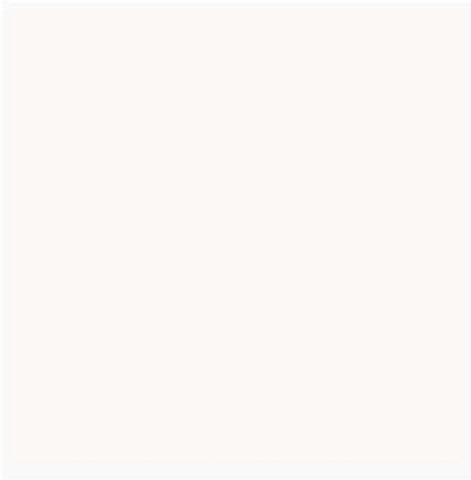
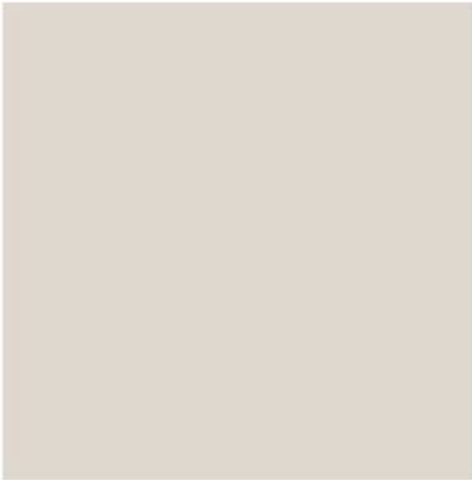

2013

Pillar 3 – disclosures of ING Group's parent company for 2013

ING

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 NN Group 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 NN Group 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 which is effective per 1 January 2014), while NN Group runs an extensive programme 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

The mission of ING Group's risk management function is to support ING Group's mission to set the standard in helping customers manage their financial future, by safeguarding ING's current and future financial strengths. The following principles support this mission:

- The risk management function is embedded in all levels of ING Group's organisation and is part of the daily business activities and strategic planning to have a sustainable competitive advantage;
- Products and portfolios are structured, underwritten, priced, approved and managed appropriately and compliance with internal and external rules and guidelines are monitored;
- 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 NN Group separately, ING Group Chief Risk Officer has delegated day-to-day Risk Management within ING Bank, NN Group and ING US to the respective 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 NN Group, 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 and NN Group, respectively.

ING U.S. RISK MANAGEMENT GOVERNANCE

As of 31 December 2013 ING Group has a 57% stake in ING U.S., Inc. ING manages risk within ING U.S. through its majority membership in the ING U.S., Inc. Board and through participation in Board committees. Furthermore, ING has the right to appoint observers to some important Management risk committees. The activities of ING U.S. are classified as held for sale and as discontinued operations. They are not further discussed in the remainder of this section.

RISK DEVELOPMENTS IN 2013

Risk developments listed below are defined as the risks which may have a significant impact on our business and it is difficult to quantify this potential impact on the organisation. They are triggered in general by unexpected events and may introduce volatility in earnings or impact ING's long-term strategy. The sequence in which the top risks are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

Monitoring exposures and Eurozone developments

The problems in the Eurozone have been a top priority for risk management throughout 2013, and will continue to be a top priority in 2014. ING closely monitors the exposures in debt securities, lending and credit derivatives, and regularly assesses whether the positions continue to be in line with its risk appetite. This assessment is supported by internal stress tests.

Throughout 2013, ING has continued to selectively optimise its balance sheet, including reducing its positions in especially covered bonds, asset backed securities (ABS) securities and committed facilities for some of the weaker countries as a result of these risk analyses. Several European countries have been downgraded in 2013 due to a weak and uncertain economic environment. As the Eurozone countries are going through a recession period. The Southern European countries seem to slowly emerge from the recession, while the strong countries were showing some signs of recovery although growth is fragile. Furthermore, the chairman of the European Central Bank (ECB) announced twice the reduction of the main refinancing rate by 25 basis points respectively in May and November 2013 to a final rate of 0.25% down from 0.75% at the end of 2012. In September, the ECB by his chairman announced that it was ready to use any instrument, including long-term refinancing operations (LTROs), to push down the money market interest rates.

Despite the ECB efforts and weak signs of recovery, 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 remain with respect to Europe and, given a potential prolonged slowdown scenario, could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in Europe and the financial condition of European financial institutions, including ING.

Greece, Italy, Ireland, Portugal, Spain and Cyprus (GIIPSC)

Since 2010 concerns arose regarding the creditworthiness of certain European countries. As a result of these concerns the fair value of sovereign debt decreased and those exposures are being monitored more closely. With regard to the sovereign debt crisis, ING's main focus has been 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. Further details on exposure to Government bonds and Unsecured Financial institutions' bonds are included in Note 5 'Investments'.

The table below provides information on ING's risk exposure with regard to Greece, Italy, Ireland, Portugal, Spain and Cyprus. 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 residential mortgage backed securities (RMBS), which exposures are based on country of risk.

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

							31 December 2013
	Greece	**Italy**	**Ireland**	**Portugal**	**Spain**	**Cyprus [(2)]**	**Total**
Residential mortgages and other consumer lending	11	7,831	6	4	9,922	2	17,776
Corporate Lending	397	7,711	587	1,083	5,085	395	15,258
Financial Institutions Lending	12	323	395	39	569	6	1,344
Government Lending		160			35		195
Total Lending	**420**	**16,025**	**988**	**1,126**	**15,611**	**403**	**34,573**
RMBS	82	774	63	582	2,418		3,919
CMBS			8				8
Other ABS		28	8	4	24		64
Corporate Bonds		318	254	72	167		811
Covered Bonds		183	368	154	9,213		9,918
Financial Institutions' bonds (unsecured)		261	15	34	76		386
Government Bonds	46	2,645	53	491	1,352	10	4,597
CDS exposures in banking book [(3)]					-47		-47
Total Debt Securities	**128**	**4,209**	**769**	**1,337**	**13,203**	**10**	**19,656**
Real Estate [(4)]	22	448		206	481		1,157
Trading excluding CDS exposures	2	595	34		374	1	1,006
Sold CDS protection	1	4	2	4			11
Bought CDS protection	-3	-15	-1	-1	-29		-49
Trading including CDS protection	**0**	**584**	**35**	**3**	**345**	**1**	**968**
Undrawn committed facilities	47	1,201	625	187	2,236	39	4,335
Pre-settlement exposures [(5)]	28	478	370	42	661	31	1,610
Total risk exposure	**645**	**22,945**	**2,787**	**2,901**	**32,537**	**484**	**62,299**

[(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 5 'Investments' of the annual accounts.

[2] The 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 significant for ING Bank. NN Group has no credit risk linked to Cyprus.
[3] At the end of 2013 ING Bank holds CDS protection (notional value) on the Spanish government.
[4] Real Estate includes Real Estate Development, Real Estate Investments and Property in Own Use; it does not include (indirect) exposure through Real Estate Finance, which is reflected in Total Lending and Total Debt Securities.
[5] 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, Spain and Cyprus - Total risk exposures [1]

							31 December 2012
	Greece	Italy	Ireland	Portugal	Spain	Cyprus [2]	Total
Residential mortgages and other consumer lending	14	7,531	6	4	9,680	1	17,236
Corporate Lending	287	8,441	705	1,015	5,733	653	16,834
Financial Institutions Lending	7	227	4	76	626	9	949
Government Lending		203			35		238
Total Lending	308	16,402	715	1,095	16,074	663	35,257
RMBS	95	997	170	650	2,846		4,758
CMBS			12				12
Other ABS		173	43	49	43		308
Corporate Bonds		348	273	67	159		847
Covered Bonds		245	370	153	11,780		12,548
Financial Institutions' bonds (unsecured)		527	74	56	111		768
Government Bonds	43	2,474	53	633	1,308	18	4,529
CDS exposures in banking book [3]					-390		-390
Total Debt Securities	138	4,764	995	1,608	15,857	18	23,380
Real Estate [4]	21	380		217	610		1,228
Trading excluding CDS exposures		450	28	8	454		940
Sold CDS protection		1	1	1	7		10
Bought CDS protection	-2	-22	-11	-1	-51		-87
Trading including CDS protection	-2	429	18	8	410		863
Undrawn committed facilities	166	1,287	258	181	2,780	89	4,761
Pre-settlement exposures [5]	80	516	343	41	953	112	2,045
Total risk exposure	711	23,778	2,329	3,150	36,684	882	67,534

[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 5 'Investments' of the annual accounts.
[2] The 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 significant for ING Bank. NN Group has no credit risk linked to Cyprus.
[3] At the end of 2012 ING Bank holds CDS protection (notional value) on the Spanish government, Financial Institutions and covered bonds.
[4] Real Estate includes Real Estate Development, Real Estate Investments and Property in Own Use; it does not include (indirect) exposure through Real Estate Finance, which is reflected in Total Lending and Total Debt Securities.
[5] 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 GIIPSC countries was reduced by EUR 5,235 million in 2013. ING reduced its exposure in debt securities, with covered bonds going down by EUR 2,630 million and ABS exposure decreasing by EUR 1,087 million, and corporate lending with a decrease of EUR 1,576 million.

Greece

Total exposure to Greece declined by EUR 66 million in 2013 mainly due to a reduction of undrawn committed facilities with EUR 119 million resulting from reduction in the limits, partially offset by an increase of corporate lending with EUR 110 million, primarily structured finance deals

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. NN Group has direct Greek exposure given the Greek based insurance entity.

Italy

Total exposure to Italy decreased by EUR 833 million in 2013 mainly due to a reduction of debt securities with EUR 555 million. The decrease in debt securities was mainly in ABS with EUR 368 million maturing contracts and in the financial institution bonds with EUR 266 million, partially offset by an increase in government bonds of EUR 171 million.

The lending exposure decreased with EUR 377 million which was driven by a EUR 730 million reduction in corporate lending partially offset by an increase in residential mortgages and other consumer lending of EUR 300 million.

Ireland
Total exposure to Ireland increased by EUR 458 million in 2013 mainly due to an increase of the lending book of EUR 273 million and undrawn committed facilities of EUR 367 million. The increase was partially offset by a reduction in debt securities of EUR 226 million.

The increase in the lending book and the undrawn committed facilities is driven by additional outstandings and facilities to existing customers.

Portugal
Total exposure to Portugal declined by EUR 249 million in 2013 mainly in debt securities by EUR 271 million. The decrease was mainly in the government bonds of EUR 142 million.

Spain
ING's total exposure to Spain was reduced by EUR 4,147 million in 2013 to EUR 32,537 million. The debt securities portfolio decreased by EUR 2,654 million mainly due to covered bonds maturing by EUR 2,567 million and a decrease in RMBS by EUR 428 million.

The lending book declined by EUR 463 million to EUR 15,611 million. This decrease was driven by a EUR 648 million reduction in corporate lending, partly offset by a EUR 242 million increase in residential mortgages and other consumer lending.

Cyprus
Total exposure to Cyprus decreased by EUR 398 million in 2013 mainly due to a decrease in corporate lending of EUR 258 million. The reduction is driven by the repayment of loans.

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 as well, thereby negatively impacting the short term money market rates, and also long term rates decreased to very low levels in 2013. The on-going Eurozone crisis in combination with uncertainty 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 caused by 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 NN Group
Since on the insurance side ING is mainly a life insurance company with long-term commitments to its clients, it is exposed to risk from low(er) interest rates. Other risks, such as longevity risk, will further increase this risk.

The NN Group entities have an asset liability management (ALM) process in place where investments are bought that largely match the duration profile of the liabilities. The remaining interest rate exposure is mitigated through derivative portfolios. In several currencies, asset durations matching the liabilities are not available. In these cases ING runs non-hedgeable interest rate risks. Options embedded in the products, which are difficult to hedge, expose ING to further risks.

The exact impact of low interest rates differs per entity and per product. In the IFRS-EU P&L accounts, lower interest rates will gradually reduce investment income. In most cases there is no direct impact on life insurance provisions as, to a large extent, these provisions are based on fixed interest rates. However, lower interest has an impact on the outcome of the reserve adequacy test (RAT) and indirectly may impact the provisions held. Lower interest rates have a direct impact on metrics that are market value based, such as the market value of the liabilities (MVL) and the available financial resources (AFR). Furthermore in the Netherlands

regulatory required provisions and capital are market value based. In the near future Solvency II requirements will also be market value based.
Interest rate risks are well-known within ING's risk appetite as these risks are part of doing life insurance business, and within market risk limits defined and monitored on a quarterly basis.

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 may need to upstream extra dividend to ING Group. Note however, that when future Bank earnings and future capital position are negatively impacted such capital up-streams are difficult to establish. This can be further hampered by the on-going increasing capital requirements for banks in general. In November 2013 ING repaid EUR 1.125 billion to the Dutch State. This was the second tranche of a series of four tranches thare are part of the amended EC Restructuring Plan which was announced on 19 November 2012.

A continuation of the current low interest rate environment would also negatively affect our financial performance. For example, should new money investment rates remain at approximately the same level observed over 2013, we estimate that would reduce our current operating result by less than 5% in each of 2014, 2015 and 2016, in each case as compared to our current projections for such year. This estimated reduction in operating earnings primarily reflects lower investment income, as we invest new premiums and reinvest proceeds from maturing investments at rates lower than the yield on our current investment portfolio, and, in certain businesses, higher amortisation of DAC/VOBA. We believe reduced rates in the insurance policies offset the lower investment income, but such reductions would only be partially effective due to the presence of fixed or minimum rates on many of our products. Under this scenario, we do not currently expect that our reserve adequacy testing will result in charges to the profit and loss account. These estimates do not assume any changes to other assumptions and do not reflect significant management actions, other than reductions to the rates in our policies where relevant.

RISK MANAGEMENT ING BANK

Introduction

Taking measured risks is the core of ING Bank's business. ING Bank operates through a comprehensive risk management framework to ensure the risks are identified, well understood, accurately measured, controlled and pro-actively managed at all levels of the organization 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, which may result in changes to the risk analyses as disclosed.

The risk management section describes the ING Bank business model, and the key risks that arise from it. It 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.

ING Bank's risk management disclosures provides qualitative and quantitative disclosures about credit, market, liquidity and non-financial risks based on International Financial Reporting Standards as adopted by the European Union 'IFRS-EU'. The risk management section is in line with the accounting standards relating to the nature and the extent of the risks as required by IFRS7 'Financial Instruments: Disclosures' as approved by the EU and covered by the opinion of the Statutory Auditors as being part of the notes to the consolidated financial statements. Pillar 3 information is from a regulatory perspective largely based on internal modelled risk metrics under the Basel rules and not addressed for verification to the statutory auditors.

Enhanced disclosure task force

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. ING is a member of the 'Enhanced Disclosure Task Force' (EDTF), a private sector group established by the Financial Stability Board ('FSB') and composed of members representing both the users and preparers of financial reports, which released a report with recommendations for improving bank risk disclosures in the areas of among others usability, risk governance and risk management, capital adequacy, liquidity and funding, market risk, credit risk.

As ING Bank strives to generate the same high-quality and transparent description of its risk, it immediately embraced the EDTF principles and recommendations and largely implemented them to further fine-tune its practise 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.

In August 2013, FSB published a progress report on the level and quality of the implementation of the recommendations in the major banks' 2012 annual reports. The report, based on a self-assessment of global systemically important banks (G-SIBs) and domestic systemically important banks (D-SIBs), demonstrated that the recommendations are beginning to make a positive impact on the reporting practises of global banks. The banks' self-assessment stated that they have implemented 50% of the EDTF recommendations in aggregate in 2012 disclosures, which is a considerable increase from 34% in 2011; and they expect to implement 72% of the recommendations within their 2013 disclosures. Besides the banks 'self-assessment, the users of the annual reports, investors and analysts, within the EDTF undertook a further review of the disclosures, which indicated however a lower degree of implementation than banks' self-assessment, particularly for recommendations where they expect more granular, quantitative disclosures. Despite these differences, both banks and investors and analysts in the EDTF see an opportunity to engage and discuss the recommendations for further enhancing risk disclosures. For ING Bank, the implementation efforts were rewarded by including some of the templates in the examples of leading disclosures practices in the FSB progress report.

For 2013 ING Bank reaffirms its commitment to the EDTF report by implementing additional recommendations. Although it is ING Bank's ambition to disclose all risk related items in one comprehensive section, this is in practice not always possible. Therefore, a global overview of our approach on risk management is provided to ensure transparent and easily navigable disclosures. The table below provides clear cross-referencing between the Risk management and Pillar 3 sections within the Annual Report. This navigation table enables users to locate and navigate across the different risk topics and disclosures. The sequence in which the risk disclosures are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

Next to the inclusion of this navigation map, ING Bank improved its liquidity & funding disclosure by including a break-down of the liquid assets buffer and an overview of encumbered assets in the Pillar 3 section. Other EDTF driven improvements are the extension of the description of our Risk Management function via separate sections on risk assessment and risk culture. Further, already included sections (as risk governance, stress testing) were thoroughly reviewed and extended or refined (capital

requirements, credit risk and market risk disclosures). Regarding new regulatory requirements, the Basel III Core Tier 1 ratio will be disclosed in the Pillar 3 section. The Basel III liquidity and funding requirements Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) will not be disclosed until discussions on EBA Technical Standards are finalised.

Risk management index

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Credit risk

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Non-financial risk

	Subjects	Risk Management	Pillar 3
Operational risk is the risk of direct or indirect loss returning from nadequate or failed internal processes, people and systems or from external events.	Governance	67	
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Compliance risk is the risk of impairment of ING Bank's integrity as a result of failure to comply with relevant laws, regulations, ING Banks policies and standards.			

Business risk	Subjects	Risk Management	Pillar 3
Business risk is the exposure to value loss due to fluctuations in volumes, margins and costs, as well as customers behaviour risk.	Analysis business risk	69	

Besides the regularly additional information that stems from the Basel II accords with detailed tables on ING Bank's credit portfolio, the Pillar 3 will include additional disclosures on market, liquidity and funding risk from the EDTF recommendations as of 2013. An overview of all the EDTF recommendations and how they are 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 improves and aligns risk disclosures as proposed by the EDTF as much as possible.

MISSION

The mission of ING Bank's risk management function is to support the Banks ambition to be the preferred bank for our customers, by safeguarding ING's current and future financial strengths. The following principles support this mission:

- The risk management function is embedded in all levels of ING Bank's organisation and is part of the daily business activities and strategic planning to have a sustainable competitive advantage;
- Products and portfolios are structured, underwritten, priced, approved and managed appropriately and compliance with internal and external rules and guidelines is monitored;
- Delegated authorities are consistent with the overall Bank strategy and risk appetite; and
- Transparent communication to internal and external stakeholders on risk management and value creation.

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

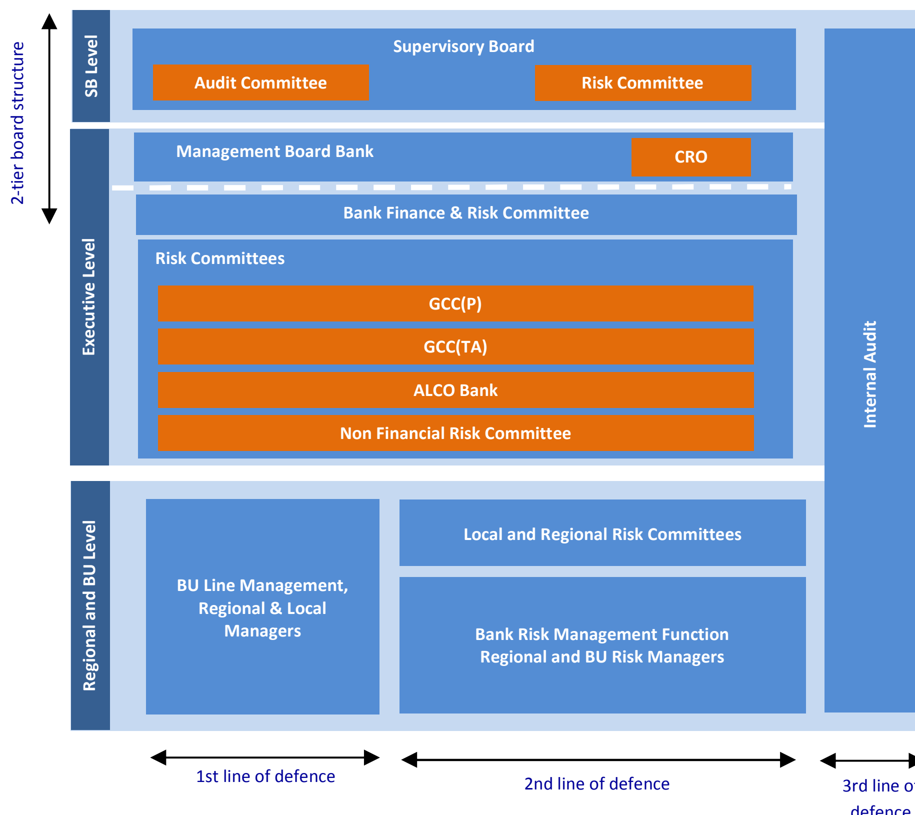
RISK GOVERNANCE

ING Bank's risk management framework is based on a 'three lines of defence' governance model, whereby each line has a specific role and defined responsibilities and at the same time work closely together to identify, assess and mitigate risks. This governance framework ensures that risk is managed in line with the risk appetite as defined by the Management Board Bank (MBB), ratified by the Supervisory Board (SB) and is cascaded throughout ING Bank.

The commercial departments form the first line of defence and they have primary responsibility for the day-to-day risk management. They originate loans, deposits and other products, they know our customers well and are well-positioned to act in both the customers' and ING's best interest.

The second line of defence consists of oversight functions with a major role for 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 SB is responsible for supervising the policy of the MBB, the general course of affairs of the Company and its business (including its financial policies and corporate structure). For risk management purposes the SB is assisted by two sub-committees:
  - The Audit Committee, which assists the SB in monitoring the integrity of the financial statements of ING Bank, in monitoring the compliance with legal and regulatory requirements, and in monitoring the independence and performance of ING's internal and external auditors; and
  - The Risk Committee, which assists the SB on matters related to risk governance, risk policies and risk appetite setting.
- The 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 SB. 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 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 MBB formulates the Strategic Plan which is submitted to the SB for approval.

Executive Level
The ING Bank Finance and Risk Committee (BF&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 BF&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.

