

MODEL RISK
The US has a rigorous Model Risk Governance framework that is operative at each Business Unit level as well as within the ING US Corporate area. Through this framework all model, methodology and assumption changes are reviewed and approved by a BU Chief Risk Officer or by the US Chief Risk Officer. The US CRO has ultimate authority for Model Risk Governance. Beginning in 2012, the US has targeted 3Q as the quarter to make our routine experience updates. We will also target 3Q for any other planned model, methodology and assumption updates. Below is a summary of the significant model and assumption changes for 4Q 2012 that were approved by the US Model Committee:
- The QRM system was approved as a replacement for ECAPS for use in the calculation of Economic Capital and FAS107 disclosure items;
- A new methodology was approved to generate EC and Market Consistent scenarios;
- Several business units made updates to statutory values as a result of changes in reserve valuation interest rates or changes in their cash flow testing models. The valuation interest rate updates are required by law.

INSURANCE INVESTMENTS

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

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

Insurance Investments businesses are managed by the Head of Insurance Investments and supported by the Finance and Risk functions of ING Group. The largest asset is the Brazilian SulAmerica joint venture with a balance sheet value of EUR 366 million (in 2011 EUR 394 million). Winding down financing activities is delegated to ING Group Capital Management.

Capital Management

amounts in millions of euros, unless stated otherwise

OBJECTIVES

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

ING applies the following main capital definitions:

- Adjusted Equity (ING Group) – This rating agency concept is defined as shareholders' equity plus core Tier 1 securities, hybrid capital and prudential filters. See 'Capital Base' disclosures in this section. This capital definition is applied in comparing available capital to core debt for ING Group.
- Core Tier 1 capital, Tier 1 capital and total BIS capital (ING Bank) – Tier 1 capital is defined as shareholders' equity including core Tier 1 securities plus hybrid capital less certain prudential filters and deductible items. Core Tier 1, Tier 1 and BIS capital divided by riskweighted assets equal the Core Tier 1, Tier 1 and BIS ratio respectively. Core Tier 1 capital is equal to Tier 1 capital excluding hybrid capital.
- Insurance Group Directive capital (ING Insurance) – This regulatory concept is defined as shareholders' equity plus hybrid capital, prudential filters and certain adjustments. IGD capital is calculated in accordance with method 3 'method based on accounting consolidation' of the Dutch Act on Financial Supervision. In this method the solvency margin is calculated on the basis of the consolidated accounts and is the difference of (i) the assets eligible for the inclusion in the calculation of the solvency margin based on the consolidated data; and (ii) the minimum amount of the solvency margin calculated on the basis of the consolidated data. In applying this method a solvency deficit of an insurance subsidiary, if any, is taken into account, as well as regulatory adjustments of the Dutch insurance subsidiaries based on the Dutch Act on Financial Supervision. See 'Capital Base' disclosures in this section. This capital definition is applied in comparing IGD capital to EU required capital base. In 2012 the IGD ratio was positively impacted by the adoption of the Ultimate Forward Rate Curve for the valuation of insurance liabilities in the Netherlands.
- AFR (ING Insurance EurAsia excluding discontinued operations) –This is a pre-tax market value concept, defined for the insurance operations of ING Insurance EurAsia as the market value of assets (MVA) less the market value of liabilities (MVL) on the balance sheet. The liabilities do not include perpetual hybrid capital which is included in AFR. The AFR valuation of ING Insurance EurAsia includes an adjustment for liquidity premium. The AFR for third party pension funds is set equal to the statutory net equity. AFR is used as the measure of available capital in comparison with Economic Capital employed.
- EC, or Economic Capital (ING Insurance EurAsia excluding discontinued operations), is the pre-tax required capital for the insurance operations of ING Insurance EurAsia, based on a 99.5% confidence interval on a one-year horizon. This interval is aligned with the Solvency II capital requirement. The EC for third party pension funds is based on sectoral rules.
- Risk Based Capital (Domestic ING US Insurance only). In the US, regulators have well developed capital adequacy models and stress tests that reflect the unique characteristics of the US insurance industry. US domiciled insurance legal entities are required to hold minimum capital levels by state insurance regulators. The level of capital required by rating agencies to maintain an acceptable claims paying ability rating is well above these levels. The Domestic US Insurance business manages its statutory surplus primarily with respect to capital metrics that are aligned with the models of the various ratings agencies.
- Financial Leverage (ING Insurance). Financial Leverage is the sum of hybrid capital, sub-debt and net financial debt.