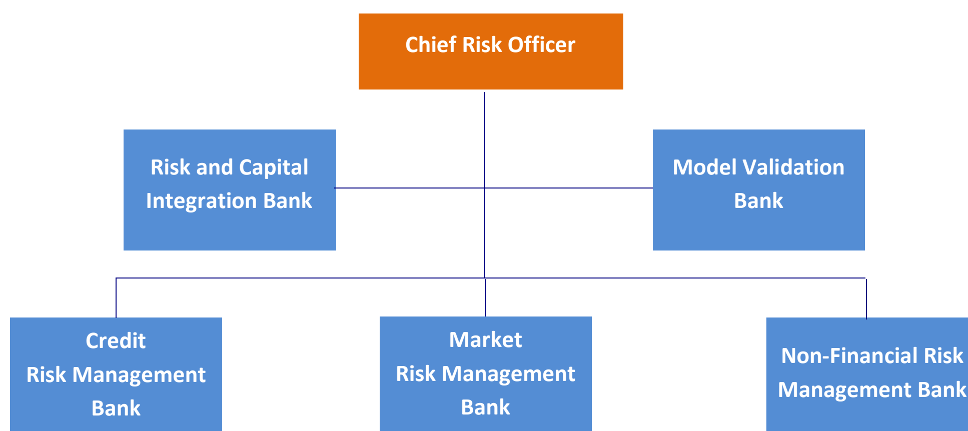
Regional and business unit level

ING Bank's regional and business unit management have primary responsibility for the management of risks (credit, market, operational, legal and compliance risks) that arise in their daily operations. They are accountable, together with their employees, for the implementation and operation of appropriate risk frameworks affecting their businesses to ensure compliance with procedures and processes set by ING Group. The local (regional and BU) risk manager is responsible for the analysis, control and management of risks across the whole value chain (from front to back office), based upon which a robust control structure should be maintained.

Risk management function

The risk management function is embedded in all levels of ING Bank's 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 & Capital Integration (R&CI), which is responsible for inter-risk aggregation processes and for providing bank-wide risk information to the CRO and MBB, reports functionally to the CRO; and
- Model Validation (MV), which carries out periodic validations of all significant 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, procedures and standards

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 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 De Nederlandsche Bank (DNB).

An independent model validation department 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 MV, this department reports directly to the CRO.

The MV department undertakes back testing 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, MV 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:
- Retail Banking will pursue the One Bank approach by combining retail and commercial banking and converge to one retail model: Easy, fair, and at low costs.
- Optimise the balance sheet by better match assets and liabilities across the Bank and limit growth and risk of the balance sheet,
- Remain financially healthy by improving cost efficiency and strengthen risk management. Additionally, Basel III requirements have to be met and there should be a focus on improving capital, funding and liquidity.
- Build on the ambition to be a predominantly European Bank with growth options elsewhere to strengthen leadership positions in ING's home markets.

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 culture

In the current social and economic environment risk culture is a critical factor in the success or failure of a bank's risk management. Issues relating to risk culture are consequently of interest to all stakeholders of ING Bank. ING considers the good reputation and integrity of its organisation as key requirements to operate successfully in the financial world.

The risk management framework based on the three lines of defence governance model is effective when a strong risk culture is present on all levels. ING promotes awareness of collectively shared values, ideas and goals but also of potential threats and it ensures alignment of individual performance objectives with the short- and long-term strategy. By making ING's risk responsibilities more transparent within the different levels of the organisation and holding every employee accountable for his acts, the risk culture and awareness are embedded in the organisation which leads to effective risk management.

As explained in the risk governance, the risk function at the regional and business units is independent from the commercial departments which allow its criteria and opinions to be heard and taken into account. At the Bank level it is represented by the CRO in the MBB which ensures sufficient countervailing power in the decision-making processes to prevent excessive risks.

Definition

Risk culture and risk awareness are not only issues for senior management during their strategy decisions, but something that every employee has to be aware of and consider in his daily business. It is promoting and being aware of collectively shared values, ideas and goals towards the organisational objectives and mitigating opportunities for unfavourable events to occur that can

impact the ability of the organisation to achieve its objectives. Risk awareness is to be alert on potential threats which can occur in day-to-day business, which can be specific to the sector, the region or the clients ING is doing business with.

Commonly seen as norms and traditions of behaviour of individuals and of groups within an organisation, risk culture determines the way in which employees identify, understand, discuss, and act on the risks the organisation confronts and the risks it takes. This is a long term commitment and journey which cannot be reached overnight. Therefore, ING initiated different programmes and manuals have been issued within the organisation as statement of what the organisation objectives are.

Accountability

In 2009 ING Bank introduced the Promoting Integrity Programme (PIP) a long term, global, educational and behavioural change programme for the ING employees. The PIP has been developed to support integrity by focusing on ING values and is fully supported by the ING Group Executive Board. The role of the Board in the oversight of corporate culture and successful implementation of the risk culture change is essential in this process.

With the programme ING gains a sound risk culture and ensures that every employee in every part of the organisation understands how his actions and behaviour can help earn and retain customer and stakeholder trust. This programme is divided into several mandatory modules among others business principles, customer trust, fraud awareness, Financial Economic Crime and IT security. To enhance risk awareness these topics are discussed between managers and employees through dialogue sessions that managers organise within their teams to create clear and consistent understanding. The endorsement from the executive level and the emphasis in the communication strengthen the culture.

Compensation

Due to economic and financial turmoil, concerns were raised in different countries following the bailout of different financial and industrial companies. The link between the risk taken and the compensation was one of the major topics in the public and political spheres. Several public institutions and initiatives advocated aligning risk and reward in risk-based compensation policies.

The performance management process within ING is linked to remuneration to prevent rewarding for failure and to address the long term sustainability within the risk appetite framework. To establish relevant performance objectives, the ING financial and strategy plan is determined annually and translated into relevant business objectives. The business objectives of the Executive Board are cascaded to the rest of the Identified Staff and subsequent layers in the organisation. This process ensures the alignment of individual performance objectives with the short-term and long-term strategy of ING and involves input from control functions to ensure appropriate risk adjustment of the performance objectives on each level. In light of the Capital Requirements Directive (CRD) III compensation packages related to control functions, such as risk management, are structured such that they provide for a reduced emphasis on variable remuneration in order to mitigate risk relating to remuneration.

For further information with regards to the compensation policies please refer to the remuneration report in the corporate governance section of the annual report.

Risk cycle process

ING uses a stepwise risk management approach to know, mitigate and manage its financial and non-financial risks. The approach consists of a cycle of five recurrent activities: risk identification, risk assessment, risk control, risk monitoring and risk reporting. In short this implies: determine what your risks are, assess which of those risks can really do harm, take mitigating measures to control these risks, monitor if the measures are effective and monitor the development of the risk and report the findings to management at all relevant levels to enable them to take action when needed.

The recurrence is twofold. One: identification, assessment and review and update of mitigating measures are done periodically. Two: if, during the period, monitoring findings indicate new risks arising, or known risks to change, assessed risk levels to change, or control measures not to be effective enough, analyses of these findings may result in renewed and more frequent risk identification, and/or assessment, and/or in a change of the mitigating measure.

Risk identification
Risk identification is a joint effort of the commercial business and the risk management functions. Its goal is to detect potential new risks and determine changes in known risks. Regular risk identification is essential for both the effectiveness and efficiency of risk management. Potential risks that are not identified, will not be controlled and monitored and may lead to surprises later. Known risks may have changed over time and as a consequence the existing mitigating measures and monitoring may be inadequate or obsolete. Risk identification is performed periodically and, in addition, in case of material internal or external change.

Risk assessment and control
Each identified risk is assessed to determine the importance, or risk level, of the risk for the ING entity in scope. This enables the entity to decide which of the identified risks need control measures and how strict or tolerant these measures must be. Known risks are re-assessed to either confirm the risk level or detect change.

The importance of a risk is assessed based on the likelihood that the risk occurs and the financial or reputational impact should the risk occur. A risk that is not very likely to happen but has a huge financial impact when it does needs to be controlled. For a risk that is likely to happen at a higher frequency, but that has a modest financial impact, business management may decide to not mitigate and accept the consequences when it happens.

Risks can be controlled by mitigating measures that either lowers the likelihood the risk occurs, or measures that lower the impact if they occur. The ultimate measure to lower risk is to stop the activity or service that causes the risk (risk avoidance). Risk controlling/mitigating measures are defined and maintained at both Bank wide and local level.

Monitoring and reporting
With the monitoring of the risk control measures, ING continuously checks if they are executed, complied with, have the expected mitigating effects and follow the development of the risks and their risk levels. Adequate risk reporting provides senior and local management with the information they need to manage risk.

ING uses iRisk, an application supporting operational risk functions for incident reporting, action tracking, risk assessments, business impacts assessments and key control testing.

The Executive Board and the Supervisory Board of ING Group have approved the ING Whistleblower Procedure. The ING Whistleblower Procedure provides the opportunity for every ING employee to make his or her complaint, including anonymous complaints, to an independent Reporting Officer in order for the responsible management to take appropriate and adequate action in case of alleged breaches of internal or external regulation or other irregularities.

Risk appetite framework
ING Bank uses an integrated risk management approach for its banking activities. The Management Board Bank uses the bank risk appetite framework both to set boundaries for the Medium Term Plan (MTP) budget process and to 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 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 is 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; and
- 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 and 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 statement is 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 a 90% confidence level with a 1 year horizon). Based on this mild stress scenario the impact on ING Bank's earnings, revaluation reserve and risk-weighted assets (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 scorecards form one of the inputs of the Non-Financial Risk Dashboard (NFRD) which is a report that is discussed each quarter in 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 and that of all the underlying portfolios as well. 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 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.

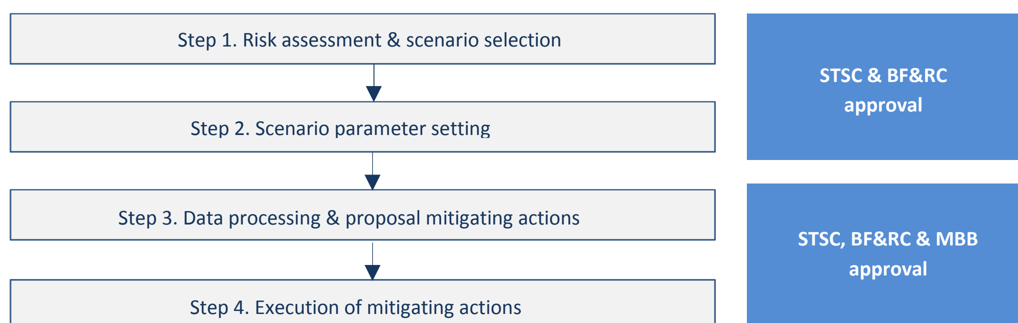
The non-financial risk appetite framework that is described under the previous step is cascaded down into the organisation without any need to make specific adjustments for each of the reporting solo entity.

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 and Capital 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) SB.

Stress testing
Stress testing is an important risk management tool which supports the MBB with respect to strategic and capital planning. The purpose of stress testing is to investigate whether or not ING Bank will be able to meet its solvency and liquidity requirements in severe but plausible stress scenarios. Stress tests provide insight into vulnerabilities of certain portfolios, given certain assumptions related to the economy, financial markets and the political climate. Stress testing is also used to assess if the risk profile of ING Bank is in line with risk appetite.

Types of stress tests
Within ING Bank, various different types of stress tests are performed. The most comprehensive type of stress tests are the firm-wide scenario analyses, which involve setting scenario assumptions for the relevant macro-economic and market variables in all countries where ING Bank is active. These assumptions are usually complemented by a narrative which provides background for the scenario. Next to firm-wide scenario analyses, ING Bank also executes scenario analyses for a specific country or asset class. Furthermore, sensitivity analyses are performed, which focus on stressing one or more relevant risk drivers; usually without an underlying scenario narrative. The 1-in-10- year stress used in the risk appetite framework is an example of a sensitivity analysis. Finally, ING Bank also performs reverse stress tests, which aim to determine the circumstances which would lead to a pre-defined severe adverse outcome.

Process
The stress testing process of ING Bank consists of several stages, which are summarised in the diagram.



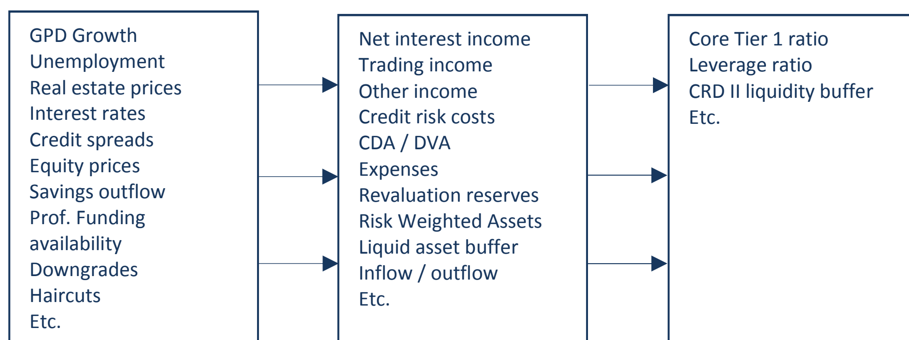
Step 1. Risk assessment & scenario selection
ING Bank formally determines its main risks based on the current economic situation, political and regulatory developments and developments in portfolios on an annual basis. Senior management, business representatives and risk specialists are involved in this process. Based on the risk assessment, relevant scenarios to be evaluated in the remainder of the year are selected. The results of the risk assessment and scenario selection are discussed and approved in the Stress Testing 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 submits the results of the risk assessment and scenario selection to the BF&RC for formal approval.

Step 2. Scenario parameter setting
After the determination of the high level scenarios in the previous step, they need to be worked out in greater detail. Scope, assumptions and input parameters such as GDP growth, unemployment rates, interest rates and real estate price changes are defined for the countries involved in the exercise. The parameters are discussed and approved in the STSC and subsequently in the BF&RC.

Step 3. Data processing & proposal mitigating actions
When the scenario parameters have been finalised, the impact of the scenario on the solvency and liquidity position is determined. Based on the scenario values for the relevant macro-economic and market variables, the impact on amongst others P&L, revaluation reserves, RWA and liquidity buffers is calculated. These outcomes are subsequently used to calculate the evolution of relevant solvency and liquidity ratios, such as the Core Tier 1 ratio, the leverage ratio and the CRD II liquidity buffer.

As for the previous steps, the calculated impacts of the scenario are first discussed and approved in the STSC, and then in the BF&RC. Depending on the outcomes of the stress test, and the possibly identified vulnerabilities, mitigating actions may be proposed. Approval of these mitigating actions takes place in the MBB.

Step 4. Execution of mitigating actions
After the MBB has approved the mitigating actions, they need to be executed. Mitigating actions may include sales or transfers of assets, reductions of risk limits, start-up or strengthening of marketing campaigns and lobbying campaigns with regulators or other authorities.



Methodology

For the calculation of the impact of the scenarios on P&L, RWA, revaluation reserves, etc., detailed and comprehensive models are used. In these models, statistical analysis is combined with expert opinion to make sure that the results adequately reflect the scenario assumptions. The methodologies are granular and portfolio-specific and use different macro-economic and market variables as input variables. The stress testing models are subject to a thorough review by the Model Validation department.

ECONOMIC CAPITAL

Model Disclosure

This model disclosure section explains the methodologies and models used to determine economic capital (EC). 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.

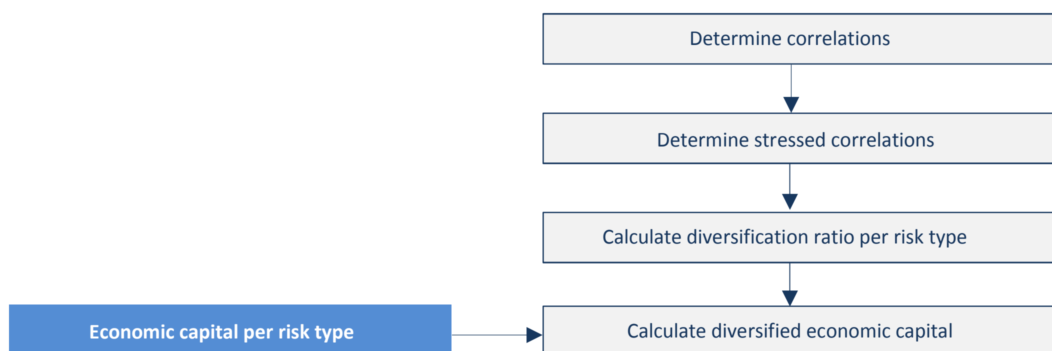
EC is defined as the amount of capital that a transaction or business unit requires in order to support the economic risks it takes. In general EC is measured as the unexpected loss above the expected loss at a given confidence level. This economic capital definition is in line with the net market value (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 via the Risk Adjusted Return on Capital (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% 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 before 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's 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 input 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 EC 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 EC by applying the variance-covariance approach with a 5 x 5 inter-risk correlation matrix.

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

Economic capital and regulatory capital

Main capital calculation and allocation tools for ING Bank are economic capital 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 and regulatory-based risks it faces. RC is driven by methodologies prescribed by regulators whereas EC is driven by internally developed models.

EC 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 significant impact on the values of EC going forward.

The tables below provide ING Bank's EC and RC by risk type and business line. Despite the tables display a slight increase compared to 2012, both are well below the total amounts of available capital of EUR 46,496 million. Details on the available capital can be found in the Capital Management paragraph, section 'Capital Adequacy Assessment'.

The main changes in ING Bank's economic capital and regulatory capital are:

- Economic capital for credit risk increased in 2013, as model updates and deterioration of risk profiles more than offset a decrease of the book. Several methodological updates have been incorporated in the credit risk EC model, including the use of downturn LGDs, ING based correlations, capital for CVA and capital for ONCOA. Part of the updates were already reflected in the 2012 reporting via the EUR 4.2 billion add-on which now has been allocated over the business lines. The other part of the methodological updates is reflected in the EUR 6.4 billion add-on which is unallocated and therefore reported separately.
- For market risk in all underlying risk areas, the reported EC numbers decreased mainly due to reduced outright risk exposures. This especially applies for the largest contributors: interest rate risk in the banking books and equity investments.
- For operational risk, ING Bank obtained accreditation for the use of its enhanced Advanced Measurement Approach (AMA) in April 2013 and applied the model for regulatory reporting of capital requirements. The implementation of the upgraded model, which better Reflects the risk profile of the business units, led to a slight decrease in reported RC.

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

	Economic Capital		Regulatory Capital	
	2013	2012	**2013**	2012
Credit risk	**18,009**	11,875	**19,074**	18,684
Add-on credit risk	**6,431**	4,248		
Market risk	**4,729**	6,326	**704**	772
Business risk	**1,773**	1,837		
Operational risk	**1,571**	1,763	**2,822**	2,836
Total banking operations	**32,513**	26,049	**22,600**	22,292

Economic and Regulatory Capital (Bank diversified only) by business line combination

	Economic Capital		Regulatory Capital	
	2013	2012	**2013**	2012
Commercial Banking	**8,156**	8,019	**10,174**	9,897
Retail Banking Benelux	**5,242**	4,155	**7,015**	5,679
Retail Banking International	**6,091**	6,518	**5,155**	6,028
Corporate Line Bank [1]	**6,593**	3,109	**256**	688
Unallocated	**6,431**	4,248		
Total banking operations	**32,513**	26,049	**22,600**	22,292

(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 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. Furthermore, credit risk EC includes transfer risk while RC does not;
- The market risk EC is higher than the RC primarily due to the inclusion of the interest rate, equity real estate risk in banking books in EC. In RC, only market risk in trading books is in scope;
- The EC figures include business risk, while RC does not;
- The operational risk EC is lower than the RC mainly due to the application of inter-risk diversification, whilst RC 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. This shows in all risk types, but more pronounced in risk types with fatter tails like operational risk.

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 and the consequent need for governments to provide aid to financial institutions, financial institutions have been under more scrutiny from the public, supervisors and regulators. This has resulted in more stringent regulations intended to avoid future crises in the financial system and taxpayers' aid in the future.

To accomplish this, a new Basel accord (Basel III) was adopted in 2010 and consequently translated into regulation by the EU in the Capital Requirement Regulation (CRR) and a Capital Requirement Directive IV. The CRR is binding for all EU member states and became effective per 1 January 2014. The CRR/CRD IV directs all EU member states to implement certain components of Basel III in their own law, in the Netherlands in the Wet Financieel Toezicht (WFT). Main objectives are:
- Better alignment of risk taking and loss absorbing capacity of financial institutions through a narrower definition of core Tier 1 and Tier 1 capital, back-stops on a bank's leverage via a ratio that should become part of Pillar 1 of the Basel framework.
- A reduction of 'pro-cyclicality' to avoid that banks would be required to increase their capital in difficult financial times when it is most scarce.
- Additional capital requirements for counterparty credit risk.
- Higher loss absorbency capacity and special resolution regimes for 'systemically important banks' (SIBs). ING Bank has been designated as a global SIB (G-SIB) by FSB and a domestic SIB (D-SIB) by DNB. In accordance with FSB requirements, ING Bank is required to disclose its 'Indicators of global systemic importance', which will be done in the course of 2014 via a separate document on ing.com.
- 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.

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 harmonization 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 accord was originally intended to enter its first phase of implementation on 1 January 2013. In 2013, CRR/CRD IV was officially agreed upon, allowing for the application of the Regulation on 1 January 2014. The Directive will have to be transposed into national law and because of this a few months delay is envisaged. Like other banks, ING Bank participated in semi-annual Basel III monitoring exercises in order to prepare for the functioning of all Basel III elements. Significant management actions have been undertaken to adjust the business model and exposure to certain asset classes to better meet the new Basel III requirements for both the liquidity and capital. Examples include reducing short-term funding and shifting significant derivative settlement to central clearing parties. Although not all definitions and parameters of the CRR/CRD IV have been finalised, ING Bank has been making impact analyses of the proposed changes continuously. The overall impact of Basel III on ING Bank's capital and liquidity ratios, even before management actions, is considered to be lower than for 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.

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 maintains a Basel III fully loaded Core Tier 1 ratio ambition of at least 10% and a Basel III Leverage Ratio ambition of at least 4%. 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.

Next to the implementation of these new requirements, ING Bank is preparing for the upcoming Banking Union whereby as part of the Single Supervisory Mechanism (SSM) prudential regulatory powers will be transferred from Eurozone national authorities to the European Central Bank (ECB). As a result, approximately 130 of the Eurozone's largest banks will be directly supervised by the ECB from November 2014. In the opinion of ING the SSM constitutes an important first step in creating a European banking union.

It will help to reduce the current inter-dependency between national governments and national banking systems, and at the same time will help restoring confidence and growth in the Eurozone and the wider European single market.