DEVELOPMENTS

In 2012 Capital Management's main focus remained the strengthening of the capital position of ING Group, ING Bank and ING Insurance. ING's capital is well placed to deal with the uncertain financial environment, increasing regulatory requirements and the ambition to repay the remaining outstanding Core Tier 1 securities.

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

In November 2012, ING repaid EUR 750 million of the Core Tier 1 securities issued in November 2008 at a 50% premium. Nevertheless ING maintained a strong capital position, driven mainly by strong capital generation at ING Bank.

In December 2012, ING Verzekeringen N.V. redeemed a EUR 1.25 billion hybrid security. This security had a Change of Control clause that would be triggered by the divestment of Insurance Asia.

In 2012 ING Bank issued a total of EUR 33 billion of debt with an original tenor of more than one year, compared with EUR 18 billion of long-term debt maturing in the whole of 2012, successfully covering its 2012 funding needs and prefunding its 2013 requirements. ING Bank (including subsidiaries) has EUR 21 billion of debt with an original tenor of more than one year maturing in 2013.

POLICIES

The activities of Capital Management are executed on the basis of established policies, guidelines and procedures. The main documents that serve as guidelines for capital planning are the Capital Plan (comprising the approved targets and limits for capital), the Capital Planning Policy, the Dividend Policy and the Local Capital Management Policy. For the Corporate Treasury there are additional policies and limits that guide the management of the balance sheets and the execution of capital market transactions.

PROCESSES FOR MANAGING CAPITAL

In addition to measuring capital adequacy, Capital Management also ensures that sufficient capital is available through setting targets and limits relevant to the above mentioned metrics for ING Group, ING Bank, and ING Insurance and ensuring adherence to the set limits and targets through planning and executing capital management transactions. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process. Following the annual budgeting process, each year a capital plan is prepared for the Group as a whole and each of its material businesses. This plan is updated on a quarterly basis and it is assessed to what extent additional management actions are required. At all times maintaining sufficient financial flexibility should be preserved to meet important financial objectives. At the foundation of the capital plan are ING's risk appetite statements that determine target setting. These constraints are being cascaded to the different businesses in line with our risk management strategy.

Important inputs to the capital planning and management process are provided by stress testing that is performed on a regular basis.
These stress tests focus on topical issues and the sensitivity of the Group's capital position to certain risks. These analyses provide input that help to steer strategic direction. Setting policies for recovery planning and resolution are a natural extension of ING's capital management policies and follow ING's risk management framework seamlessly.

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

CAPITAL ADEQUACY ASSESSMENT

During 2012, ING Group, ING Bank and ING Insurance were adequately capitalised.

ING Group's Capital base

	Group		Bank		Insurance	
	2012	2011	**2012**	2011	**2012**	2011
Shareholders' equity (parent)	**54,357**	46,663	**36,669**	34,367	**27,299**	23,475
Core Tier 1 securities	**2,250**	3,000				
Group hybrid capital [(1)]	**9,223**	9,332	**6,774**	6,850	**2,438**	2,604
Group leverage [(2)]	**7,100**	7,917				
Total capitalisation	**72,929**	66,912	**43,443**	41,217	**29,737**	26,079
Adjustments to equity:						
Revaluation reserve debt securities	**-10,516**	-4,142	**-1,265**	213		
Revaluation reserve crediting to life policyholders	**5,673**	-3,492				
Revaluation reserve cashflow hedge	**-2,689**	-1,970	**761**	822	**-3,548**	-2,883
Goodwill [(3)]	**-1,431**	-2,006	**-1,242**	-1,390	**-351**	-786
Revaluation reserves fixed income & other	**-8,963**	-4,626	**-1,746**	-355	**-3,899**	-3,669
Revaluation reserves excluded from Tier 1 [(4)]			**-1,691**	-2,043		
Insurance hybrid capital [(5)]					**476**	1,726
Minority interests			**959**	817	**217**	62
Deductions Tier 1			**-991**	-1,014		
Tier 1 capital for Bank			**39,975**	38,622		
Other qualifying capital [(6)]			**7,142**	8,502		
Insurance Group Directive adjustments [(7)]					**-3,209**	-2,792
Group leverage (core debt)	**-7.100**	-7,917				
Total capital (Adjusted Equity for Group, BIS capital for Bank and IGD capital for Insurance)	**56,866**	54,369	**47,116**	47,124	**23,322**	21,406