Before assuming its new responsibilities, the ECB conducts a comprehensive assessment of 130 Eurozone banks in collaboration with the European Banking Authority (EBA). The exercise comprises three complementary pillars:
- Supervisory risk assessment, addressing key risks in the banks' balance sheets, including liquidity, leverage and funding via quantitative and qualitative analysis based on backward and forward-looking information, including position in relation to peers.
- The ECB Asset Quality Review (AQR) will consist of a wide ranging and thorough review of specific parts of the balance sheet, ensuring that credit exposures are sufficiently provisioned, collateral is appropriately valued and complex instruments and high-risk assets are sufficiently valued
- Stress test, building on the AQR by providing a forward-looking view of banks' shock-absorption capacity under stress. The EBA and the ECB will closely cooperate for defining the methodological as well as the procedural aspects of this EU-wide stress test.

Although not everything is known on the ECB AQR and the EU-wide stress test in terms of set-up and scope, ING Bank is already preparing for this exercise. ING Bank gained experience with the Commercial Real Estate AQR organised by DNB that also focused on very granular data requests and with the series of EU-wide and other stress tests which have been included in ING Bank's risk management framework.

Another important element of the regulatory reforms is the Bank Recovery and Resolution Directive (BRRD) which will enter into force on 1 January 2015. The aim of this directive is to make EU banks more resilient and to reduce the possibility of having bank bailed out using public money, The new rules provide authorities with the means to intervene decisively both before problems occur and early on in the process if they do. If, despite these preventive measures, the financial situation of a bank deteriorates beyond repair, the new law ensures that shareholders and creditors of the banks have to pay their share, reflected via the bail-in requirements which will enter into force on 1 January 2016. ING supports the bail-in rules as they are an important component of the new regulatory framework, aimed at reducing the possibility that tax payer money will be needed to bail-out institutions in future crises.

In response to the crisis ING Bank has set up an all-encompassing Recovery Plan to enhance the bank's readiness and decisiveness to tackle financial crises on its own strength. Furthermore, ING Bank is diligently working towards providing information on the basis of which the Dutch Resolution Authorities will be able to develop a Resolution Plan.

In 2013, the Basel Committee published new requirements for effective risk data aggregation and risk reporting. The requirements aim to strengthen risk data aggregation and risk reporting practices at banks to improve their risk management practices. Banks indicated as global SIB – including ING Bank - are required to implement the Principles by 2016. As a first step of the implementation, ING performed a 'stocktaking' self-assessment survey in 2013 that displays that ING Bank is on track of fulfilling these requirements. These new principles coincide with several projects and programs to strengthen risk data aggregation and risk reporting practices that were already underway before these new requirements were published.

For a further update on the ongoing changes in the regulatory environment, refer to the Financial and Regulatory Environment Chapter.

RISK DEVELOPMENTS IN 2013

Risk developments listed below are defined as the risks which may have potentially a significant impact on our business and difficult to quantify the impact on the organisation. They are triggered in general by unexpected events, and they may introduce volatility in earnings or impact ING's long-term strategy. The sequence in which the top risks are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

Liquidity risk

Funding and liquidity risk management remained in 2013 an important topic for senior management and the Asset and Liability Committee Bank. During the year further implementation steps were undertaken in implementing and finalising the funding and liquidity risk management framework, whilst working in parallel on new regulatory requirements which were published in 2013 by the BCBS, EC and EBA. External market developments improved in comparison with the previous year, but both in the Eurozone and globally economic developments are sluggish and at times still volatile. Therefore, market developments, regulatory developments and internal financial developments are closely monitored. Stress testing and measurement of early warning indicators are, among others, used to provide additional management information. In 2013 the funding and liquidity risk appetite statements were reviewed and 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.

The Bank improved its funding profile and ensured its liquidity position stayed within regulatory and internal targets. The full-year 2013 long term debt issuance totalled EUR 25.7 billion compared with EUR 33.1 billion issued in 2012. The issuance volume was lower due to a combination of an asset growth slowdown and increasing funds entrusted. As a result, ING Bank's loan-to-deposit ratio, excluding securities that are recognised at amortised costs in loans and advances and excluding the IABF government receivable, improved in 2013 from 1.13 at 2012 year-end to 1.04, thereby already complying with ING's 2015 Ambition of below 1.10.

Dutch mortgages
In 2013 the Dutch housing market remained fragile due to the economic downturn, however a cautious recovery was observed towards the end of the year. The stricter tax and acceptation rules seem to be accepted. The biggest change to the tax rules is that interest on new mortgages is only tax deductible if there is at least an annuity repayment schedule. The Dutch housing market is historically characterized by a housing shortage, high income tax with deductibility of interest on mortgages, and tax driven mortgage products.

Although the house prices decreased, the Dutch payment behaviour is good, reflected in a slightly elevated but still low percentage of non-performing loans (NPL) by the end of 2013. Given the significant amount of mortgages in our credit portfolio, ING Bank closely follows all developments related to the 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 increased non-performing loan amounts, which was mainly driven by the sectors transportation logistics and media. The non-performing loan amounts in Belgium and Luxembourg decreased slightly over 2013.

Real estate finance
Real Estate Finance (REF) is the ING Bank's commercial real estate financer with a global portfolio. It is active in all the core real estate sectors: offices, retail, residential, industrial and logistics. REF financing policy is based on cash flow generating prime real estate portfolio, senior secured facilities, relatively low starting Loan-to-Value (LTV) and conservative covenant setting.

In 2013, the continued weak and challenging European commercial real estate markets were reflected in the risk costs and nonperforming loans. Further, in 2013 DNB performed an Asset Quality Review for Commercial Real Estate (CRE) primarily focusing on relevant Income Producing Real Estate portfolios (IPRE) at ING Bank globally, including Private Banking. This project consisted of two phases with the first phase dedicated to processes and methodologies and the second phase concentrating on the appropriate level of both capital and provisioning. The second phase assessment was executed by DNB with assistance of BlackRock included data delivery of IPRE exposure of in total EUR 40 billion, of which The Netherlands, Spain and Italy were selected for detailed analysis. This selection totals EUR 24 billion of which the majority is managed by ING REF (approximately 77%).

Provisions and Pillar I capital levels for ING for the portfolios in scope are in line with the results of the Asset Quality Review CRE. In 2014, the ECB will also conduct an AQR for the total bank and the CRE portfolio will be included again.

Cybercrime
Cybercrime is an increasing threat to companies in general and to financial institutions specifically. Both the frequency and the intensity of attacks are increasing at a global scale. In April 2013 Dutch banks, including ING Bank were targeted by Distributed Denial of Service (DDoS) attacks which resulted in some noticeable unavailability of services.

Following the establishment of a Cybercrime Task Force in 2012, ING Bank has set up a Cybercrime Resilience Program in 2013 to structurally address the cybercrime threats. Within the programme, ING Bank has defined a wide range of measures, on top of existing IT security measures, to strengthen ING's resilience against e-banking fraud, DDoS and targeted attacks (also called Advanced Persistent Threats). To monitor and to respond to cybercrime effectively across ING Bank, a permanent central CyberCrime Emergency Response Team has been established.

ING Bank is continuously working on strengthening its global cybercrime resilience including strengthened collaboration against cybercrime with the financial industry, law enforcement authorities, government (e.g. National Cyber Security Center) and Internet Service Providers (ISPs).

CREDIT RISK

Introduction
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 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.

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.

For the reconciliation between credit risk outstandings categories and financial assets we refer to the section 'Credit risk management classification' as included in the chapter 'Accounting policies for the consolidated annual accounts'.

Governance

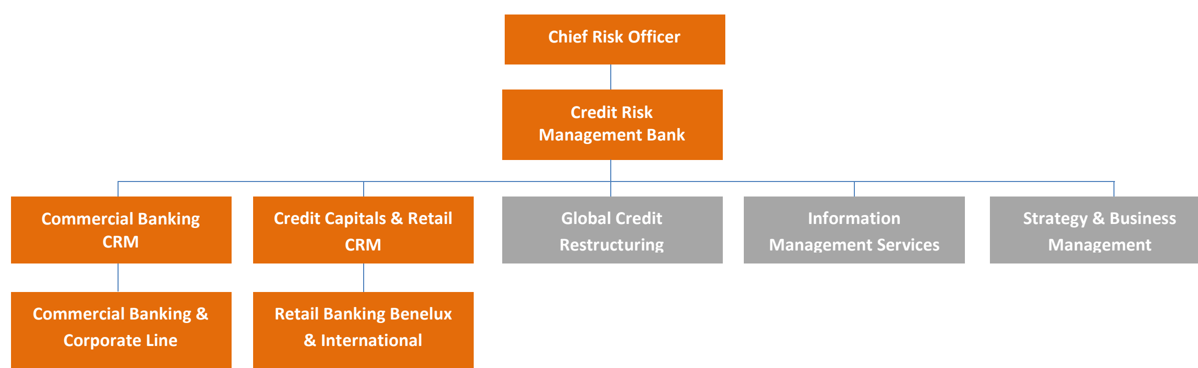
CRM within ING Bank belongs to the second line of defence (the front office being the first, internal audit the third) and aligns the credit risk taking with the strategic planning of ING Bank. It is responsible for reviewing and managing credit risk including environmental and social risk for all types 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. To ensure the independence of the risk function 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.

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 MTP budget 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. 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 MBB. The MBB 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.

Risk governance per business activity
There is a split between commercial banking and retail banking. In practice, CRM consists of the following units; Commercial Banking CRM (CB), Global Credit Restructuring (GCR), Credit Capitals and Retail Risk Management CRM (CC&RRM), Information Management Services (IMS) and Strategy and Business Management (S&BM).



Credit risks of commercial and retail banking are monitored by Commercial Banking CRM, Global Credit Restructuring and Retail Banking. These units are guided, instructed and supported by Credit Capitals, Information Management Services and Strategy & Business Management. Each head of the five units reports directly to the CCRM General Manager. As shown in the organisation chart, the CRM General Manager reports directly to CRO.

The CRM role encompasses the following activities:
- Measures, monitors and manages the credit risks in the Bank's portfolio
- Challenges and approves new transactions or any changes to previously approved terms and conditions applicable to clients
- Manages the levels of provisioning and risk costs, and advice on impairments
- Provides consistent policies and systems and tools to manage the credit lifecycle of all credit risk taking activities.

A range of committees are in place at CRM level both at transactional and policy level. The Global Credit Committee for Transaction Approval (GCC(TA)) is the highest approval authority level within ING Bank (with the exception of MBB and ING Bank Supervisory Board), and is mandated to discuss and approve transactions entailing taking of credit risks. Next to that is the Global Credit Risk Committee Policy. GCC(P) is the highest level ING Bank body (with the exception of MBB), which is authorised to discuss and approve policies, methodologies and procedures related to credit risks within ING Bank. The Credit Risk Committee (CRC) is the next highest level ING Bank body, authorised to discuss and approve policies, methodologies and procedures related to Credit Risk within ING Bank. The Models Development Committee (MDC) serves as a technical advisor to CRC and is a planning body for future model development. The Credit Portfolio Committee is a committee advising Bank ALCO and GCC(P) on ING Credit Risk Appetite. CPC can also advise the MBB, GCC(P) or the Line of Business (LoB) to update the appetite for risk and/or to take specific actions on ING's own assets. The ING Bank Provisioning Committee (IPC) is the sole Approval Authority that can approve Loan Loss Provisions (LLP) amounts for all ING Bank entities. The Group Impairment Committee (GIM) decides on the quarterly impairments. The IPC and GIM are executed in connection with the Finance department.

Commercial Banking
Commercial Banking manages the credit risk of the commercial banking activity i.e. the corporates, sovereigns and counterparties. There is a functional reporting line from the regional CB risk departments to CB CRM. There is a hierarchical reporting line from the risk departments Corporate & Structured Finance, Real Estate Finance, Counterparty & Investment and Real Estate & Other to CB CRM. Several reports are made regularly for monitoring and managing purposes. These reports are intensively discussed with the (regional) risk managers. RWA developments are monitored on portfolio level and per individual client during the month.

Commercial Banking has specific delegated mandates. The approval process for Issuer and Corporate Credit Risk is based on mandates for approval signatories, except for the GCC. Each mandate is further broken down into categories, each representing a different Delegated Authority in amounts. For Counterparties the approval authorities and committees consists of GCC, Counterparty Credit Committee (CPCC) and mandates on (sub) regional or (local) unit level.

Retail risk

The Retail banking business line covers Retail Banking Benelux and Retail Banking International. There is a functional reporting line from the business units to the Retail Risk Management (RRM) department. The retail risk portfolio is defined as a group of homogeneous credit assets, where a set of policies and processes for approving high volumes of counterparties and transactions can be applied. Exposures are pooled and managed through a set of standard policies and procedures over its entire life cycle. Several reports are made regularly for monitoring and managing purposes. These reports are intensively discussed with the (regional) risk managers. RWA and other key credit risk metric developments are monitored on portfolio level during the month.
RRM has two specific delegated mandates: RRM has the mandate to re-allocate retail risk appetite statement boundaries between different segments. Secondly, RRM has the mandate to approve the annual update for the PD, LGD, and EAD parameters for the Basel II Standardised portfolio.

Global Credit Restructuring

Global Credit Restructuring is the dedicated and independent corporate department within CRM that deals with non-performing loans and loans that hold a reasonable probability that ING will end up with a loss, if no specific action is taken. Clients can be transferred to GCR from both Retail and Commercial Banking but are usually the larger customers and often it concerns clients from Commercial Banking. A more detailed description regarding the Regional Restructuring Units, GCR and its specific characteristics are shown in the credit quality chapter at the end of this section.

Risk culture

Apart from supporting and promoting ING's Business Principles, CRM has identified a number of areas that helps establish and develop sound risk culture. Key areas where CRM puts its focus on are:

Risk awareness

Various activities are coordinated within CRM with the goal to update, inform and educate CRM employees and create awareness on factors that influence its activities e.g. Credit Risk Alerts address actual credit risk issues relevant to ING. The alerts are published on various ING intranet portals and distributed by email. Credit risk academies where senior leaders and financial specialists address topics ranging from local unit developments to specific credit risk related strategies are held on a regular basis. Short term assignments within risk and finance are promoted to allow experienced employees to heighten their risk awareness.

Engagement

CRM, as a Top Employer, finds it is important to engage staff, and link with society. CRM organises annually a strategy project in which a large deal of interaction between (senior) manager and employees takes place. Regular town hall meetings are organised which bring employees and senior management closer. Topics usually include a reflection on the quarterly results of ING but also touch upon HR, ethics, compliance and other subjects. Also, CRM whole heartedly embraces the Winning Performance Culture scan, in which the employee satisfaction is measured and monitored. CRM also promotes support of charity funds like Chances for Children

Integrity

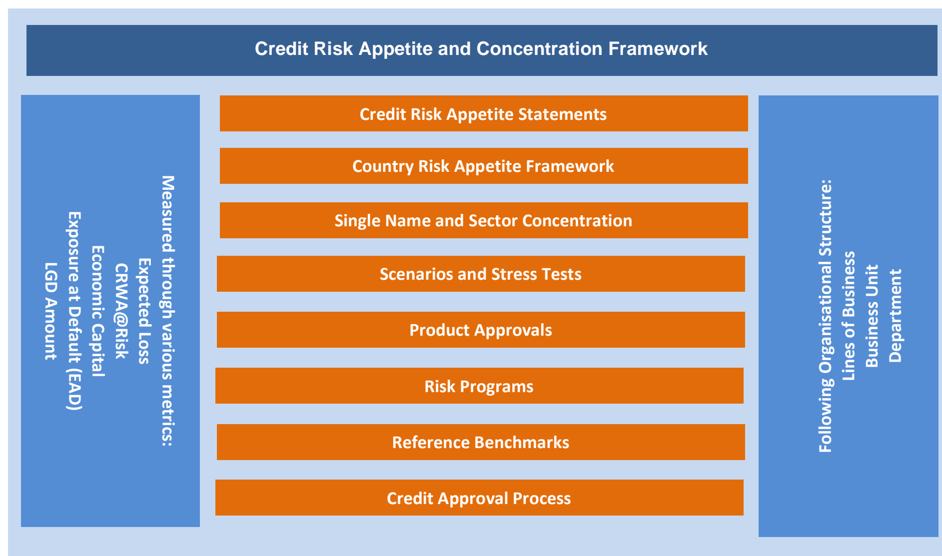
Specific training on 'good banker-ship' is obligatory. These courses, approximately three per year are known as the Personal Integrity Programme. Each CRM employee, senior managers included, needs to pass these courses within defined time frames. For specific roles within CRM, the Insider regulation applies. Those employees are obliged to adhere to certain rulings in trading in shares and confidentially restrictions. All new CCRM staff must attend an ORM/Compliance introduction workshop. Results and involvement are monitored and a quarterly update is provided to the management team in the ORM/Compliance Quarterly Report.

Communication

New methods to improve communication are regularly created and implemented. For example, a network of news brokers has been established. These are dedicated employees, who are kept informed of activities and changes within CRM and are responsible for informing their teams. Additionally they provide bottom up information and carry information from the teams back to the management team. CRM also has its own dedicated intranet site, providing Credit Risk Alerts and the Policy House.

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 country, portfolio and/or counterparty level. It consists of single name concentration i.e. losses due to the unexpected 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 LGD of a single name concentration is measured against a maximum LGD amount.
Country concentrations are also managed and monitored via the Country Risk Framework. Every country where ING has exposure has a country limit which is reviewed monthly and updated quarterly. When exposure reaches 90% of the limit level, a review process is initiated. The Country Limit is a function of various factors including amount of capital consumption, GDP of the country, internal rating, and amount of funds entrusted generated.

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-10 year-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 Credit RWA that ING should allocate in such an event is named Credit RWA-at-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 Credit RWA-at-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 banking and risk programs for commercial banking 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.

The Commercial banking 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 appetite for credit risk per obligor or related group of obligor's counterparty group. It is expressed as an EAD Exposure at the concentration risk level, which corresponds to a (maximum) internal capital consumption for credit risk. It is used as a reference amount tool in the credit approval process and can be waived on the basis of proper arguments but requires consent from a higher approval authority.

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 organized 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).

Credit risk capital and measurement

Credit risk capital

Regulatory Capital 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. Differences in RWA among banks have been classified by BIS 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.

For further analyses of the ING RWA density compared with the BIS study, we refer to the Pillar 3 section.

The European Banking Authority (EBA) published an analysis in December 2013, containing an RWA breakdown of the investigated 60 banks from 12 different countries in Europe(1). The sample period of this study is 2012. In the below table, we have compared the breakdown of the RWA of the peers with ING Bank for the same period and for 2013.

RWA breakdown comparison with EBA Study Group [(1)]

		SA	AIRB	AIRB composition				
				Sovereigns	Institutions	Corporate	Retail	Total
ING exposure classes	**2013**	**11.5%**	**88.5%**	**3.5%**	**9.7%**	**51.8%**	**35.0%**	**100.0%**
	2012 [(2)]	14.8%	85.2%	1.6%	11.3%	52.6%	35.0%	100.0%
EBA Study Group	2012	29.0%	71.0%	3.0%	8.0%	61.0%	28.0%	100.0%

(1) Report on the pro-cyclicality of capital requirements under the Internal Ratings Based Approach', EBA - 17 December 2013
(2) For comparison purposes, we have aligned the 2012 exposure class structure for corporate and institutions with 2013.

This table illustrates that ING has a significantly higher percentage of its portfolio covered by Advanced Internal Rating Based (AIRB) models compared to the European peers. DNB requires Dutch banks to have a minimum of 85% of RWA covered by AIRB models before allowing AIRB applicability. In general, capital calculated with AIRB has a lower risk weight than using the Standardised Approach (SA). This Supervisory Practice has an influence on the comparability of RWA across institutions.

From the table, it is also clear that ING has relatively less exposure in the Corporate exposure class than European peers and consequently higher exposure in other classes especially mortgages. Within ING, the Corporate exposure class has by far the highest risk weight. Therefore, it would be expected that ING has a lower blended risk weight than European peers all other elements being equal. This Business Mix element has an influence on the comparability of RWA across institutions.
For further analyses of the ING RWA density, compared to its European peers, we refer to the Pillar 3 section.

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. ING's retail portfolio is mainly comprised of residential mortgages. 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. In addition to an impact on RWA, the conservative default definition implies that approximately half of corporate customers classified as non-performing are not in excess of 90 days in either interest or principal. 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, usually 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 is 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 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 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 the 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 RWA' ratio, which should exceed a pre-determined level (hurdle).

An important characteristic of the CCRM infrastructure and framework is that models are built for several purposes, including EC, RC and loan loss provision. These rating models are broadly used throughout the ING Bank organisation which is therefore compliant with the Basel Use Test requirement and ensures active feedback on the risk parameters by business units.

The short overview below shows the main differences between RC and EC, within ING Bank.

Conceptual differences between Regulatory Capital and Economic Capital

Regulatory Capital	Economic capital
For portfolios which are reported on SA, the CRR/CRD IV compliant look-up tables are used to determine risk weights.	EC for SA portfolios is calculated by means of unexpected loss formula which is based on the corresponding PD, DLGD and EAD inputs. DLGD values used are obtained by applying a 125% downturn adjustment factor to economic LGD values.
The 1.06 Basel 2 scaling-factor is used.	No 1.06 Basel 2 scaling-factor is used.
Regulatory LGD values including potential downturn adjustment are used.	Regulatory LGD values including potential downturn adjustment are used.
For non-Sovereign exposures the PD values are floored at 3 BPS.	Use of non-floored economic PD.
For Securitisations the risk weights are determined by applying the CRR/CRD IV complaint external rating based look-up tables. For Mont Blanc exposures the Internal Assessment Approach is used.	EC for securitisations is calculated with the Corporates Basel 2 approach (based on internal PD, EAD, DLGD values and remaining maturity).
Under AIRB, for tenors shorter than one year, only those exposures that are on the DNB approved "short term exposure exemption list" the actual remaining maturity is used, all other exposures are floored at one year.	For short tenor exposures, the actual tenor is used and for exposures shorter than 1 year the effective PD (and not the 1 year PD) is used. For lending products to clients rated 11 or worse, 1 year PD is used.
Regulatory EAD is employed for all exposures.	Economic EAD is employed instead of regulatory EAD for all exposures except for FM products for which regulatory EAD is used (as well as downturn LGD).
The CRR/CRD IV based confidence level of 99.90% is used.	Linked to Risk Appetite, a confidence level of 99.95% is used.
CRR/CRD IV compliant correlations are used. The Increased Correlations for FI's will be applied in 2014.	Use of correlations based on Basel formula, scaled up with the 2012 MKMV output per exposure class and country with current concentrations taken into account.
In 2013 CVA Capital Charge is not added to Regulatory Capital for credit risk, in 2014 ING Bank will allocate CVA Capital Charge based on the Standardised Approach.	CVA risk is taken into account as calculated under Pillar 1, and already in scope in 2013.
In the Solvency Report Other non-credit obligation assets (ONCOA) is included.	Credit risk related ONCOA items are included.