(1) Tier 1 instruments issued by ING Group (e.g. perpetual debt securities and preference shares) at nominal value. Group hybrid Tier 1 instruments other than preference shares are provided as hybrid capital to ING Bank or ING Insurance. Hybrid capital securities are perpetual fixed income securities with an embedded call and coupon deferral feature. All hybrids capital securities rank senior to core tier 1 securities and ordinary shares of ING Group and they are structurally subordinated to the senior debt instruments issued by ING Groep N.V. More details on terms and conditions can be found on www.ing.com, investor relations, fixed income information, ING Debt securities, Debt securities ING Groep N.V.

(2) Investments in subsidiaries less equity (including core Tier 1 securities) of the Group holding company. This net debt position is provided as equity to ING Insurance and ING Bank.

(3) According to the regulatory definition.

(4) Includes mainly EUR –1,385 million (2011: EUR –1,247 million) in participations (e.g. Kookmin, Bank of Beijing) and other equity investments, EUR 338 million (2011: EUR –355 million) for Real estate for own use and EUR 28 million (2011: EUR –441 million) for own credit risk. The Dutch banking regulator requires this deduction to be made from Tier 1 capital. This deduction is added back to Tier 2 capital.

(5) Qualifying dated subordinated debt issued by ING Insurance at nominal value.

(6) Consists of EUR 8,132 million (2011: EUR 9,516 million) Tier 2 capital and no Tier 3 (2011: nil), offset by EUR 991 million (2011: EUR 1,014 million) of regulatory deductions.

(7) An adjustment for the Dutch Financial supervision act. A 'test-of-adequacy' has to be included in the available capital measurement. The revaluation reserve debt securities and revaluation reserve crediting to life policyholders are not reversed out of the IGD capital definition.

REGULATORY REQUIREMENTS

ING BANK

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

Basel II

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

EBA capital exercise

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

Capital position of ING Bank		
	2012	2011
Shareholders' equity (parent)	**36,669**	34,367
Minority interests [1]	**959**	817
Subordinated loans qualifying as Tier 1 capital [2]	**6,774**	6,850
Goodwill and intangibles deductible from Tier 1 [1]	**-1,242**	-1,390
Deductions Tier 1 [3]	**-991**	-1,014
Revaluation reserve [4]	**-2,195**	-1,008
Available capital – Tier 1	**39,975**	38,622
Supplementary capital – Tier 2 [5]	**8,132**	9,516
Available Tier 3 funds		
Deductions [3]	**-991**	-1,014
BIS capital	**47,116**	47,124
Risk-weighted assets	**278,656**	330,421
Core Tier 1 ratio	**11.91%**	9.62%
Tier 1 ratio	**14.35%**	11.69%
BIS ratio	**16.91%**	14.26%
Required capital based on Basel I floor [6]	**28,767**	31,107
BIS ratio based on Basel I floor [6]	**13.10%**	12.12%

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

Deductions Basel II		
	2012	2011
- Shortfall provisions	**1,335**	1,445
- Tax on shortfall	**-250**	-300
Net shortfall provisions	**1,085**	1,145
Insurance entities >10%	**28**	24
Financial institutions >10%	**868**	854
Securitisation first loss	**0**	**6**
Total deductions Basel II	**1,981**	2,029
50% deductions Basel II	**991**	1,014