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 Credit RWA (Pillar 1) or to the significance (size) of the model for the ING Bank portfolio.

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 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 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 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 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 measurement models.

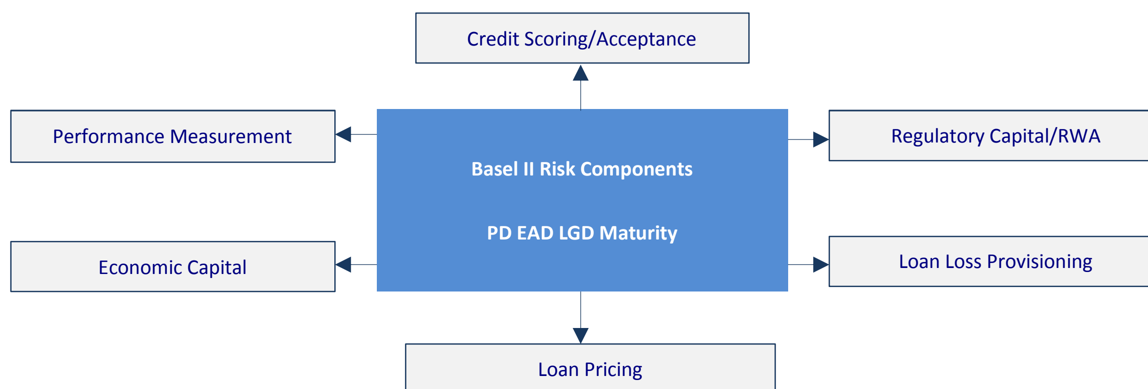
For regulatory capital the Pre-Settlement (PS) exposure is calculated using a Marked-to-Market (MtM) plus regulatory-based add-on tables. For internal capital purposes ING Bank uses two methodologies to calculate its PS exposures. Ideally, all parts of ING Bank would apply identical methodologies at 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.

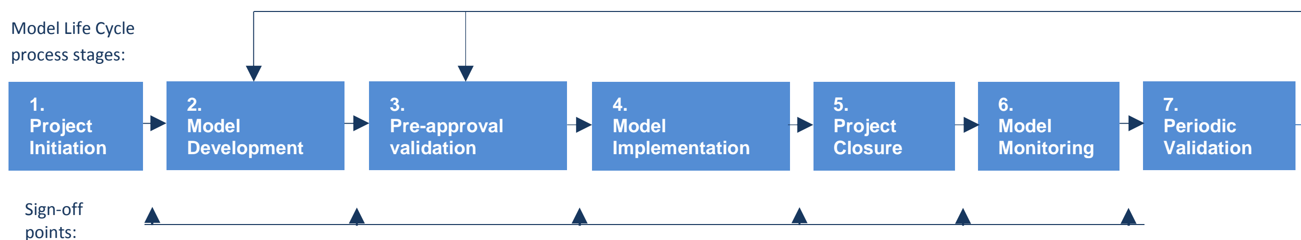
In addition to the two approaches ING recognises that certain trading products that are outside of this scope may be deemed insufficiently accurate. For example, highly structured or exotic derivative transactions may differ significantly from the generic transactions used to calculate the add-ons. For 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. For certain local models, the approval authority 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 backtesting. Most of the credit models reviewed by MV 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 PD rating models are based on a 1-22 scale ('Master Scale'), which roughly corresponds to the same rating grades that are assigned by external rating agencies, such as Standard & Poor's (S&P) 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.
To reflect a more accurate risk measurement of the PD values of the low default portfolios, the Master Scale (which consists of S&P default history) was updated in 2013.

Risk ratings 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, 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:

- 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 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. ING Bank is continuously reviewing its allocation of clients within exposure classes to ensure a best fit to the definition. There is some overlap between Institutions and Corporates which is a matter for interpretation. Several clients have been moved from Corporates to Institutions in 2013. This did not have any impact on capital calculations but provides better comparability across firms.

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 reflects these management classifications of the portfolio.

The portfolio breakdown of ING bank per exposure class and per risk category, based on Exposure at Default is as follows:

Exposure classes ING Bank portfolio per risk category, as % of total EAD

	Lending		**Investment**		**Money Market**		**Pre-Settlement**		**Total Total (ALL)**		
2013 [1]	**AIRB**	**SA**	**AIRB**	**SA**	**AIRB**	**SA**	**AIRB**	**SA**	**AIRB**	**SA**	**AIRB+SA**
Sovereigns	**2.8%**	**0.0%**	**7.3%**	**0.4%**	**1.2%**	**0.1%**	**0.5%**	**0.0%**	**11.8%**	**0.5%**	**12.3%**
Institutions	**4.3%**	**0.2%**	**3.5%**	**0.0%**	**1.6%**	**0.1%**	**3.7%**	**0.1%**	**13.1%**	**0.4%**	**13.5%**
Corporate	**26.2%**	**1.4%**	**0.2%**	**0.0%**	**0.1%**		**0.9%**	**0.0%**	**27.4%**	**1.4%**	**28.8%**
Residential mortgages	**37.2%**	**0.8%**							**37.2%**	**0.8%**	**38.0%**
Other retail	**4.7%**	**1.4%**	**0.0%**				**0.0%**	**0.0%**	**4.7%**	**1.4%**	**6.1%**
Securitisation	**0.3%**		**1.0%**				**0.0%**		**1.3%**		**1.3%**
Total (ALL)	**75.5%**	**3.8%**	**12.0%**	**0.4%**	**2.9%**	**0.2%**	**5.1%**	**0.1%**	**95.5%**	**4.5%**	**100.0%**

[1] Anticipating the further legal and factual unwinding of the ING Group, NN Group and ING Bank structure, the 2013 figures shown in the Credit Risk section are including loans to ING Group and NN Group, which were previously excluded, being 'intercompany loans', unless stated otherwise

Exposure classes ING Bank portfolio per risk category, as % of total EAD

	Lending		Investment		Money Market		Pre-Settlement		Total Total (ALL)		
2012 [1]	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB+SA
Sovereigns	2.6%	0.0%	6.3%	0.4%	1.2%	0.1%	0.4%		10.5%	0.5%	11.0%
Institutions	4.0%	0.2%	4.0%	0.0%	1.7%	0.1%	3.8%	0.0%	13.5%	0.3%	13.8%
Corporate	26.9%	1.5%	0.2%	0.0%	0.1%		1.2%	0.0%	28.4%	1.5%	29.9%
Residential mortgages	36.3%	1.6%							36.3%	1.6%	37.9%
Other retail	4.5%	1.4%	0.0%	0.0%			0.0%	0.0%	4.5%	1.4%	5.9%
Securitisation	0.2%		1.3%				0.0%		1.5%		1.5%
Total (ALL)	**74.5%**	**4.7%**	**11.8%**	**0.4%**	**3.0%**	**0.2%**	**5.4%**	**0.0%**	**94.7%**	**5.3%**	**100.0%**

[1] For comparison purposes, we have aligned the 2012 exposure class structure for corporate and institutions with 2013.

Corporate and Residential Mortgages comprise over 66% (2012: 70%) of ING Banks' total portfolio. In 2013 the total Corporate exposure declined, driven by a continued disintermediation and a lack of investment by corporates. The investment portfolio is mainly concentrated in the exposure class Central Governments and Central Banks and is transitioning to largely a liquidity portfolio to support liabilities as required under new regulatory regime.

Models used for exposure classes

ING Bank has developed PD, EAD and LGD models for Commercial Banking and Retail Banking portfolios. PD, EAD and LGD models are subject to CRC (or in some delegated cases: MDC) approval and changes which significantly impact the results require approval from the regulator before implementation. By nature, the above described exposure classes have different, specific characteristics. To capture these specific characteristics and to have suitable valuations and analyses in place, CRM is continuously updating and developing models within each exposure class. In total, CRM makes use of more than 100 different internal models, which have the following features:

- **PD models:** Probability of Default estimates the likelihood that a borrower defaults within a given time period based on an assessment of borrower specific information (e.g. financial information and qualitative information), payment behaviour and product related information. For the exposure classes Governments, Institutions and Corporates, with the exception of small and medium-sized entities, the models are mostly expert based scorecards based upon an assessment of borrower specific information. The small and mediumsized entities, Residential Mortgages and Retail models are country specific and are developed statistically or as a hybrid.
- **EAD models:** Exposure at Default is the expected amount of ING's exposure to a customer or counterpart at the time of default. Usually, this amount is higher than the amount of current outstanding. The EAD is facility-specific. EAD models estimate the expected amount of ING's exposure to a borrower at the time of default based upon the current exposure and current limit. The methodology for EAD models divides the products into revolving and non-revolving products. Depending on the relationship between the limit and exposure at the moment of observation different calculations apply. A separate dimension is required for off-balance sheet exposures to estimate the fraction of off-balance sheet exposure that will be converted to an on-balance sheet exposure in the event of default. Important factors that determine the outcome of the EAD models are related to the portion of the unutilised amount of the limit that is expected to be utilised at the time of default and a factor that translates the (notional) exposure at default into a cash equivalent and is only relevant for off-balance sheet products. The models also make use of a factor that measures unauthorised excess, i.e. drawings beyond the approved Facility Limit, if any. In addition to product type, EAD is also influenced by the approach to risk management. ING Bank has a pro-active risk management approach with active Watch list management that can influence EAD.
- **LGD models:** Loss Given Default is the measure of anticipated economic losses in a given Event of Default, taking into account the time value of money and includes both direct as well as indirect costs. LGD is facility-specific and expressed as a percentage of the EAD. LGD is largely a function of default scenarios, collateral, and guarantees obtained. Unsecured facilities typically have much higher anticipated loss ratios than secured facilities.
  ING distinguishes four types of post default scenarios:
  - *No Loss - Cure:* the Borrower pays all overdue amounts (to the extend ING Bank is legally entitled to) and the asset becomes non-defaulted again. ING Bank does not experience any loss in the process. The relationship is not terminated. The borrower returns back to performing.

- *No Loss - Exit without loss:* ING Bank (or the borrower) liquidates collaterals and calls guarantees in order to recover the exposure or the Borrower fully repays. Thereafter the relationship is terminated. ING Bank does not experience any loss in the process.
- *Loss - Exit with loss:* ING Bank (or the borrower) liquidates collaterals and calls guarantees in order to recover the exposure. Thereafter the relationship is terminated. ING Bank suffers loss in the process.
- *Loss - Distressed Restructuring:* ING Bank restructures the loan agreement so as to recover the exposure after allowing some discount. The relationship with the borrower continues after the restructuring. ING Bank suffers some loss in the process.

Changes in 2013 to credit risk models

The credit risk models are updated on a regular basis by taking into account more recent data, regulatory requirements and MV recommendations. In 2013 model changes have been implemented to various important AIRB models across all exposure classes leading to an increase in RWA of EUR 9.1 billion of which the major changes are:

- Governments: A new EAD model not only applicable to Governments, but also to Institutions and Corporates (excluding small and medium-sized entities) was implemented. Besides that new LGD models were implemented for the Central and Local Government portfolio. These changes lead to a net increase in RWA.
- Institutions: The main model change was the new EAD model leading to a decrease in RWA.
- Corporates: A new LGD model and EAD model was implemented for the Corporates Large portfolio leading to a decrease in RWA. The Commercial Property Finance portfolio had an update in the PD and LGD models creating a RWA increase. For the Small and Medium Sized entities updates have taken place in the Netherlands PD and LGD models, in the Belgium LGD model and in the Central Eastern Europe PD, LGD and EAD models, leading to an increase in RWA.
- Residential Mortgages: The PD and LGD models for the Dutch Mortgages portfolio have been updated to better reflect current market circumstances, leading to an increase in RWA.
- Retail Other: Main changes were to Private Individuals Belgium PD model and NL Unsecured PD, EAD and LGD models. The several model changes had plus and minus effects which on a net basis were not significant.

For further details regarding model changes and the subsequent RWA migration in 2013 we refer to the chapter 'Risk Weighted Migration Analysis' in the Pillar 3 section.

Securitisations

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

ING Bank as Investor

ING Direct had been the primary investor in securitisation transactions within ING Bank. Its core strategy was 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 ING Bank strategy has evolved to create more universal banks from the retail operations. In addition, the regulatory requirements for liquidity have become clarified over the last couple of years which decreases the attractiveness of securitisations as a form of liquid buffer. Therefore, ING Bank has greatly reduced its securitisation portfolio over the last years and the remaining portfolio is likely to run-off without replacement.

ING Bank as Originator

ING Bank occasionally originated 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 had done a very limited number of transactions as Originator. These have all expired, been unwound, or will likely be unwound shortly.

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

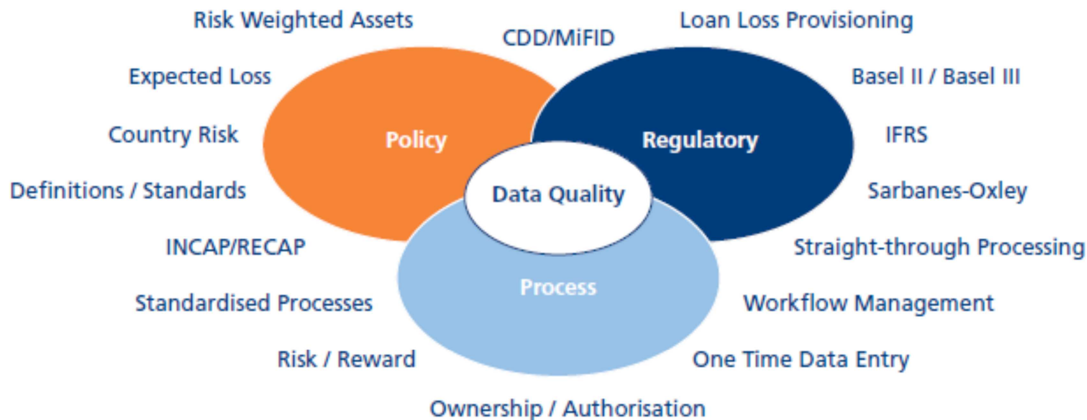
Credit risk policies

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 Bank wide Customer Domain (BCD) jointly designs and operates the tools, the process and the environment while the ING units (the users) provide the data input and various other ING departments and/or external regulators provide the rules, policies, and methodology embedded in the various tools.

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



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

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

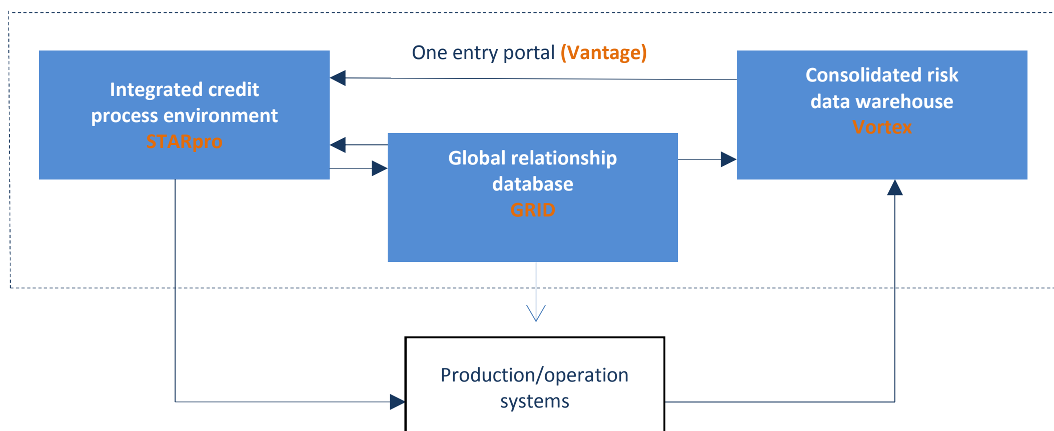
The customer-centric approach ensures that ING Bank can react quickly to changing regulations, business needs and best practices in our dealings with our clients and prospects.

Guiding principles regarding data elements

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

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

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.

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 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 regulators, 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-EU 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 probabilities 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 qualitative 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 non-performing 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 an important element of credit risk management. Regulators and ING Bank’s management increasingly recognize 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 significant 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; and
- 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.

Reporting principles

The Basel Committee published in January 2013 new ‘Principles for Effective Data Aggregation and Risk Reporting’ which outline 11 key principles that global SIBs have to implement by 2016. As a first step of the implementation, ING performed a ‘stocktaking’ selfassessment survey in 2013. Based on this survey Credit Risk Reporting can rate itself satisfactory on all principles, including their key principles: Accuracy, Timelines, Completeness, Adaptability and Auditability. Nonetheless, gaps have been identified in certain subportfolios and actions are being planned to further improve the credit information technology and reporting.

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	
		2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
1	(AAA)	**1.9%**	2.9%		0.0%	**8.5%**	7.6%	**5.0%**	0.8%	**3.2%**	3.3%
2-4	(AA)	**14.2%**	12.6%	**5.4%**	5.1%	**16.6%**	16.0%	**60.3%**	80.5%	**12.6%**	12.5%
5-7	(A)	**23.0%**	19.3%	**4.1%**	5.8%	**21.6%**	21.2%	**16.5%**	9.0%	**16.1%**	15.0%
8-10	(BBB)	**26.6%**	25.5%	**34.4%**	42.6%	**27.9%**	26.7%	**5.7%**	0.8%	**29.3%**	31.1%
11-13	(BB)	**22.6%**	25.4%	**41.5%**	34.6%	**18.8%**	20.9%	**12.3%**	0.2%	**27.7%**	26.7%
14-16	(B)	**6.6%**	8.9%	**8.2%**	6.2%	**4.6%**	5.5%		0.4%	**6.5%**	6.8%
17-22	(CCC & Problem Grade)	**5.1%**	5.4%	**6.4%**	5.7%	**2.0%**	2.1%	**0.2%**	8.3%	**4.6%**	4.6%
		100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

(1) Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities.
(2) Covered bonds are presented on the basis of the external credit rating of the issuer in question. Covered bond issues generally possess a better external credit rating than the issuer standalone, given structural features of such covered bonds.

The shift in Retail Banking Benelux from rating class BBB to BB, was the result of the reflection of the economic environment in the ING Dutch mortgage models, leading to a somewhat weaker, but more accurate rating. The increase in Commercial Banking in rating group A, was particularly the result of increased outstandings to Central Counterparties, which particularly have a low PD and good risk rating.

Credit risk types

Within the Lending portfolio, by nature the largest risk category with 77% share (2012: 78%) of the total ING Bank portfolio, the decrease in rating class BBB, was the main cause of the decrease of ING Banks' total portfolio. This was the result of transferring Residential Mortgages from WestlandUtrecht Bank to NN Group and moreover, due to the reflection of the economic environment into in our Dutch mortgages models, as described above. The investment portfolio was further wound down, impacted especially by the remainder of the Illiquid Asset Back-up Facility in the CCC & Problem Grade rating class being terminated. This portfolio is transitioning to a largely liquidity portfolio to support liabilities as required under new regulatory regime. Given the short-term nature of Money Market deposits, large changes can occur quickly. Other than local regulatory requirements in certain units, Money Market postings tend to be with central banks and other highly rated financial institutions.

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

		Lending		Investment		Money Market		Pre-settlement		Total ING Bank	
		2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
1	(AAA)	**1.2%**	1.4%	**12.1%**	12.9%	**23.2%**	9.8%	**1.2%**	3.5%	**3.2%**	3.3%
2-4	(AA)	**6.2%**	6.3%	**48.3%**	45.3%	**27.1%**	35.5%	**9.8%**	11.0%	**12.6%**	12.5%
5-7	(A)	**11.5%**	10.7%	**17.9%**	18.2%	**27.3%**	35.7%	**61.0%**	54.9%	**16.1%**	15.0%
8-10	(BBB)	**34.1%**	36.1%	**10.4%**	11.4%	**16.9%**	13.4%	**17.2%**	17.4%	**29.3%**	31.1%
11-13	(BB)	**33.1%**	31.6%	**10.4%**	9.3%	**5.5%**	5.4%	**8.6%**	10.1%	**27.7%**	26.7%
14-16	(B)	**8.1%**	8.4%	**0.7%**	1.1%		0.2%	**1.3%**	1.9%	**6.5%**	6.8%
17-22	(CCC & Problem Grade)	**5.8%**	5.5%	**0.2%**	1.8%		0.0%	**0.9%**	1.2%	**4.6%**	4.6%
		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.

Due to reduced demand in many markets where ING is active combined with dis-intermediation in the capital markets, the overall portfolio has reduced. This has had an impact on industry concentrations, as exposures to financial institutions and local and central governments make a larger portion of the portfolio.

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

	Commercial Banking		Retail Banking Benelux		Retail Banking International		Corporate Line		Total ING Bank	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Private Individuals		0.0%	**74.1%**	75.5%	**57.1%**	58.4%			**41.5%**	42.9%
Commercial Banks	**14.8%**	12.8%	**0.2%**	0.2%	**11.2%**	12.3%	**23.0%**	9.2%	**9.0%**	8.1%
Non-Bank Financial Institutions	**13.2%**	11.1%	**0.8%**	0.9%	**7.3%**	8.3%	**17.1%**	10.6%	**7.4%**	6.8%
Central Governments	**10.9%**	9.7%	**1.3%**	0.9%	**5.0%**	4.6%	**59.9%**	79.5%	**6.7%**	6.7%
Real Estate	**12.0%**	14.9%	**4.9%**	4.6%	**0.9%**	1.1%			**6.2%**	7.0%
Natural Resources	**14.2%**	13.3%	**0.4%**	0.4%	**0.7%**	0.7%			**5.4%**	4.9%
Central Banks	**5.5%**	6.0%	**0.2%**	0.1%	**3.4%**	2.2%			**3.0%**	2.8%
Lower Public Administration	**0.4%**	0.5%	**1.8%**	1.9%	**7.3%**	5.9%			**2.9%**	2.6%
Transportation & Logistics	**6.5%**	6.9%	**1.3%**	1.2%	**0.3%**	0.2%			**2.8%**	2.9%
Services	**3.1%**	3.4%	**3.3%**	3.1%	**0.5%**	0.5%			**2.4%**	2.4%
General Industries	**3.3%**	3.4%	**1.5%**	1.4%	**1.5%**	1.4%		0.4%	**2.1%**	2.1%
Food, Beverages & Personal Care	**2.9%**	3.5%	**2.1%**	2.1%	**1.2%**	1.1%			**2.1%**	2.3%
Other	**13.2%**	14.5%	**8.1%**	7.7%	**3.6%**	3.3%		0.3%	**8.5%**	8.5%
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

There was very little shift in the geography risk exposures as most markets in Europe continued demonstrating weak economic conditions. Germany, especially its retail organisation, was an exception which also showed growth in the ING portfolio. The Asia/Pacific markets showed healthier growth than Europe both economically and within ING portfolio; however, some of this growth is negatively impacted by exchange movements.

Largest economic exposures: ING Bank portfolio, by geographic area (1)

	Commercial Banking		Retail Banking Benelux		Retail Banking International		Corporate Line		Total ING Bank	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Netherlands	**17.4%**	15.5%	**70.6%**	72.5%	**0.7%**	0.6%	**77.9%**	76.6%	**30.5%**	31.1%
Belgium	**6.9%**	8.0%	**27.5%**	25.7%	**0.3%**	0.6%		0.3%	**11.6%**	11.5%
Germany	**4.5%**	4.0%	**0.2%**	0.2%	**43.5%**	39.2%	**2.8%**	2.2%	**13.9%**	12.6%
Rest of Europe (2)	**45.4%**	45.1%	**1.5%**	1.3%	**34.0%**	36.3%	**1.5%**	10.6%	**27.7%**	27.7%
Americas	**13.1%**	15.0%	**0.1%**	0.2%	**1.2%**	1.0%	**0.7%**	10.3%	**5.5%**	6.2%
Asia/Pacific	**12.2%**	11.8%	**0.1%**	0.1%	**20.3%**	22.3%	**17.1%**	0.0%	**10.6%**	10.7%
Rest of World	**0.5%**	0.6%		0.0%		0.0%		0.0%	**0.2%**	0.2%
Total	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

(1) In 2013, geographic areas are based on the primary country of risk and no longer based on country of residence for private individuals. The 2012 figures in the above table are treated equally.
(2) The top 5 exposures within Rest of Europe are to United Kingdom, Spain, Italy, Poland and France.

Credit quality

In this section the credit quality of the ING Bank portfolio is described. Outstandings carrying a risk that ING will end up with an actual loss or with an opportunity loss, if no specific action is taken, are captured in this section. Since the beginning of the crisis, the quantity and the share of the total ING credit risk portfolio of past due obligations, provisions, non-performing loans in general or any other loan that requires special risk management attention has increased. Noteworthy is the fact that the average turnaround time of problematic files seems to have stabilised in 2013, as opposed to the extension experienced each year since the beginning of the crisis. Obviously, the length and intensity of the crisis require continuous attention for credit quality. In this section the distinction between the Retail and Commercial Banking approach of past due obligations will be explained. Also the watch list and restructuring status will be introduced and an insight in the non-performing portfolio is given. After that, an analysis of the loan loss provisions is made and finally, the concept of forbearance will be discussed. The credit risk management paragraph will be concluded with extended analyses of the strategy of ING Bank to mitigate its credit risk.

Past-due obligations

Retail banking continuously measures its portfolio in terms of payment arrears. The retail portfolios are closely monitored on a monthly basis to determine if there are any significant changes in the level of arrears. The methodology is principally extended to loans to private individuals, such as residential mortgage loans, car loans, and other consumer loans. 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 arrears continue to exist, the obligor is transferred to a restructuring unit. The obligor is downgraded to risk rating 20 (non-performing) when the arrears exceed 90 days. In order to reduce the number of arrears, ING banking units encourage their obligors to set up automatic debits from their (current) accounts to ensure timely payments.

Aging analysis (past due but not impaired): ING Bank consumer lending portfolio, outstandings (1)

	2013	2012
Past due for 1–30 days	**5,556**	5,350
Past due for 31–60 days	**1,125**	1,142
Past due for 61–90 days	**129**	87
Total	**6,810**	6,579

(1) Based on consumer lending. The amount of past due but not impaired financial assets in respect of non-lending activities was not significant.

In 2013, the retail portfolio showed a modest increase in the past due but not impaired portfolio of 4%, mainly driven by the troublesome implementation of the SEPA payment system in Belgium and The Netherlands, leading to many failed payment transactions. This was partly offset by increased repayments in Australia, the effect of a positive, domestic interest climate.

Commercial Banking: for business loans (governments, 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 or even before. A payment default of 90 days will always lead to a non-performing classification, but there are many more default triggers. The default triggers are:

1. Bankruptcy or financial reorganisation: The Borrower has sought or has been placed (or is likely to seek or be placed) in bankruptcy or similar protection, where this would avoid or delay repayment of the financial asset;
2. The Borrower has failed in the payment of principal or interest/fees and such payment failure has remained unresolved for the following period:
   - Corporates: more than 90 days; and
   - Financial Institutions and Governments: from day 1, however, a research period of 14 calendar days will be observed in order for ING Bank to establish whether the payment default was due to non-operational reasons (i.e. the deteriorated credit quality of the financial institution) or due to operational reasons. The latter does not trigger default;
3. ING Bank thinks the Borrower is unlikely to pay: The Borrower has evidenced significant financial difficulty, to the extent that it will have a negative impact on the future cash flows of the Financial Asset. The following events could be seen as examples of financial difficulty indicators, but not as default triggers per se:
   - a material breach of contract;

- the disappearance of an active market for a certain financial asset; and
- the downgrading of a Borrower's external rating;

4. Restructuring of the credit obligation for non-commercial reasons: ING Bank has granted concessions, for economic or legal reasons relating to the Borrower's financial difficulty, the effect of which is a reduction in ING's expectation of future cash flows of the financial asset below current Carrying Amount.

As such, other than the arrear driven approach at Retail Banking, Commercial Banking has a much more individual name approach, using Early Warnings indicators to signal probable, upcoming, redemption breaches. As a general rule, in line with the Basel II definition, ING Bank considers all business loans as non-performing if they are 90 days past due.

Credit restructuring
Global Credit Restructuring is the dedicated and independent corporate department within CRM that deals with non-performing loans and loans that hold a reasonable probability that ING will end up with a loss, if no specific action is taken. GCR deals with accounts or portfolios requiring an active approach, which may include renegotiation of terms & conditions and business or financial restructuring. The loans are managed by GCR or by the Regional Restructuring Units in the various regions and business units. GCR can approach files in several manners. Plan A generally consists of a consensual restructuring 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. In the work out practice, ING faces a number of situations where the traditional Plan A is not realistic. Other cases demand another arrangement or a Plan B. Plan B is a lender led solution, where the bank(s) temporarily take ownership or take the company through, pre-packaged, insolvency to find a new strategic partner, which can add value in terms of liquidity, synergies and management. Thirdly, there is Plan C – the Recovery. Recovery status of a borrower means that ING Bank is actively seeking an exit from the credit relationship. This status will generally apply to those borrowers that are not likely to successfully turnaround their business, but there may be other reasons for ING Bank to exit from the credit relation. Further, legal remedies for recovery are being considered and liquidation of collateral may become a primary source of repayment. Due to the continuous economic pressure the restructuring of files has become more complicated. However, the average turnaround time of the files at GCR is no longer increasing.

As mentioned above, it is ING philosophy to be involved at an early stage in a troubled process to help assist clients and ultimately reduce losses for all stakeholders. To signal the increased credit risk profile in these cases, ING distinguishes three marked categories:

I. **Watch list:** If at any time there is a (potential) deterioration in credit risk profile, which requires more than usual attention and/or investigation or monitoring, the account is put on a Watch list. Accounts with a watch list status remain under responsibility of front office but in active co-operation with their respective Credit Risk Management executives. Exceptionally, extraordinary circumstances and not the probability of a financial loss, cause a client to be flagged Watch list. The Watch list process functions well for early warning and there is very little corporate exposure that is transferred to a Restructuring Unit that has not been flagged under Watch list status before such transfer.

II. **Restructuring:** The restructuring status applies to those Borrowers, where there are serious concerns over creditworthiness. The asset may still be performing under all its financial obligations and towards all of its creditors, but to address the deterioration specific and significant action by ING Bank is required. Borrowers with a restructuring status can be rated anywhere in the 1-19 ranges, but typically carry a risk rating 18 or 19. Strategic management responsibility for a restructuring file will move to Global Credit Restructuring, but front office remains fully involved, also as asset owner.

III. **Non-performing loans:** Non-performing loans are accounts, which are considered unlikely to service their obligations to ING Bank in full. A successful turnaround is unlikely to happen, without a financial loss for the bank. Legal remedies for recovery are being considered and liquidation of Collateral may become the primary source of repayment. The assessment of unlikelihood to pay in full, results in an IFRS-EU impairment and these accounts hold risk rating 20. Also included in the Non-performing loan portfolio are accounts that go into liquidation phase, and from liquidation ING expects to incur no credit loss (rating 21) or a credit loss if there is insufficient collateral (rating 22). All files that are more than 90 days past due are part of the Non-performing loan portfolio.

Watch list, Restructuring and Non-performing loans are discussed at least on a quarterly basis between front office, respective Credit Risk Management executives and GCR, at which time it may be decided to change the status of an account from Watch list to Restructuring or Non-Performing loans or vice versa. Furthermore, all three are in scope for forbearance. For further details on forbearance please see the 'Forbearance' section below.

	Regular	Watch List	Restructuring	Non-performing
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	Regular	Credit Restructuring	Credit Restructuring
Accounting provisioning	IBNR	IBNR	IBNR	INSFA/ISFA

Credit quality: ING Bank portfolio, outstandings		
	2013	2012
Neither past due nor impaired	**688,834**	712,020
Consumer lending past due but not impaired (1–90 days)	**6,810**	6,579
Impaired [1]	**15,921**	14,928
Total	**711,565**	733,527

[1] Based on lending and investment activities.

The total ING portfolio decreased modestly by 3%, contrary to the limited increase of 6% in the combined non-performing and past due but not impaired categories. Nevertheless, the overall credit risk profile of ING Bank remained fairly stable.

Non-performing loans

The ING Bank loan portfolio is under constant review. Generally, all loans with past due financial obligations of more than 90 days are automatically reclassified as non-performing. For the wholesale lending portfolios there are generally reasons for declaring a loan nonperforming 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 non-performing category. ING Bank identifies as non-performing 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 for loans and positions that have been classified as non-performing loans.

Non-performing Loans: ING Bank portfolio, outstandings by economic sector [1]		
	2013	2012
Private Individuals	**4,939**	4,371
Real Estate	**4,302**	3,723
Builders & Contractors	**1,132**	1,087
Transportation & Logistics	**912**	954
Food, Beverages & Personal Care	**800**	846
General Industries	**730**	649
Services	**580**	550
Natural Resources	**526**	339
Other	**2,000**	2,410
Total	**15,921**	14,928

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

The composition and order of the non-performing loan portfolio remained unchanged over the year. The largest sector remained private individuals and is a function of the large mortgage portfolio of ING Bank. The increase in this sector took place almost entirely in The Netherlands. The increase in the real estate industry was the result of deteriorating markets in Spain, The Netherlands and Portugal. The share of spanish real estate in the total ING Bank real estate portfolio, performing and non-performing, is 6%, which is unchanged compared to 2012.

Loan loss provisions

Loan Loss provisions are calculated and accounted for in accordance with IFRS-EU. LLP are reported for financial assets that are measured against amortised costs (Loans and Receivables, Held-to-Maturity Investments). There are three types of LLP:

- **Individually Significant Financial Asset (ISFA) Provisions:** when there is objective evidence that a financial asset is defaulted as result of one or more prescribed events that trigger a default. ING assigns a risk rating 20, 21 or 22. Specific provisions are calculated if the exposure to a Borrower exceeds the threshold amount. The threshold amount varies per business unit, but generally is nil in Commercial Banking, and a maximum of EUR 1 million in the Retail 'home markets'. A specific provision is calculated based on several scenarios and assumptions. Provisions level is up to date given the quarterly reviews; DCF is measured when this is a significant risk driver which can be calculated. The future cash flow is based on 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.
- **Individually Not Significant Financial Asset (INSFA) Provisions:** are made for acknowledged non-performing loans (ratings 20-22), if the exposure to a Borrower is below the threshold amount. Due to their small size, the IFRS-EU rules permit a collective approach to measuring these provisions.
- **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. The PD time horizon used in the calculation of IBNR provisions refers to the period during which an asset is impaired (in default), but not yet recognised as such - due to lack of objective evidence – and the moment that objective evidence of impairment occurs and becomes available to ING ('response time'). 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 customer. The decision to differentiate the time horizon per customer segment was based on an assessment of the average response time for specific customer types.

All ISFA, INSFA and IBNR provisions are reported and calculated by using a common tool across ING Bank. In case that there is objective evidence that one of the default triggers is applicable, ISFA or INSFA provisions are calculated. An analysis takes place

on a quarterly basis in order to determine the appropriate level of LLP and Risk Costs. The ING Bank Provisioning Committee (IPC) discusses and approves the LLP for ING Bank, on the basis of proposals originating from ING Business Units.

ING Bank holds specific and collective provisions of EUR 3,729 million and EUR 1,589 million, respectively (2012: EUR 3,415 million and EUR 1,336 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 835 million (2012: EUR 753 million) in provisions against the performing portfolio.

Provisions: ING Bank portfolio [1]

	Commercial Banking		Retail Banking Benelux		Retail Banking International		Total ING Bank	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Opening Balance	**2,304**	2,039	**1,864**	1,751	**1,337**	1,160	**5,505**	4,950
Changes in the composition of the group	**-2**		**-14**		**-4**	-13	**-20**	-13
Write-offs	**-756**	-717	**-652**	-793	**-201**	-172	**-1,609**	–1682
Recoveries	**58**	41	**34**	90	**24**	11	**116**	142
Increase/(decrease) in loan loss provision	**867**	955	**1,060**	833	**362**	337	**2,289**	2,125
Exchange or other movements	**-12**	-14	**-28**	-17	**-87**	14	**-127**	-17
Closing Balance	**2,459**	2,304	**2,264**	1,864	**1,431**	1,337	**6,154**	5,505

(1) At the end of 2013, the stock of provisions included provisions for amounts due from banks: EUR 19 million (2012: EUR 28 million)

The continuing economic distress in some of the regions had its impact on the development of the risk costs in 2013. The risk costs for Commercial Banking are in line with 2012. The risk costs for Retail Benelux exceeded EUR 1 billion, reflecting continued economic distress in the Benelux. The risk costs for Retail Banking International went up slightly compared to last year.

Large parts of the Investment portfolio are not administered at amortised costs (Loans & Receivables or Held-to-Maturity) and therefore out of scope for LLP. Instead, these assets are evaluated for impairment. The Global Impairment Meeting is a quarterly process that reviews all assets that are subject to an IFRS-EU impairment test.

Forbearance

In December 2012 the European Securities and Markets Authority (ESMA) issued a public statement on the disclosure of forbearance practices in the financial statements of financial institutions prepared under IFRS-EU. ESMA expects financial institutions to disclose specific information relating to forbearance activities and their impact on the financial position and performance in their IFRS-EU financial statements. Additionally, EBA has provided a final draft definition of forbearance in October 2013. ING Bank has followed up on both ESMA and EBA recommendations. A new internal process for reporting forbearance has been set up, and we plan to further refine and improve this process. It should be noted here that a separate process is followed for retail and business customers, due to the diverse nature of the activities.

The ING definition of forbearance is: ‘Forbearance occurs when the client is considered to be unable to meet the terms and conditions of the contract due to financial difficulties, and based on these difficulties ING decides either to modify the terms and conditions of the contract to enable the client to service the debt or to refinance, totally or partially, the contract. For the avoidance of doubt: an ordinary refinancing of a (bullet) loan contract nearing its maturity date and/or a loan modification done for commercial reasons in general will not be qualified as forbearance.’ Examples of forbearance measures are: postponement and/or reduction of loan principal and/or interest payments, extended payment terms, debt consolidations, and deferral of foreclosures.

ING Bank reports forbearance activities in accordance with its forbearance policy. This policy gives guidance to identify: (1) Forbearance with recognition of financial loss, and (2) Forbearance without recognition of financial loss. The policy also pre-scribes how to identify each of these two forbearance situations for watch list and defaulted accounts. For defaulted and watch list files that are currently in the portfolio the curing period for forbearance has been set to a minimum of two years after the date of the modification. The loan will not be reported as forbearance after two years if the contract is considered performing, regular payments are made during the curing period, and the exposure is not past due for more than 30 days. The reporting process of forbearance is embedded in the quarterly loan loss provisioning process.

Modified and/or refinanced loans subject to forbearance are flagged. In case of forbearance with recognition of financial loss, a provision or a partial write-off is taken, for the difference in net present value of the expected cash flows. This is in line with ING’s accounting policies under IFRS-EU (for more detail please refer to the ‘Impairments of loans and advances to customers (loan loss provisions)’ chapter in the Accounting policies section). The performance of clients with modified loans is monitored by Credit Risk Management at least on a quarterly basis.

For corporate customers ING Bank applies forbearance measures only to support clients that are experiencing temporary difficulties with fundamentally sound business models. The aim is to maximise the repayment opportunities of the clients. A very strict policy with respect to partial debt forgiveness is followed. This is done in order not to create precedence for clients and affect ING’s negotiation position in other problem loan files.

For retail clients, loan modifications are in line with the ING Bank retail risk policy. In 2013, Retail Banking clients that are offered a loan modification, and who have accepted such modification, are (or will be in 2014) assigned a specific risk rating and PD. Each ING Bank retail unit that applies forbearance activities has established clear criteria to determine whether a client is eligible for

a modification. Also, specific approval mandates are in place to approve the modifications, as well as procedures to manage the forbearance activities. These criteria, mandates and procedures are approved by local credit risk management.

Provisions: ING Bank portfolio [1]

			2013
	Forborn Outstandings	% of Total ING Bank portfolio	Specific Provisions and Partial Write Offs
Corporate Banking [1]	4,664	1.1%	1,712
Retail Banking [2]	810	0.3%	N.A.
Total	5,474	0.8%	1,712[1]

[1] Please note Collective Provisions on Forbearance assets are not included
[2] Corporate Banking includes Business Lending, Pre-Settlement, Money Market and Investment outstandings. Retail Banking includes Consumer Lending outstandings.

Corporate Banking
To identify forbearance, 80% of the total Watchlist and Non-Performing outstandings of ING's Corporate Banking portfolio, was scrutinized. This represents the material Watchlist and Non-Performing loans with a threshold of EUR 3 million. For the remainder a lower incidence of forbearance is expected as these are often managed in a portfolio manner or have little opportunity for restructuring. The total of EUR 4.7 billion of Corporate Banking Forborn Assets represents 1.1% of the total ING Corporate Banking portfolio.

Next to the EUR 4.7 billion classified as forbearance there were EUR 2.5 billion of loans where ING has made some degree of concession in exchange for acceleration of repayments, increased equity, additional collateral and/or higher margin. These loans are considered as on a commercial basis and not more favourable terms than those available to other debtors with a similar risk profile; therefore, these are not reported as forborn.

Corporate Banking: Forbearance by Geographical Region

			2013
Country	Performing Forborn O/S	Non-Performing Forborn O/S	Provisions and Partial Write Offs
Netherlands	336	1,625	599
Belgium	18	218	105
Germany	0	85	31
Rest of Europe	254	1,350	671
Americas	13	219	75
Asia/Pacific	298	239	231
Rest of World	9	0	0
Total	928	3,736	1,712

Corporate Banking: Forbearance by Industry

			2013
Industry	Performing Forborn Outstandings	Non-Performing Forborn Outstandings	Specific Provisions and Partial Write Offs
Real Estate	336	1,625	599
Transportation & Logistics	18	218	105
Builders & Contractors	0	85	31
Food, Beverages & Personal Care	254	1,350	671
General Industries	13	219	75
Services	298	239	231
Natural Resources			
Retail			
Telecom			
Media			
Other	9	0	0
Total	928	3,736	1,712

An amount of EUR 3.7 billion of forborne assets were part of the non-performing loan portfolio. As per 2013, ING held EUR 1.7 billion of loan loss provisions against the EUR 3.7 billion of forborn assets in the NPL portfolio which is part of ING's total reported loan loss provisions.

In 2013, ING Bank changed the way it reported the Forborn Assets and updated its policy based on the ESMA and EBA recommendations issued in October 2013. In order to ensure compliance with these new recommendations, one of the measures implemented was to include Watchlist clients to the scope. As a result the outstanding amount of Forborn loans in 2013 is not comparable with the 2012 level.

Retail Banking
As per end 2013, ING Bank Retail reported a total of EUR 810 million (2012: EUR 291 million) of forbearance exposure.

Retail Banking: Forbearance Exposure to Private Individuals by Country					
		Forborn Outstandings		Clients	
Region	Customer Segments	**2013**	2012	**2013**	2012
Australia	Mortgages	**24**	60	**111**	265
Belgium	Mortgages & Other Consumer Lending	**197**	139	**1,616**	913
Italy [(1)]	Mortgages & Other Consumer Lending	**13**	7	**107**	62
Luxembourg [(1)]	Mortgages & Other Consumer Lending	**2**	1	**7**	3
Netherlands [(2)]	Mortgages	**502**	n.a.	**1,955**	n.a.
Poland	Mortgages & Other Consumer Lending	**3**	2	**548**	327
Romania	Mortgages & Other Consumer Lending	**13**	5	**845**	316
Spain [(1)]	Mortgages & Other Consumer Lending	**56**	52	**403**	304
Turkey	Mortgages & Other Consumer Lending	**0**	0	**31**	19
UK	Mortgages		25		65
Total		**810**	291	**5,623**	2,274

(1) As of 2013 inclusive of Other Consumer Lending.
(2) Netherlands: Mortgage clients previously recognised as forborne that are now current on their original payment scheme in are not included in the 2013 disclosure. Other Consumer Lending clients with a loan modification remain in the default status and are not included in this overview.
n.a. = not available

The Retail Banking forbearance exposure to Private Individuals table shows a breakdown of forbearance exposure of ING Bank's Consumer Retail Lending Portfolio which includes mortgages and consumer loans.

In order to ensure that the Retail Banking portfolio complies with the ESMA and EBA recommendations mentioned, one of the measures implemented was to mark mortgage clients in the Netherlands with a loan modification as forbearance. Next to that, ING Bank Belgium implemented a method to identify loans with forbearance in their Retail Banking portfolio which is added to the total of Belgium. ING Bank also implemented the minimum of 2 year curing period requirement as of 2013, as mentioned earlier. The increase of the amount of forbearance outstandings and clients in 2013 in the Consumer Lending portfolio was mainly driven by the combined effect of these changes. The decrease in the UK was due to the divestment of ING Direct UK in Q1 2013.