ING INSURANCE

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

Capital position of ING Insurance		
	2012	2011
Shareholders' equity (parent)	**27,299**	23,475
Hybrids issued by ING Group [1]	**2,438**	2,604
Hybrids issued by ING Insurance [2]	**476**	1,726
Required regulatory adjustments	**-6,891**	-6,399
IGD capital	**23,322**	21,406
EU required capital base	**9,523**	9,515
IGD Solvency I ratio [3]	**245%**	225%

(1) Hybrids issued by ING Group at notional value.
(2) Hybrids issued by ING Insurance at notional value capped at 25% of EU required capital.

[3] 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 financial debt) of ING Insurance is appropriate relative to the capital base. The financial leverage decreased in 2012 mainly due to the divestment of the Insurance business in Malaysia.

Capital base and financial leverage of ING Insurance

	2012	2011
Shareholders' equity (parent)	27,299	23,475
Revaluation reserve debt securities	-9,282	-4,379
Revaluation reserve crediting to life policyholders	5,673	3,492
Revaluation reserve cash flow hedge	-3,548	-2,883
Goodwill	-351	-786
Minority interests	217	62
Capital base	20,007	18,981
Group Hybrid capital [1]	2,451	2,617
Insurance hybrid capital [2]	496	1,751
Total hybrids	2,947	4,368
External debt issued by ING Verzekeringen N.V.	694	2,855
External debt issued by US Holding companies	2,307	930
Other net financial debt [3]	2,767	1,686
Total financial debt	5,768	5,471

[1] Hybrids issued by ING Group at amortised cost value consistent with IFRS carrying value.
[2] Hybrids issued by ING Insurance at amortised cost value consistent with IFRS carrying value.
[3] Includes net internal borrowings from the operating subsidiaries, net of cash and current tax liability at the at the holding level and current tax liabilities of the holding companies, mainly ING Verzekeringen N.V. and US Insurance Holdings.

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

Reconcilation between IGD capital and Capital base

	2012	2011
IGD Capital	23,322	21,406
Hybrids issued by ING Group	-2,438	-2,604
Hybrids issued by ING Insurance	-476	-1,726
Revaluation reserve debt securities	-9,282	-4,379
Revaluation reserve crediting to life policyholders	5,673	3,493
Required regulatory adjustments	3,208	2,791
Capital base	20,007	18,981

For ING Insurance EurAsia, Available Financial Resources (AFR) continues to be important, especially as an evolving proxy for the Own Funds derivation from our internal model under Solvency II. The following table presents the reconciliation from the 2011 AFR and EC for ING Insurance EurAsia as reported in the Annual Report 2011, to the comparable basis for ING Insurance EurAsia 2012. This reflects changes in scope and methodology. For the remainder of this paragraph AFR and EC on a comparable basis to 2012 are used.

AFR and EC 2011 reconciliation

Amounts in billion of euros	AFR	EC
As reported for ING Insurance EurAsia in 2011 [1]	17.3	10.3
Difference compared to the 2011 risk paragraph	-	-0.2
Exclude ING Insurance Asia Pacific discontinued business	-6.9	-3.8
ING Insurance EurAsia excluding discontinued business	10.4	6.5
Change in models and methodology	-	-0.9
ING Insurance EurAsia 2011 excluding discontinued business, on a basis comparable to 2012	10.4	5.6

[1] EC as reported in the Risk Management chapter of the 2011 Annual Report.

The exclusion of ING Insurance Asia Pacific entities relates to all business units in Asia Pacific, ING's Insurance and investment management businesses and the reinsured Japan VA guarantees to ING Re (Netherlands) N.V. that have been classified as discontinued operations and that were considered in last year's AFR and EC amounts. Reference is made to Note 26 'Discontinued operations'.