The total of EUR 810 million of Retail Forbearance Exposure represents 0.3% of the total of ING Bank's Consumer Retail Lending portfolio.

Credit risk mitigation

ING Bank's lending and investment businesses are subject to credit risk. As such, the creditworthiness of our customers and investments is continually monitored for their ability to meet their financial obligations to ING Bank. In addition to determining the credit quality and creditworthiness of the customer, ING Bank uses various credit risk mitigation techniques and instruments to mitigate the credit risk associated with an exposure and to reduce the losses incurred subsequent to an event of default on an obligation a customer may have towards ING Bank. The most common terminology used in ING Bank for credit risk protection is 'cover'.

While cover can be an important mitigant of credit risk and an alternative source of repayment, generally it is ING Bank's practice to lend on the basis of the customer's creditability rather than exclusively relying on the value of the cover.

Within ING Bank, covers can derive from two distinct forms, assets and third party obligations.

Assets

The asset which has been pledged to ING Bank as collateral or security and which gives ING Bank the right to liquidate, in cases where the customer is unable to fulfil its financial obligation. As such, the proceeds can be applied towards full or partial compensation of the customer's outstanding exposure. An asset can be tangible (such as cash, securities, receivables, inventory, plant & machinery and mortgages on real estate properties) or intangible (such as patents, trademarks, contract rights and licenses).

Third party obligation

Third party obligation, indemnification or undertaking (either by contract and/or by law) is a legally binding declaration by a third party that gives ING Bank the right to expect and claim from that third party to pay an amount, if the customer fails on its obligations to ING Bank. The most common examples are guarantees (such as parent guarantees and export credit insurances) and letters of comfort.

General guidelines on cover valuation

General guidelines for cover valuation are established to ensure consistency of the application within ING Bank. These general guidelines also require that the value of the cover need to be monitored on regular basis and in principle at least annually. Covers shall be revalued accordingly and whenever it has reason to believe that the market is subject to significant changes in conditions. The frequency of monitoring and revaluation depends on the type of covers.
The valuation method also depends on the type of covers. For asset collateral, the valuation sources can be the customer's balance sheet (e.g. inventory, machinery, and equipment), nominal value (e.g. cash, receivables), market value (e.g. securities and commodities), independent valuer (commercial real estate) and market indices (residential real estate). For third party obligation, the valuation is based on the value which is attributed to the contract between ING Bank and that third party.

Cover values by risk category
This section provides insight on the type of cover and to which extent the loan is collateralised. The cover disclosures are presented by risk category: Lending, Investment, Money-Market and Pre-settlement. For each risk category, the cover amounts are presented by the most relevant collateral forms, being mortgages and financial collateral (including cash), and the most relevant third party obligation being guarantees. ING Bank obtains covers which are compliant to CRR/CRD IV, as well as those that are not compliant.

The cover values are presented for the total portfolio of ING Bank. In the last year's disclosure, only the AIRB portfolio was presented with covers in detail while in this year's disclosure, the covers of both AIRB and SA portfolios are presented in detail reflecting the complete ING Bank's portfolio. Next to that, detailed information is provided on the cover coverage for the performing and non-performing portfolio. The non-performing loan definition is explained in detail in the section 'Credit Restructuring'. To increase the understanding of the reader on the nature of the collateralised loans, insight is given in the industry and geography breakdown of the ING Bank portfolio as well. Another improvement is that in addition to the lending risk category, the cover valuation tables now also give insight in the risk categories of Investment, Money Market and Pre-settlement. For comparability reasons, outstandings is used to show the ING Bank's portfolio instead of READ.
Exposures are categorised into different Value to Loan (VTL) buckets which gives insight in the level of collateralisation of ING Bank's portfolio. VTL is calculated as the cover value divided by the outstandings at the balance sheet date. The cover values are pre-haircut but indexed values and exclude any cost of liquidation. Covers can either be valid for all limits, sublimits or a particular outstanding of a borrower, the latter being the most common. To prevent erroneously inflating the level of collateralisation, the coverage of all outstandings is capped at 100% if there is over-collateralisation on a certain outstanding. As a result, the coverage levels disclosed are conservative. Each limit is subsequently assigned to one of the six defined VTL buckets: no cover/data not available, >0% - 25%, >25% to 50%, >50% to 75%, >75% to <100%, and ≥ 100%. As the nature of the pre-settlement portfolio determines that collateral is netted, these VTL buckets are not shown for the pre-settlement portfolio.

The first two tables give a comprehensive overview of the collateralisation of the total portfolio of ING Bank.

Total Bank

Cover values including guarantees received - Total ING Bank – 2013 [1,2]

	Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	Out-standings	Cover type					Value to Loan		
					Mort-gages	Eligible Financial Collateral	Other Basel II eligible	Guaran-tees	Non Basel II eligible	No Cover/ Data not available	Partially covered	Fully covered
Consumer Lending				293,714	443,475	2,697	519	30,403	29,566	4.7%	32.1%	63.2%
Commercial Banking				10	6				1	58.4%	20.4%	21.2%
Retail Banking Benelux				147,197	200,879	2,191	519	22,333	17,148	3.2%	33.7%	63.1%
Retail Banking International				118,186	207,017	65			9,859	7.7%	27.5%	64.8%
WestlandUtrecht Bank				28,321	35,573	441		8,070	2,558	0.1%	42.9%	57.1%
Business Lending				257,180	107,734	15,466	76,889	52,550	114,076	35.2%	30.7%	34.1%
Commercial Banking				172,060	56,401	11,780	53,935	40,508	97,514	34.1%	30.6%	35.3%
Corporate Line Bank				802						100.0%	0.0%	0.0%
Retail Banking Benelux				58,630	45,479	3,124	20,981	10,410	12,703	22.2%	38.0%	39.8%
Retail Banking International				24,081	3,247	560	1,973	1,581	3,849	74.9%	12.2%	12.9%
WestlandUtrecht Bank				1,607	2,607	2		51	10	1.5%	66.3%	32.1%
Investment and Money Market				112,647		6		5,117	135	95.3%	0.2%	4.5%
Commercial Banking				38,936				193	116	99.2%	0.4%	0.4%
Corporate Line Bank				8,513					19	99.7%	0.3%	0.0%
Retail Banking Benelux				3,117		6		5		99.6%	0.0%	0.4%
Retail Banking International				62,081				4,919		92.1%	0.0%	7.9%
Total Lending, Investment and Money Market				**663,541**	**551,209**	**18,169**	**77,408**	**88,070**	**143,777**	**31.9%**	**26.1%**	**42.0%**
Pre-settlement [3]	130,220	49,803	40,419	48,024								
Commercial Banking	126,378	47,874	38,700	44,258								
Corporate Line Bank	1,975	486	444	1,371								
Retail Banking Benelux	12	12	12	54								

	Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	Out-standings	Mort-gages	Eligible Financial Collateral	Other Basel II eligible	Guaran-tees	Non Basel II eligible	No Cover/ Data not available	Partially covered	Fully covered
Retail Banking International	**1,855**	**1,431**	**1,263**	**2,341**								
Total Bank	**130,220**	**49,803**	**40,419**	**711,565**	**551,209**	**18,169**	**77,408**	**88,070**	**143,777**	**31.9%**	**26.1%**	**42.0%**

[1] Including loans to ING Group and NN Group.
[2] Excluding intercompany positions.
[3] More information on the credit risk mitigants of the Pre-settlement exposure can be found in the Pre-settlement section.

Cover values including guarantees received - Total ING Bank – 2012 [1,2]

	Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	Out-standings	Cover type					Value to Loan		
					Mort-gages	Eligible Financial Collateral	Other Basel II eligible	Guaran-tees	Non Basel II eligible	No Cover/ Data not available	Partially covered	Fully covered
Consumer Lending				312,016	475,591	2,640	516	33,037	29,637	4.1%	30.2%	65.7%
Commercial Banking				13	10				1	39.4%	30.2%	30.4%
Retail Banking Benelux				146,401	202,155	2,190	516	21,536	15,791	3.1%	33.1%	63.8%
Retail Banking International				126,280	223,597	66			11,768	6.4%	23.7%	69.9%
WestlandUtrecht Bank				39,322	49,829	384		11,501	2,077	0.6%	40.6%	58.8%
Business Lending				262,209	119,427	17,940	83,439	44,905	130,645	33.0%	29.6%	37.4%
Commercial Banking				172,864	65,803	14,301	59,508	32,542	114,310	30.3%	29.1%	40.5%
Corporate Line Bank				2,102				1,137		45.9%	54.1%	0.0%
Retail Banking Benelux				60,911	47,683	3,244	22,150	9,922	13,170	22.7%	37.5%	39.8%
Retail Banking International				24,608	2,843	393	1,781	1,252	3,154	78.0%	9.2%	12.8%
WestlandUtrecht Bank				1,724	3,098	2		52	11	2.1%	60.8%	37.1%
Investment and Money Market				118,027		6	18	5,373	83	95.1%	0.9%	4.0%
Commercial Banking				36,027			18	92	60	99.3%	0.5%	0.2%
Corporate Line Bank				15,737					23	99.8%	0.2%	0.0%
Retail Banking Benelux				2,525		6				100.0%	0.0%	0.0%
Retail Banking International				63,724				5,281		91.3%	1.3%	7.4%
WestlandUtrecht Bank				14						100.0%	0.0%	0.0%
Total Lending, Investment and Money Market				***692,252***	***595,018***	***20,586***	***83,973***	***83,315***	***160,365***	***30.5%***	***25.0%***	***44.5%***
Pre-settlement [3]	162,086	48,216	36,447	48,199								
Commercial Banking	150,752	45,419	34,099	44,490								
Corporate Line Bank	8,956	1,227	882	1,750								
Retail Banking Benelux	13	13	13	80								
Retail Banking International	2,365	1,557	1,453	1,879								
Total Bank	**162,086**	**48,216**	**36,447**	**740,451**	**595,018**	**20,586**	**83,973**	**83,315**	**160,365**	**30.5%**	**25.0%**	**44.5%**

[1] Including loans to ING Group and NN Group.
[2] Excluding intercompany positions.
[3] More information on the credit risk mitigants of the Pre-settlement exposure can be found in the Pre-settlement section.

Excluding the pre-settlement portfolio, for which the covers are netted to derive the net outstandings at risk, 42% of the total ING Bank's outstandings is fully collateralised in 2013. Among the five cover groups, mortgages is the largest portion with a value of EUR 551 billion in 2013. Due to the devaluation of the covers, the collateralisation of total ING Bank's portfolio in general slightly deteriorated in 2013 with lower fully-covered outstandings. The deterioration can be seen in Consumer Lending and Business Lending. Detailed developments will be explained in the following sections per each risk category.

Consumer lending portfolio

The Consumer Lending portfolio comprises Residential Mortgages loans (94.4% in 2013) and Other Consumer Lending loans, which mainly comprise credit cards, term loans and revolvers to consumers. As a result, most of the collateral consists of mortgages. The mortgage values are maintained in the ING Bank's central database (Vortex) and in most cases external data is used to index the market value. On a quarterly or annual basis, the mortgages value is updated in Vortex using the relevant house

price index (the NVM Index in the Netherlands, Level Housing Index in Australia, Crif Real Estate Appraisal Company in Italy, Ministerio de Fomento in Spain and Stadim in Belgium).

A significant part (49.1%) of the ING Bank's residential mortgage portfolio relates to mortgage loans provided in the Netherlands, followed by other main markets such as Germany (22.5%), and Belgium (10.6%). Given the size of the Dutch mortgages portfolio, below the valuation methodology employed to determine the cover values for the Dutch Residential Mortgages is provided.

Dutch mortgages valuation
When a mortgage loan is granted, the policy maximum loan to market value (LTMV) for an existing property and for construction property financing is 105%. The cover values are captured in the local systems which then are fed into a central data system (Vortex). All valuations are performed by certified valuators that are registered at one of the ING Bank-accepted organisations. In addition, the valuator must be a member of the NVM (Nederlandse Vereniging van Makelaars – Dutch Association of Real Estate Agents), VBO (Vereniging Bemiddeling Onroerend Goed – Association of Real Estate Brokers), VastgoedPRO (Association of Real Estate Professionals) or NVR (Nederlandse Vereniging van Rentmeesters).

The below tables show the values of different covers and the VTL split between performing and non-performing loans.

Consumer Lending

Cover values including guarantees received - Consumer portfolio - 2013 [1,2]

		Cover type					Value to Loan					
	Out-standings	Mort-gages	Eligible Financial Collateral	Other Basel II eligible	Guaran-tees	Non Basel II eligible	No Cover/ Data not available	>0%-25%	>25%-50%	>50%-75%	>75%-100%	>100%
Performing												
Residential Mortgages [3]	**273,150**	**435,217**	**2,411**	**233**	**29,624**	**23,490**	**0.4%**	**0.1%**	**2.2%**	**7.7%**	**23.6%**	**66.1%**
Other Consumer Lending	**15,737**	**3,347**	**255**	**257**	**382**	**5,718**	**78.0%**	**0.2%**	**0.2%**	**0.4%**	**1.3%**	**20.0%**
Total Performing	**288,887**	**438,564**	**2,666**	**490**	**30,006**	**29,208**	**4.6%**	**0.1%**	**2.1%**	**7.3%**	**22.4%**	**63.6%**
Non-performing												
Residential Mortgages [3]	**4,151**	**4,757**	**30**	**8**	**371**	**260**	**1.7%**	**0.3%**	**1.7%**	**11.9%**	**37.9%**	**46.5%**
Other Consumer Lending	**676**	**154**	**1**	**21**	**26**	**98**	**81.7%**	**0.2%**	**0.3%**	**0.7%**	**1.8%**	**15.3%**
Total Non-performing	**4,827**	**4,911**	**31**	**29**	**397**	**358**	**12.9%**	**0.3%**	**1.5%**	**10.3%**	**32.9%**	**42.1%**
Total Consumer Lending	**293,714**	**443,475**	**2,697**	**519**	**30,403**	**29,566**	**4.7%**	**0.1%**	**2.1%**	**7.3%**	**22.5%**	**63.2%**

Cover values including guarantees received - Consumer portfolio - 2012 [1,2]

		Cover type					Value to Loan					
	Out-standings	Mort-gages	Eligible Financial Collateral	Other Basel II eligible	Guaran-tees	Non Basel II eligible	No Cover/ Data not available	>0%-25%	>25%-50%	>50%-75%	>75%-100%	>100%
Performing												
Residential Mortgages [3]	292,841	467,847	2,266	218	32,294	23,766	0.3%	0.1%	1.9%	6.4%	23.1%	68.2%
Other Consumer Lending	14,930	3,362	322	267	450	5,497	76.6%	0.1%	0.2%	0.4%	1.0%	21.7%
Total Performing	**307,771**	**471,209**	**2,588**	**485**	**32,744**	**29,263**	**4.0%**	**0.1%**	**1.8%**	**6.1%**	**22.1%**	**66.0%**
Non-performing												
Residential Mortgages [3]	3,609	4,243	25	6	268	286	1.8%	0.4%	1.9%	11.6%	34.5%	49.9%
Other Consumer Lending	636	139	27	25	25	88	81.5%	0.2%	0.3%	0.7%	1.9%	15.4%
Total Non-performing	**4,245**	**4,382**	**52**	**31**	**293**	**374**	**13.7%**	**0.4%**	**1.7%**	**10.0%**	**29.6%**	**44.7%**
Total Consumer Lending	**312,016**	**475,591**	**2,640**	**516**	**33,037**	**29,637**	**4.1%**	**0.1%**	**1.8%**	**6.2%**	**22.2%**	**65.7%**

(1) including loans to ING Group and NN Group.
(2) excluding intercompany positions.
(3) In 2012, the Foreclosure value was used as the mortgage cover value in the Netherlands. In 2013, ING Bank started to use Market value in its mortgage LGD model for the Dutch portfolio instead of the Foreclosure value. To assure the comparability of the figures for two years, the Mortgage cover value of 2012 was adjusted to the Market value for the Dutch Residential Mortgage portfolio.

The collateralisation of the Consumer lending portfolio slightly decreased during 2013, mostly due to the deterioration of the Residential Mortgages portfolio as a result of the current economic environment. This is mainly visible in the Dutch portfolio, where

the loan outstandings went down by 7.6% while the mortgages value decreased by 8.6% as a result of the decreased house price in the Netherlands.

The numbers shown are conservative as the savings pledged to the mortgage product, 'Spaarhypotheek' (or Mortgage with external Saving account) present in the Dutch mortgage portfolio are not taken into account in the table above.

The downward impact of the Dutch portfolio on the coverage quality of the ING Bank's mortgage portfolio was alleviated by the improvement in the portfolio in Belgium, where the house price experienced an upward trend in 2013. This development was mirrored in the 5.1% increase in the mortgages cover value whilst the outstandings increased by 3.3%. Beside the improved housing market, another element ameliorating the collateralisation quality is the reduced presence of the bullet mortgages in the portfolio.

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.

Business Lending portfolio

Business Lending is an important business of ING Bank, accounting for 36.1% of the total ING Bank's outstandings. In line with our objective to give stakeholders insight into the portfolio, we present the Business Lending portfolio per Industry breakdown in accordance with the NAICS definition and per Region and main market. Business Lending presented in this section does not include Pre-settlement and Investment & Money Market exposures, which are separately exhibited in the next sections.

The table below provides the ING Bank's portfolio broken down per NAICS Industry code. The Business Lending portfolio comprises for 16.5% of the Industry type Real Estate. This cannot be completely compared with ING Bank's Real Estate Finance portfolio as the scope and definition are differently determined.

The REF portfolio has not stabilised since the deterioration of the economic environment which started in 2008. As a result of this, in the recent years, ING Bank aims to be more selective in the financing of Real Estate. As this sector has proven to be significantly impacted during the crisis, the value of collaterals for this portfolio is of specific importance. The REF portfolio, which mostly focuses on the business whereby ING Bank finances or refinances income producing real estate in office, retail, residential and industrial (logistics) segments or a mix of commercial properties, presents approximately 56.4% of the Real Estate sector's outstanding.

Cover valuation for REF portfolio

The cover valuation policy and governance within ING Bank ensures that the cover values reflect the current fair value on the date of the valuation. All commercial properties financed by ING Bank need to be (re)-valued within three years' period or more frequently if market conditions or the risk profile deteriorates. Non-performing loans and high risk Watch-list REF files are re-valued at least annually.

The valuation of financed properties at origination of a REF deal or the revaluation is always performed by a real estate appraiser. For commercial properties located in the Netherlands, an internal real estate appraiser (80% of the assets) or an external real estate appraiser (20% of the assets) performs the (re)valuation while for properties outside the Netherlands, the (re)-valuation is always performed through an external real estate appraiser.

During this three-year cycle, for properties located in the Netherlands, if the risk profile remains stable or improves, only yearly indexation is performed. The indices used are from ROZ/IPD (Vereniging Raad voor Onroerende Zaken – Association of Real Estate Council/Investment Property Databank). If the risk profile deteriorates, a revaluation is required.

The assessment of risk profile is performed based on certain defined factors, such as external drivers including macro developments (GDP, unemployment rate, Consumer confidence rate, Interest rate) and meso indicators (Real Estate quarterly data from Real Estate institution) and internal drivers including micro deteriorations (such as vacancy, weighted average lease expiry or WALE, and EBITDA) and individual deteriorations (being Watch listed, Credit event, suspension of payments, bankruptcy of a major tenant, actual or expected increase in vacancy level).

For financing properties outside the Netherlands, the revaluation cycle is also set to three years. In case the agreed LTV covenants are not met, an annual or bi-annual revaluation will take place. The outcome of the re-valuation or indexed value is updated accordingly in the cover REF database.

Business Lending per industry

Cover values including guarantees received - Business portfolio - 2013 [1,2]													
		Cover type					Value to Loan						
Industry	Out-standings	Mort-gages	Eligible Financial Collateral	Other Basel II eligible	Guaran-tees	Non Basel II eligible	No Cover/ Data not available	>0%-25%	>25%-50%	>50%-75%	>75%-100%	>100%
Real Estate	42,541	59,190	1,640	1,222	4,940	6,079	6.7%	1.1%	1.8%	10.2%	23.6%	56.6%
of which Non-performing	4,302	4,076	5	107	703	366	2.2%	2.0%	9.1%	23.0%	29.8%	33.9%
Natural Resources	37,361	2,568	2,973	18,268	12,399	20,090	20.7%	11.4%	11.6%	13.7%	15.8%	26.9%
of which Non-performing	526	59	56	244	100	1,140	34.3%	0.3%	5.9%	5.0%	16.3%	38.2%
Commercial Banks	19,476	70	131	57	873	874	88.1%	3.6%	2.9%	0.9%	0.6%	3.8%
of which Non-performing	315	0	0	0	46	257	52.5%	0.0%	40.7%	0.0%	5.5%	1.3%
Transportation & Logistics	18,938	3,821	707	15,220	4,368	5,667	20.2%	3.3%	4.2%	8.6%	15.4%	48.3%
of which Non-performing	912	374	11	669	246	362	27.6%	0.4%	5.8%	18.0%	20.3%	27.9%
Services	16,047	7,174	901	4,323	4,576	9,394	29.9%	4.7%	7.1%	8.0%	9.1%	41.2%
of which Non-performing	580	299	4	160	185	316	37.8%	4.1%	6.7%	8.0%	7.6%	41.8%
Food, Beverages & Personal Care	14,467	5,427	846	7,688	2,901	16,046	30.2%	3.6%	8.2%	10.2%	15.4%	33.4%
of which Non-performing	800	342	1	298	138	113	25.9%	10.1%	17.6%	12.7%	13.7%	20.0%
General Industries	14,431	4,150	550	6,235	3,765	11,990	35.0%	5.4%	4.1%	10.0%	10.7%	34.8%
of which Non-performing	730	280	41	329	244	280	28.1%	7.7%	5.1%	12.4%	4.5%	42.2%
Non-Bank Financial Institutions	13,325	2,538	3,634	2,895	3,953	6,517	40.1%	5.4%	5.0%	6.0%	7.1%	36.3%
of which Non-performing	132	67	4	23	25	11	26.0%	21.9%	2.7%	11.9%	13.9%	23.6%
Central Banks	13,178	0	3	0	0	0	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which Non-performing												
Builders & Contractors	12,916	6,232	352	4,050	3,136	8,953	35.6%	5.2%	5.4%	8.3%	9.2%	36.3%
of which Non-performing	1,124	633	62	356	358	761	37.7%	2.8%	3.5%	7.4%	9.1%	39.6%
Chemicals, Health &Pharmaceuticals	11,308	5,842	242	4,071	2,159	4,821	34.0%	4.6%	8.8%	11.4%	10.2%	31.0%
of which Non-performing	277	106	2	111	67	75	37.3%	0.4%	3.5%	6.4%	15.3%	37.1%
Others	43,191	10,722	3,487	12,860	9,480	23,645	41.2%	3.8%	4.5%	7.5%	10.1%	33.0%
of which Non-performing	1,385	579	100	585	320	600	28.8%	7.2%	1.9%	16.6%	16.6%	28.9%
Total Business Lending	257,179	107,734	15,466	76,889	52,550	114,076	35.2%	4.5%	5.3%	8.5%	12.3%	34.1%
of which Total Non-performing	11,083	6,815	286	2,882	2,432	4,281	20.3%	3.7%	8.1%	15.9%	19.4%	32.5%

[1] Including loans to ING Group and NN Group.
[2] Excluding intercompany positions.
[3] 'Others' comprises industries with outstandings below EUR 10 billion.

Cover values including guarantees received - Business Lending portfolio - 2012 [1,2]

		Cover type						Value to Loan				
Industry	Out-standings	Mort-gages	Eligible Financial Collateral	Other Basel II eligible	Guaran-tees	Non Basel II eligible	No Cover/ Data not available	>0%-25%	>25%-50%	>50%-75%	>75%-100%	>100%
Real Estate	48,897	67,132	1,390	1,831	4,677	7,283	8.1%	0.7%	1.1%	8.5%	21.4%	60.2%
of which Non-performing	*3,723*	*3,165*	*4*	*103*	*587*	*478*	*15.2%*	*1.8%*	*1.9%*	*30.5%*	*25.1%*	*25.4%*
Natural Resources	34,274	2,272	3,771	18,478	9,469	21,381	25.1%	13.6%	7.1%	10.0%	15.8%	28.4%
of which Non-performing	*338*	*152*	*4*	*189*	*58*	*1,139*	*25.7%*	*0.2%*	*2.9%*	*0.5%*	*25.3%*	*45.4%*
Commercial Banks	13,899	75	75	42	1,059	670	88.4%	1.2%	3.2%	0.5%	1.1%	5.6%
of which Non-performing	*344*	*0*	*0*	*0*	*7*	*300*	*52.1%*	*0.0%*	*37.6%*	*0.0%*	*10.1%*	*0.2%*
Transportation & Logistics	19,371	3,811	951	15,694	3,785	7,254	17.0%	4.7%	3.6%	7.9%	14.7%	52.1%
of which Non-performing	*954*	*370*	*11*	*647*	*252*	*475*	*28.5%*	*5.2%*	*6.3%*	*5.2%*	*25.8%*	*29.0%*
Services	16,693	7,930	1,332	4,938	4,011	12,061	27.3%	4.6%	4.3%	9.7%	11.0%	43.1%
of which Non-performing	*550*	*336*	*3*	*129*	*135*	*196*	*29.8%*	*3.1%*	*6.2%*	*9.6%*	*8.5%*	*42.8%*
Food, Beverages & Personal Care	15,653	5,840	806	8,049	2,715	16,656	30.4%	4.8%	6.2%	11.1%	11.9%	35.7%
of which Non-performing	*841*	*419*	*2*	*330*	*123*	*249*	*22.9%*	*2.9%*	*13.0%*	*23.6%*	*10.9%*	*26.7%*
General Industries	14,416	4,373	664	7,153	3,025	14,751	32.9%	6.3%	4.8%	8.4%	9.7%	38.0%
of which Non-performing	*649*	*264*	*23*	*257*	*220*	*384*	*28.1%*	*8.6%*	*2.1%*	*8.6%*	*8.7%*	*50.3%*
Non-Bank Financial Institutions	14,707	3,871	4,370	4,792	3,584	5,980	32.9%	6.5%	10.6%	6.4%	6.9%	36.7%
of which Non-performing	*182*	*73*	*6*	*30*	*22*	*43*	*38.5%*	*13.6%*	*6.0%*	*6.1%*	*5.4%*	*30.3%*
Central Banks	12,140	0	3	0	0	0	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which Non-performing	-	-	-	-	-	-	-	-	-	-	-	-
Builders & Contractors	13,786	6,126	490	4,901	2,914	10,351	33.9%	5.8%	7.6%	7.1%	10.8%	34.8%
of which Non-performing	*1,066*	*506*	*86*	*405*	*258*	*1,032*	*32.7%*	*6.3%*	*4.0%*	*5.5%*	*9.3%*	*42.2%*
Chemicals, Health &Pharmaceuticals	11,283	5,542	258	3,965	1,909	6,098	33.3%	5.4%	6.2%	10.4%	12.0%	33.8%
of which Non-performing	*295*	*171*	*7*	*147*	*50*	*48*	*24.0%*	*1.1%*	*11.5%*	*4.4%*	*20.0%*	*39.0%*
Others	47,090	12,455	3,830	13,596	7,756	28,160	40.0%	4.2%	4.1%	7.0%	10.9%	33.8%
of which Non-performing	*1,652*	*462*	*208*	*737*	*227*	*571*	*26.6%*	*5.2%*	*2.0%*	*11.6%*	*14.7%*	*40.0%*
Total Business Lending	**262,209**	**119,427**	**17,940**	**83,439**	**44,904**	**130,645**	**33.0%**	**4.9%**	**4.5%**	**7.7%**	**12.6%**	**37.4%**
of which Total Non-performing	***10,594***	***5,918***	***354***	***2,974***	***1,939***	***4,915***	***23.9%***	***3.7%***	***5.2%***	***16.7%***	***18.0%***	***32.5%***

[1] Including loans to ING Group and NN Group.
[2] Excluding intercompany positions.
[3] 'Others' comprises industries with outstandings below EUR 10 billion.

At total level, the Business Lending portfolio deteriorated in 2013, reflecting the global economic developments, with a lower presence of fully collateralised loans and higher presence of non-covered loans due to devaluation of pledged assets. Next to that, the reduction of outstanding in industries which are traditionally highly collateralised, such as Real Estate (-13.0%), and the increase in sectors which are low collateralised, such as Natural Resources (+9.0%) and Commercial Banks (+40.1%). Real Estate sector receives the most covers compared to other sectors, exhibited by the high fully collateralised part (56.6% in 2013), but as a result of de-risking activities performed in 2013, the outstandings of the Real Estate portfolio decreased by EUR 6.4 billion (or 13.0%).

Despite the significant increase in outstandings (40.1%), the cover amount of Commercial Banks sector increased by only 4.3%. This is a result of the increased outstandings in products where, in market practice, no covers are provided, such as L/C discounting, L/C confirmation and revolving loans.

In contrast to the general deteriorating trend, the non-performing Real Estate portfolio improved, expressed by the increase in the highly-collateralised buckets (VTL > 75%) from 50.5% to 63.6%. This is mainly attributable to the reduction of EUR 528 million (or 18.5%) in the outstandings of the existing non-performing portfolio in 2012.

Business Lending per region

Cover values including guarantees received - Business Lending portfolio - 2013 [1,2]

		Cover type					Value to Loan					
Industry	**Out-standings**	**Mort-gages**	**Eligible Financial Collateral**	**Other Basel II eligible**	**Guaran-tees**	**Non Basel II eligible**	**No Cover/ Data not available**	**>0%-25%**	**>25%-50%**	**>50%-75%**	**>75%-100%**	**>100%**
Africa	**1,203**	**26**	**120**	**234**	**627**	**99**	**16.0%**	**11.8%**	**10.4%**	**4.3%**	**23.7%**	**33.9%**
of which Non-performing	**1**						**100.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
America	**22,887**	**3,749**	**4,246**	**16,659**	**4,592**	**19,181**	**20.8%**	**3.5%**	**6.5%**	**9.5%**	**15.5%**	**44.2%**
of which Non-performing	**489**	**273**	**3**	**169**	**63**	**55**	**9.1%**	**9.7%**	**4.2%**	**13.7%**	**40.0%**	**23.3%**
Asia	**33,949**	**993**	**1,574**	**8,063**	**8,853**	**6,381**	**52.6%**	**8.1%**	**4.7%**	**10.2%**	**6.3%**	**18.1%**
of which Non-performing	**437**		**110**	**122**	**61**	**23**	**67.8%**	**4.8%**	**1.9%**	**5.9%**	**3.8%**	**15.9%**
Australia	**2,482**	**220**	**9**	**756**	**171**	**160**	**66.6%**	**7.3%**	**0.3%**	**1.4%**	**12.4%**	**12.0%**
of which Non-performing	**104**		**7**	**30**			**74.0%**	**0.0%**	**6.8%**	**0.0%**	**17.9%**	**1.3%**
Europe							**9.1%**	**9.7%**	**4.2%**	**13.7%**	**40.0%**	**23.3%**
Belgium	**37,364**	**25,678**	**1,153**	**6,285**	**10,700**	**20,039**						
of which Non-performing	**1,309**	**1,193**	**19**	**708**	**485**	**708**	**30.0%**	**2.7%**	**3.0%**	**4.3%**	**6.7%**	**53.2%**
Germany	**8,137**	**,030**	**20**	**361**	**1,164**	**2,391**	**10.1%**	**3.7%**	**2.1%**	**5.3%**	**9.4%**	**69.3%**
of which Non-performing	**206**	**118**	**4**	**4**	**4**	**3**	**63.3%**	**2.3%**	**3.8%**	**4.9%**	**5.8%**	**19.8%**
Netherlands	**63,314**	**49,846**	**2,996**	**25,328**	**5,989**	**15,219**	**25.9%**	**0.7%**	**0.3%**	**30.7%**	**30.6%**	**11.8%**
of which Non-performing	**4,294**	**2,157**	**94**	**1,464**	**283**	**817**	**20.3%**	**2.8%**	**6.3%**	**15.3%**	**23.2%**	**32.1%**
Rest of Europe	**87,843**	**26,192**	**5,348**	**19,203**	**20,472**	**50,606**	**20.9%**	**3.6%**	**15.4%**	**25.4%**	**21.3%**	**13.4%**
of which Non-performing	**4,243**	**3,074**	**49**	**385**	**1,536**	**2,675**	**42.0%**	**5.4%**	**5.7%**	**5.1%**	**8.8%**	**33.0%**
Total Business Lending	**257,179**	**107,734**	**15,466**	**76,889**	**52,550**	**114,076**	**17.6%**	**3.3%**	**4.1%**	**10.6%**	**19.3%**	**45.1%**
of which Non-performing	**11,083**	**6,815**	**286**	**2,882**	**2,432**	**4,281**	**35.2%**	**4.5%**	**5.3%**	**8.5%**	**12.3%**	**34.1%**

Cover values including guarantees received - Business Lending portfolio - 2012 [1,2]

		Cover type					Value to Loan					
Industry	Out-standings	Mort-gages	Eligible Financial Collateral	Other Basel II eligible	Guaran-tees	Non Basel II eligible	No Cover/ Data not available	>0%-25%	>25%-50%	>50%-75%	>75%-100%	>100%
Africa		1,062	33	152	328	169	534	36.1%	0.1%	2.9%	13.3%	27.1%
of which Non-performing		*3*	*1*				*2*	*42.4%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
America		26,451	7,306	4,573	17,155	3,304	22,268	18.9%	5.4%	8.7%	7.5%	12.5%
of which Non-performing		*627*	*346*		*201*	*13*	*143*	*12.0%*	*5.8%*	*4.2%*	*3.3%*	*41.8%*
Asia		29,283	972	1,689	7,672	8,321	7,358	53.1%	4.8%	4.1%	5.3%	8.5%
of which Non-performing		*300*	*1*	*81*	*82*	*64*	*82*	*43.6%*	*6.7%*	*0.0%*	*0.0%*	*38.9%*
Australia		3,049	639	82	1,318	331	94	69.6%	5.4%	0.0%	0.4%	4.0%
of which Non-performing		*267*	*119*	*7*	*10*			*73.4%*	*0.0%*	*0.0%*	*0.1%*	*26.2%*
Europe												
Belgium		37,174	24,886	1,088	6,519	9,267	22,359	29.6%	2.5%	3.6%	4.7%	7.1%
of which Non-performing		*1,326*	*1,095*	*19*	*740*	*445*	*822*	*10.1%*	*1.0%*	*3.8%*	*6.6%*	*10.1%*
Germany		8,315	1,572	46	560	693	5,236	56.1%	5.8%	6.5%	5.8%	6.3%

of which Non-performing	*223*	*131*	*4*	*19*	*3*	*5*	*23.8%*	*0.0%*	*0.1%*	*62.8%*	*1.1%*
Netherlands	66,626	56,638	3,59	26,724	6,625	19,353	18.0%	3.6%	4.2%	13.6%	24.5%
of which Non-performing	*3,867*	*2,116*	*10*	*1,302*	*225*	*984*	*20.3%*	*3.9%*	*10.0%*	*22.1%*	*24.5%*
Rest of Europe	90,249	27,381	6,72	23,163	16,194	53,443	39.6%	6.7%	3.9%	5.7%	8.1%
of which Non-performing	*3,981*	*2,109*	*233*	*620*	*1,189*	*2,877*	*29.1%*	*4.5%*	*2.1%*	*16.7%*	*9.4%*
Total Business Lending	262,209	119,427	17,94	83,439	44,904	130,645	33.0%	4.9%	4.5%	7.7%	12.6%
of which Non-performing	*10,594*	*5,918*	*354*	*2,974*	*1,939*	*4,915*	*23.9%*	*3.7%*	*5.2%*	*16.7%*	*18.0%*

(1) Including loans to ING Group and NN Group.
(2) Excluding intercompany positions.

The two tables above provide the collateralisation of the ING Bank's Business Lending portfolio with a breakdown per geographical region or main market, which are defined based on the residence of the borrowers. The deterioration of collateralisation is observed in most regions and main countries, such as America, Asia, Germany, Australia and the Netherlands. This is partially due to the de-risking in Real Estate portfolio, which has impacted the collateralisation level in portfolios in America (mainly in the United States), Australia and the Netherlands. The business lending portfolio in the Netherlands has been offset by the outstandings increase in Commercial Banks where generally minimal cover is provided. The portfolio in Asia experienced a leap in Commercial Banks, which explains its lower fully covered portion. The exposure in Germany ended the year with a higher no-cover portion due to the increased outstandings in Central Bank, where typically no cover is received.

Investment and Money Market portfolio

Investment and Money Market exposure per region

Cover values including guarantees received - Investment and Money Market Portfolio [1,2]

	2013	Cover type					2012	Cover type				
Investment and Money Market	Out-standings	Mort-gages	Eligible Financial Collateral	Other Basel II eligible	Guaran-tees	Non Basel II eligible	Out-standings	Mort-gages	Eligible Financial Collateral	Other Basel II eligible	Guaran-tees	Non Basel II eligible
Africa												
America	**4,028**				**17**	**19**	6,076				32	34
Asia	**6,481**					**116**	4,187					49
Australia	**5,485**						6,109				578	
Europe												
Belgium	**9,843**						10,707					
Germany	**23,472**				**4,399**		22,022				4,134	
Netherlands	**16,153**				**249**		18,993		6	18	249	
Rest of Europe	**47,185**				**452**		49,933				380	
Total Investment and Money Market	**112,647**		**6**		**5,117**	**135**	**118,027**		**6**	**18**	**5,373**	**83**
of which Non-performing	**11**		**6**				**87**		**6**			

(1) Including loans to ING Group and NN Group.
(2) Excluding intercompany positions.

As a nature of the Investment and Money Market business, typically there is little cover given to support these exposures. 99.2% of Money Market and 94.6% of Investment exposure receives no covers. The majority of ING's investment positions are of high quality with 93.8% of the portfolio rated between AAA to A-, based on external ratings.

In the Investment portfolio, the cover mainly relates to the government guarantees. During 2013, the exposure on bonds guaranteed by the Australia Government was brought down following the large-scale buyback. Over the year, the development of the covers is generally in line with that of the outstandings.

Pre-settlement portfolio

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 ISDA Master Agreements, Global Master Repurchase Agreements (GMRA), Global Master Securities

Lending Agreements (GMSLA), etc. Lastly, the amount is further reduced by any collateral that is held by ING Bank under Credit Support Annexes (CSAs) or other similar agreements.

The use of Central Clearing Parties (CCPs) is becoming more important for the derivatives business and as a consequence the credit risk is shifting from Counterparties to CCPs. By year-end 2013 the notional Pre-Settlement exposure that was cleared via CCPs increased by 21.9%.

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/sell-back and sell/buyback agreements, and securities borrowing and lending agreements are the most common. As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or re-pledged in other (similar) transactions. ING Bank is obliged to return equivalent securities in such cases.

The table below represents the different types of outstandings in 2013 and 2012. The 'Gross MtM before netting and collateral' is the exposure calculated in accordance with the Current Exposure Method (CEM, which in the EU regulation is referred to as the Mark-to-Market method) without accounting for any netting or collateral benefit. The 'MtM after netting' is the exposure, according to the CEM, taking into account the benefit of legally enforceable netting agreements (e.g. ISDAs), but without considering the benefit of margin collateral (e.g. CSAs). The 'MtM after netting and collateral' is the exposure according to the CEM, taking into account both the benefit of netting and marginal collateral. In other words, the gap between the 'MtM after netting' and 'MtM after netting and collateral' is the liquid collateral (cash and securities). The Outstandings column represents CEM exposure (MtM after netting and collateral) plus the Potential Future Exposure (PFE) at a 97.5% confidence level for derivatives and securities.

Pre-settlement per region

Pre-settlement portfolio [1,2]

				2013				2012
	Gross MtM before netting and collateral	**MtM after netting**	**MtM after netting and collateral**	**Outstandings**	Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	Outstandings
Africa	**53**	**37**	**37**	**43**	66	45	45	64
America	**15,844**	**7,069**	**5,276**	**6,083**	17,516	7,741	5,711	7,407
Asia	**5,879**	**3,377**	**2,943**	**4,195**	7,57	3,978	3,374	4,572
Australia	**449**	**293**	**286**	**338**	402	219	142	175
Europe								
Belgium	**4,011**	**2,762**	**2,406**	**1,947**	4,735	3,056	2,644	3
Germany	**7,275**	**3,948**	**2,045**	**3,227**	10,919	4,117	2,014	2,704
Netherlands	**9,848**	**4,775**	**3,996**	**5,18**	15,944	6,444	4,807	6,701
Rest of Europe	**86,861**	**27,542**	**23,43**	**27,011**	104,934	22,616	17,71	23,576
Total Pre-settlement	**130,22**	**49,803**	**40,419**	**48,024**	**162,086**	**48,216**	**36,447**	**48,199**
of which Non-performing	**205**	**205**	**205**	**209**	**215**	**215**	**215**	**213**

[1] Including loans to ING Group and NN Group.
[2] Excluding intercompany positions.

The reduction in the gross MtM was mainly driven by interest rate derivatives (IRD), which represent 66.1% of the total pre-settlement gross MtM. Although the notional amount of IRD slightly decreased by 2.2% in 2013, the gross MtM of IRD reduced significantly by 26.0%. This is due to more stabilised interest rates in 2013 and the maturing of earlier deals, as a result of which, more extreme (both positive and negative) MtMs moved out of the portfolio, thus reducing gross MtM. The IRD portfolio at ING Bank is well-diversified therefore the level of interest rates has less impact on the netted exposure, as positive and negative MtMs offset each other. This results in a stable netted exposure over time.

MARKET RISK

Introduction

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 banking books or trading books. 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, while the trading book positions are typically held short-term.

ING Bank recognises the importance of sound market risk management and follows the approach to know, control and manage market risks. The approach consists of a cycle of five recurrent activities: risk identification, risk assessment, risk control, monitoring and reporting.

- Risk identification is a joint effort of the 1st and 2nd line of defence (the 'three lines of defence governance' model is explained in the risk governance paragraph of the general risk management section). Its goal is to detect potential new risks and changes in known risks.

- Identified risks are assessed to determine the importance of the risk for ING Bank and subsequently to identify the control measures needed.
- Control measures used by ING include policies, procedures, limit frameworks, buffers and stress tests.
- An important element of risk management is to continuously check if the implemented risk controls are executed and complied with and monitor that the controls are effective.
- Results and findings are reported to the governing departments and approval bodies.

Governance
A governance framework has been established defining specific roles and responsibilities of business management, market risk management and internal approval bodies per activity.

Within ING Bank, market 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). Commercial Banking and Corporate Line 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 appropriate actions to reduce the risk position.

This market risk paragraph elaborates on the various elements of the risk management approach for:
- Market risk economic capital for trading and banking books
- Market risks in the banking books
- Market risks in the trading books

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.

Model disclosure
Economic Capital for market risk is calculated for exposures both in trading portfolios and banking portfolios and includes interest rate risk, equity price risk, foreign exchange rate risk, real estate 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.

For the trading books, the linear interest rate risk in the banking books and equity investments the 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.

Embedded options, e.g. the prepayment option and offered rate option in mortgages in the banking books, result in non-linear interest rate risk in the banking books. The embedded options are hedged using a delta-hedging methodology, leaving the mortgage portfolio exposed to convexity and volatility risk. For the calculation of economic capital for this non-linear interest rate risk and volatility risk ING Bank performs a Monte Carlo simulation.

Real estate price risk includes the market risks in both the investment portfolio and the development portfolio of ING Commercial Banking. The economic capital for 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.

Risk profile
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 of the Market Risk Economic Capital are the linear interest rate risk positions of Capital Investments and the strategic Equity Investments in the banking books.