Economic Capital position, based on a 99.5% confidence interval		
Amounts in billion of euros	**2012**	2011
AFR	**9.6**	10.4
EC	**5.9**	5.6
Excess AFR over EC	**3.7**	5.8
AFR-EC ratio	**163%**	186%

The AFR-EC ratio for ING Insurance EurAsia decreased in 2012 as a result of higher EC and lower AFR. EC for ING Insurance EurAsia increased in 2012 primarily due to increases in insurance and business risk, partly offset by de-risking activities in the Benelux and overall lower market valuation leading to lower EC. Credit default risk decreased due to a methodology change and was offset by a lower diversification of this risk with other risk categories. AFR for ING Insurance EurAsia decreased in 2012 mainly due to market impacts (mainly credit and illiquidity spread changes on assets and liabilities), holding company interest, offset by the proceeds received for the divestment of Insurance Malaysia and capital injections from ING Verzekeringen N.V.

For the capital adequacy assessment of ING Insurance's US domiciled regulated insurance business, available capital is measured under US statutory accounting principles and required capital is measured under the US Regulatory Risk Based Capital (RBC) methodology as prescribed by the National Association of Insurance Commissioners (NAIC). For ING's US domiciled regulated insurance business, the consolidated RBC ratio (available capital/required capital) is estimated to be approximately 526% at 31 December 2012. The actual US consolidated RBC ratio may be different from the estimate since the statutory results are not final until filed with the regulators. For ING Insurance's US domiciled regulated insurance business, the RBC ratio was 488% at the end of 2011.

ING GROUP
The debt/equity ratio of ING Group as at 31 December 2012 was 11.10% (2011: 12.71%).

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

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

Regulatory capital adequacy ING Group		
	2012	2011
BIS capital	**47,116**	47,123
IGD capital	**23,322**	21,406
Group leverage (core debt)	**-7,100**	-7,917
Regulatory capital	**63,339**	60,612
Required capital banking operations	**28,774**	31,107
Required capital insurance operations	**9,523**	9,515
Total required capital	**38,296**	40,622
FICO ratio	**165%**	149%

Capital adequacy and ratios

Quantitative disclosures on capital measures and ratios	Group		Bank		Insurance	
	2012	2011	**2012**	2011	**2012**	2011
Core Tier 1 ratio (Bank)						
Year-end actual Tier 1 ratio			**11.91%**	9.62%		
Regulatory minimum Tier 1 ratio			**2.00%**	2.00%		
Target minimum Tier 1 ratio			**10.00%**	10.00%		
Tier 1 ratio (Bank)						
Year-end actual Tier 1 ratio			**14.35%**	11.69%		
Regulatory minimum Tier 1 ratio			**4.00%**	4.00%		
Target minimum Tier 1 ratio			**10.00%**	10.00%		
BIS ratio (Bank)						
Year-end actual BIS ratio			**16.91%**	14.26%		
Regulatory minimum BIS ratio			**8.00%**	8.00%		
Target minimum BIS ratio			**10.00%**	10.00%		
Insurance Groups Directive						
Year-end actual Capital coverage ratio					**245%**	225%
Required capital					**100%**	100%
Target ratio					**150%**	150%
Debt/Equity ratio (Group)						
Debt/Equity ratio	**11.10%**	12.71%				
Target maximum Debt/Equity ratio	**15.00%**	15.00%				

The Tier 1 ratio and the BIS ratio are regulatory requirements. Internally ING manages on the Core Tier 1 ratio, for which the target was raised from 8.0% to 8.5% in 2011 and to 10% in 2012. The actual ratios were 9.62% at the end of 2011 and 11.91% at the end of 2012. As investor focus has shifted from BIS capital to CT1 capital, ING expects the BIS ratio to lose its meaning.

Main credit ratings of ING at 31 December 2012	Standard & Poor's		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
ING Groep N.V.						
– long-term	A	negative	A3	negative	A	stable
ING Bank N.V.						
– short-term	A-1		P-1		F1+	
– long-term	A+	negative	A2	negative	A+	stable
– financial strength			C-			
ING Verzekeringen N.V.						
– short-term	A-2		P-2		F2	
– long-term	A-	negative	Baa2	developing	A-	negative

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

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.