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

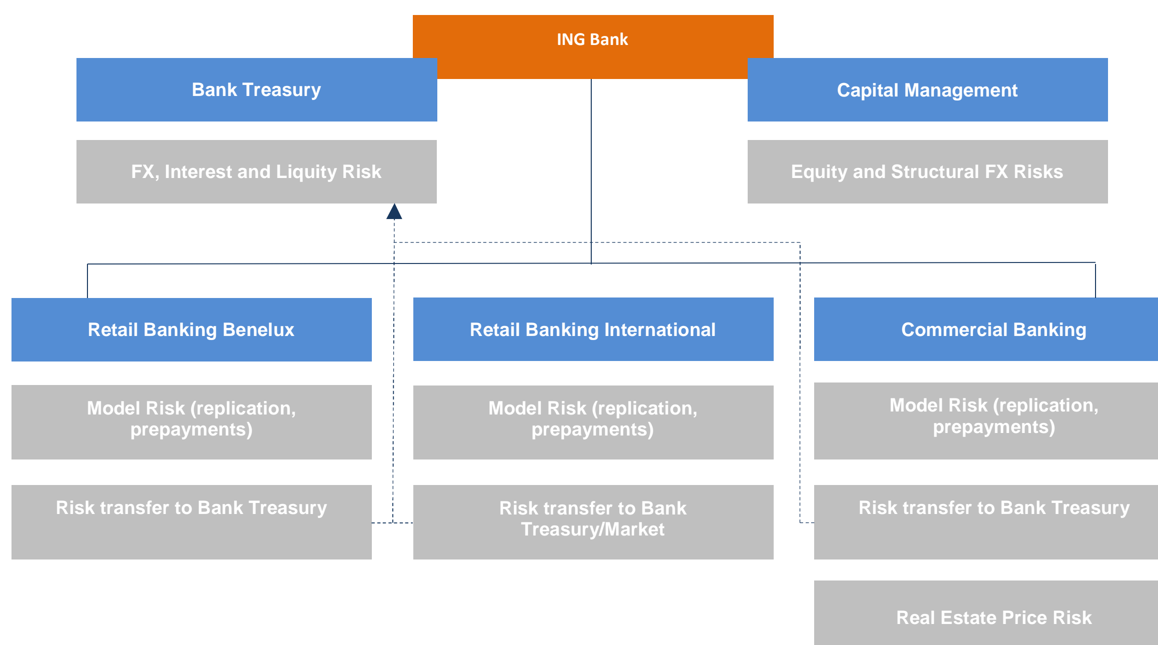
	Economic Capital		Regulatory Capital	
	2013	2012	**2013**	2012
Trading	**527**	386	**667**	747
Interest rate risk in the banking books	**2,629**	3,271		
Foreign exchange	**130**	217	**37**	25
Real Estate	**563**	722		
Equity Investments	**880**	1,730		
Market risk	**4,729**	6,326	**704**	772

Year-on-year variance
During 2013, market risk economic capital decreased significantly from EUR 6.3 billion to EUR 4.7 billion. In all underlying risk areas, except for trading, economic capital decreased. A short explanation for the main items:
- Trading: increase in economic capital is largely driven by updated LGD model parameters for the sovereign bond portfolio, which led to an increase in Incremental Risk Charge (IRC) and the annual update of the model parameters underlying the Trading Risk EC model. Both adjustments led to an increase in Economic Capital for trading.
- Interest rate risk in the banking books: the exposure of the capital investments decreased significantly. Main drivers for this change were the exclusion of the volatile rates in 2008 out of the historical period taken into account in calculating the underlying VaR, a decreased duration of capital investments and a decrease in the overall capital available for investment.
- Real estate: mainly resulting from impairments and the sale of assets.
- Equity investments: mainly resulting from the lower value of equity investments (sale of Kookmin Bank and price decreased in July/August of 2013) and the lower volatility in equity markets, as the 2008 volatile period started dropping out of the historical period taken into account in Q3 2013.

The decrease in market risk Regulatory Capital for Trading is due to position changes, relative calm (less volatile) markets combined with more volatile scenarios dropping out of the VaR calculation. This led to a decrease in the VaR and Stressed VaR component of the regulatory capital calculation, which was partially offset by an increase in IRC due to updated LGD model parameters for the sovereign bond portfolio.

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, including customer behaviour risk;
- Credit Spread 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 from the commercial books 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:



Model disclosure of banking risk measures
See Risk model governance and model validation section

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
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 earnings stable at the same time.

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

Risk measurement and the risk transfer process take 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. Model parameters are determined from historical data and expert opinion. Models and parameters are backtested at least semi-annually 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, interest rate dependent prepayment behaviour is modelled, as well as the interest sensitivity of embedded offered rate options.

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. General sources of customer behaviour risk include the state of the economy, competition, changes in regulation, legislation and tax regime, and developments in the housing market. Since these risk factors cannot be (fully) mitigated, ING holds capital to be able to absorb possible losses as a result of changed customer behaviour.

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. 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 (before tax) net interest income. The ES figures in the tables below reflect an instantaneous shock of 1% and a time horizon of one year. Management interventions are not incorporated in these calculations.

Earnings Sensitivity banking book per currency (instantaneous parallel shock)				
		2013		2012
	-100 bps	+100 bps	-100 bps	+100 bps
By currency				
Euro	-184	120	315	47
US Dollar	5	2	6	3
Pound sterling			-21	1
Other	-9		-17	17
Total	-188	122	283	68

Earnings Sensitivity banking books per business (instantaneous parallel shock)				
		2013		2012
	-100 bps	+100 bps	-100 bps	+100 bps
By business				
Commercial Banking	-73	43	38	4
Retail Banking Benelux	-52	42	-109	34
Retail Banking International	-52	20	378	-12
Corporate Line	-11	17	-24	42
Total	-188	122	283	68

The ES is mainly influenced by the sensitivity of savings to interest rate movements and is partially offset by the sensitivity of mortgages. 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.

Year-on-year variance analysis
In 2013 short-term interest rates remained at low levels in both the Eurozone and the US. The earnings sensitivity for an upward shock has a positive impact. 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 2013 year end relatively insensitive to rate changes, if compared to the net interest income. The impact of a -100 bps shock for Retail Banking International changed mainly as the result of a slower tracking of interest rates for savings in Germany.

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. As for ES calculations, an instantaneous shock 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 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.

NPV-at-Risk banking books per currency (instantaneous parallel shock)				
		2013		2012
	-100 bps	+100 bps	-100 bps	+100 bps
By currency				
Euro	-13	23	69	-75
US Dollar	4	-4	-51	12
Pound sterling	32	-25	-21	15
Other	1,422	-1,509	1,399	-2,140
Total	-13	23	69	-75

NPV-at-Risk banking books per business (instantaneous parallel shock)				
		2013		2012
	-100 bps	+100 bps	-100 bps	+100 bps
By business				
Commercial Banking	57	-30	371	-260
Retail Banking Benelux	-184	-209	-289	-201
Retail Banking International	30	236	-393	136
Corporate Line	1,519	-1,506	1,71	-1,815
Total	1,422	-1,509	1,399	-2,140

NPV-at-Risk banking books per accounting category (instantaneous parallel shock)				
		2013		2012
	-100 bps	+100 bps	-100 bps	+100 bps
By accounting category				
Amortised Cost	-1,115	923	-134	-693
Fair value through equity	2,459	-2,347	1,393	-1,419
Fair value through profit and loss	78	-85	140	-28
Total	1,422	-1,509	1,399	-2,140

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 also contributes to the overall NPV at Risk.

Year-on-year variance analysis
NPV-at-Risk for a +100 bps shock decreased during 2013. An overall decrease of EUR 631 million is shown. This mainly results from a decrease in duration of the investment of capital and from an increased duration of savings, caused by the low interest rate environment in the Eurozone. Furthermore the overall NPV-at-Risk exposure has changed as a result of a change in the strategic position. The sensitivity for a -100 bps shock has mainly changed as a result of enhanced modelling of client behaviour. Besides the variance of the overall NPV-at-Risk exposure there is variance in the exposure per accounting category. This is mainly the result of increased volume and duration of savings and at the same time a decreased duration of mortgages. As a result the exposure at amortised cost showed and upward move for the +100 bps shock. The impact of this move was mitigated by cash flow hedges, which revaluate through equity.

Basis Point Value (BPV)
BPV measures the impact of a one 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.

BPV banking books per currency

amounts in thousands of euros	2013	2012
By currency		
Euro	**- 13,900**	- 18,824
US Dollar	**214**	-656
Pound sterling	**13**	382
Other	**-352**	1
Total	**-14,025**	- 19,097

BPV banking books per business

amounts in thousands of euros	**2013**	2012
By business		
Commercial Banking	**-626**	-2,446
Retail Banking Benelux	**-100**	329
Retail Banking International	**2,757**	1,898
Corporate Line	**- 16,056**	-18,878
Total	**-14,025**	-19,097

BPV banking books per accounting category

amounts in thousands of euros	**2013**	2012
By accounting category		
Amortised Cost	**11,482**	-4,622
Fair value through equity	**-24,318**	-14,148
Fair value through profit and loss	**-1,189**	-327
Total	**-14,025**	-19,097

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 one basis point.

Year-on-year variance analysis
In line with the decrease in NPV-at-Risk, the overall BPV decreased in 2013 with EUR 5.1 million. As for NPV-at-Risk this mainly results from the decrease in the duration of the investment of capital and the increased duration of savings in the low interest rate environment of the Eurozone. Furthermore the overall BPV exposure has changed as a result of a change in the strategic position. Besides the variance of the overall BPV exposure there is a variance in the exposure per accounting category. This is mainly the result of increased volume and duration of savings and at the same time a decreased duration of mortgages. As a result the BPV exposure at amortised cost showed an upward move. This move was mitigated by cash flow hedges, which revaluate through equity. The increased sensitivity of other currencies results from an enhancement in the modelling of savings in Australia in Australian dollars.

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. Therefore, hedges are only done to the extent that they can be hedge accounted for against equity. Taking this into

account, 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	
amounts in millions of euros	**2013**	2012	**2013**	2012	**2013**	2012
US Dollar	**2,191**	2,847	**-134**	-198	**2,057**	2,649
Pound Sterling	**325**	-1,841	**19**	1,756	**344**	-85
Polish Zloty	**1,852**	1,714	**-1,012**	-818	**840**	896
Australian Dollar	**3,478**	2,686	**-2,877**	-1,763	**601**	923
Turkish Lira	**1,861**	2,168	**-572**	-574	**1,289**	1,594
Chinese Yuan	**1,253**	1,511	**-150**	-152	**1,103**	1,359
Canadian Dollar	**0**	0	**0**	-2	**0**	-2
Korean Won	**723**	1,256	**-583**	-975	**140**	281
Indian Rupee	**856**	287	**0**	0	**856**	287
Other currency	**2,907**	3,026	**-1,789**	-1,794	**1,118**	1,232
Total	**15,446**	13,654	**-7,098**	-4,520	**8,348**	9,134

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 scenario for a currency corresponds with that scenario that causes a drop in the core Tier 1 ratio, so a negative sign means that a depreciation of that corresponding currency will result in a drop of the core Tier 1 ratio.

Core Tier 1 ratio sensitivity ING Bank

	cTaR		Stress Scenario	
	2013	2012	**2013**	2012
Currency				
US Dollar	**0.09%**	0.08%	**15%**	15%
Pound Sterling	**0.01%**	0.04%	**15%**	15%
Polish Zloty	**0.00%**	0.01%	**15%**	-15%
Australian Dollar	**0.01%**	0.02%	**-20%**	-20%
Turkish Lira	**0.01%**	0.01%	**-25%**	-25%
Chinese Yuan	**0.00%**	0.00%	**15%**	15%
Canadian Dollar	**0.00%**	0.00%	**10%**	10%
Korean Won	**0.01%**	0.00%	**-15%**	-15%
Indian Rupee	**0.02%**	0.02%	**-20%**	20%

The US Dollar is the main currency in terms of Net Exposure as the risk-weighted assets position in US Dollar is most significant besides Euro. In terms of sensitivities, fluctuations in the US Dollar are the main driver of the core Tier 1 ratio as the US Dollar Net Exposure significantly deviates from the target. The core Tier 1 ratio is less sensitive for fluctuations in the other currencies.

Year-on-year variance analysis
The Foreign Investments in US Dollar decreased due to a currency conversion of a branch from US dollar to Euro that was partly offset by realised profit and loss. The Pound Sterling Foreign Investment significantly increased and became positive due to a capital injection in a branch. The increase of the Foreign Investments and the Hedges in Australian Dollar is due to a transfer of a subsidiary. The Foreign Investments in Korean Won decreased due to the sale of the equity stake in Kookmin Bank. The increase of the Foreign Investments in Indian Rupee is due to the inclusion of the minority interest.

Equity price risk in banking books
Governance
ING Bank maintains a strategic portfolio with substantial equity exposure in its banking books. Local offices are responsible for the management of the equity investments positions. Market risk is responsible for monitoring and reporting the regulatory capital for Equity Investments on a monthly basis. Market risk acts independently from the management of the equity investments in monitoring and reporting of the equity investments risk.

Risk Profile
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. This equity exposure mainly consists of the investments in associates of EUR 707 million (2012: EUR 841 million) and equity securities held in the available-forsale (AFS) portfolio of EUR 1,645 million (2012: EUR 2,634 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 in the revaluation reserve, except in the case of impairment. 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		
	2013	2012
Gross unrealised gains	**1,038**	1,385
Gross unrealised losses		
Total	**1,038**	1,385

Year-on-year variance analysis
During the year ended 31 December 2013 the revaluation reserve relating to equity securities held in the available-for-sale portfolio fluctuated between a month-end low amount of EUR 1,038 million (2012: EUR 1,082 million) and a high amount of EUR 1,483 million (2012: EUR 1,643 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.

Governance
Real Estate and other is a run-off business consisting of and all Real Estate Development and Real Estate Investment Management activities which are being wound down by sale of assets, strict execution of contract maturity, internal transfers to the local ING Bank branches or through portfolio sales.

Risk profile
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 mostly consists 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 2.6 billion. For market risk management purposes, the total real estate exposure amounts to EUR 2.5 billion since property from foreclosures (EUR 0.07 billion) and third party interest (EUR 0.04 billion) are excluded.

ING Bank has EUR 0.3 billion recognised at fair value through profit and loss and EUR 2.2 billion is recognised at cost or revalued through equity (with impairments going through profit and loss).

A split on the real estate exposure per continent and sector based on the risk management view is shown below.

Real Estate market risk exposure in banking books (by geographic area and sector type)					
	2013	2012		2013	2012
Continent			**Sector**		
Europe	**1,993**	2,246	Residential	**325**	366
Americas	**145**	328	Office	**1,241**	1,144
Australia	**94**	159	Retail	**661**	1,281
Asia	**135**	271	Industrial	**144**	79
Other	**115**	165	Other	**111**	299
Total	**2,482**	3,169	Total	**2,482**	3,169

Main exposure arises from office buildings in own use located in Netherlands and Belgium (EUR 0.9 billion), as well as retail and residential exposures in Europe (EUR 0.7 billion).

Year-on-year variance analysis
In total, real estate market risk exposure in the banking books decreased by EUR 0.7 billion mainly as a result of divestments (EUR 0.54 billion). The rest is due to impairments and negative fair value changes.

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 and market making. 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 are 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 (hereafter referred to as CVA respectively DVA). 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 for pricing credit risk into new external trades with counterparties. Risk limits and controls are in place to monitor and anticipate CVA risk on a daily basis. The CVA function operates under a global risk governance, where the risk limits and controls for CVA are managed and monitored on a global level. Our approach on CVA risk management is driven by increased control, cost efficiency and the global scope of CVA.

Market Risk Management Product Control has the role to identify or challenge market data and pricing sources as well as determining the parameters that will be used in the valuation models. When using valuation techniques, identified market data and 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 and consistency in market data inputs, ING started this year migrating these activities into one single source for consistent validated market data inputs across ING. ING uses an in house developed infrastructure for this purpose and has started to upgrade this application phase-wise with enhanced validation techniques to apply to the market data obtained from external data vendors (e.g. Bloomberg, Reuters and others). ING expects to have completed the migration in 2014.

In this context, global and local parameter committees 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 46 ‘Fair value of 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 backtesting, 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.

Backtesting
Backtesting 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 backtest, the actual daily result is compared with the 1-day VaR. In addition to using actual results for backtesting, 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 2013, like in 2012, 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 backtesting to DNB on a quarterly basis.

Basel Committee/CRD III
As of 31 December 2011 the Basel requirements on Stressed VaR and the Incremental Risk Charge 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 significant 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.

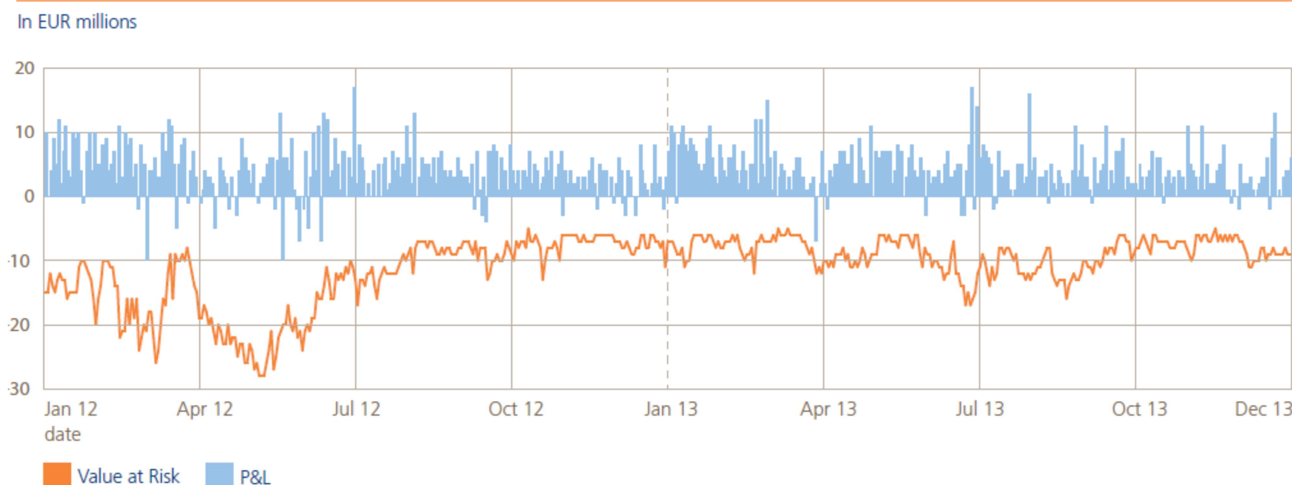
Event risk
Event risk is a valuable risk management tool. Event risk evaluates the bank's financial stability under severe but plausible stress scenarios and assists in decision-making that assures the bank to remain a financially-healthy on-going concern after a severe event occurs. In addition to the bank-wide stress test framework as described in the ING Bank risk profile section, MRM performs separate stressed scenario 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 stressed scenario tests for monitoring the market risk under these extreme conditions. Event risk is based on historical as well as hypothetical extreme scenarios. The result 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 2012 and 2013.

Consolidated trading VaR ING Commercial Banking 2012–2013



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	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Interest rate	**3**	4	**13**	21	**7**	10	**7**	4
Equity	**2**	3	**8**	9	**5**	5	**4**	4
Foreign exchange	**1**	1	**6**	6	**3**	3	**2**	2
Credit spread	**2**	2	**4**	6	**3**	4	**3**	3
Diversification [1]					**-9**	-9	**-7**	-7
Total VaR	**5**	5	**17**	28	**9**	13	**9**	7
Stressed VaR (10-day, 99%)	**38**	56	**110**	171	**66**	100	**52**	89
Incremental Risk Charge (1-year, 99.9%)	**280**	244	**487**	451	**351**	344	**438**	291

(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.

Average VaR was lower than in the previous year due to position changes and more volatile scenarios dropping out of the VaR calculation. The increase in IRC was largely driven by updated LGD model parameters for the Central and Local Government portfolio.

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 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 VaR, Stressed VaR and Incremental Risk Charge 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 2013, 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

			2013	2012
	SVaR	**VaR**	**Total**	Total
Interest rate/Credit spread	**110**	**36**	**146**	252
Equity	**35**	**14**	**48**	64
Foreign exchange	**25**	**9**	**35**	68
Incremental Risk Charge			**438**	360
Total Internal Model Approach	**170**	**59**	**667**	744
Standardised model [1]			**37**	28
Total Regulatory Capital			**704**	772
Market Risk Weighted Assets [2]			**9**	10

(1) Standardised model is applied to FX positions in trading and banking books and to securitisations in the trading books. Commodity exposures are treated under the internal model approach. The capital requirement for securitisations, which equals 100% of outstanding exposure amounts to EUR 1 million. The securitisation portfolio in the Trading Book is negligible.
(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 year-end positions

	2013		2012
Foreign exchange		**Foreign exchange**	
Chinese Yuan	**297**	US Dollar	-302
US Dollar	**-214**	Chinese Yuan	178
Romanian Leu	**46**	Taiwan Dollar	151
Singapore Dollar	**-21**	Russian Ruble	-37
Taiwan Dollar	**19**	Czech Koruna	33

Most important interest rate and credit spread sensitivities at year-end

amounts in thousands of euros	2013		2012
Interest Rate (BPV [1])		**Interest Rate (BPV [1])**	
Eurozone	**-302**	United States	-124
Taiwan	**48**	South Korea	-122
Russia	**-48**	Russia	-84
Romania	**-27**	Taiwan	80
South Korea	**-25**	Eurozone	64
Credit Spread (CSO1 [2])		**Credit Spread (CSO1 [2])**	
Germany	**-454**	Finland	-278
France	**452**	Korea	-192
Netherlands	**-384**	Netherlands	126
Austria	**-86**	Russia	-119
Russia	**-79**	Norway	-100

(1) Basis Point Value (BPV) measures the impact on value of a 1 basis point increase in interest rates.
(2) Credit Spread Sensitivity (CS01) measures the impact on value of a 1 basis point increase in credit spreads.

Credit spread sensitivities per risk class and sector at year-end

amounts in thousands of euros		2013		2012	
Credit Spread (CSO1 (1))		**Corporate**	**Financial Institutions**	Corporate	Financial Institutions
Risk classes					
1	(AAA)	**-4**	**-135**	-4	-124
2-4	(AA)	**-66**	**-74**	-38	-65
5-7	(A)	**-58**	**-105**	-42	-247
8-10	(BBB)	**-28**	**-48**	23	-68
11-13	(BB)	**-26**	**-37**	-40	-25
14-16	(B)	**-17**	**-9**	-12	-4
17-22	(CCC and Problem Grade)	**-42**	**-3**	-47	-2
Not rated		**-2**	**0**	-1	-16
Total		**-243**	**-411**	-161	-551

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

FUNDING AND LIQUIDITY RISK

Introduction
Funding and 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.

ING Bank incorporates funding and liquidity management in its business strategy. In order to optimise its funding and liquidity risk management ING Bank has developed a funding and liquidity risk framework aimed at maximising liquidity access and minimising funding risks and costs. The main objective of ING's funding and liquidity risk management is to maintain sufficient liquidity to ensure safe and sound operations under normal market circumstances and in times of crisis.
Funding and liquidity risk includes three types of risk, two under normal, and one under stress conditions:
1. Business as usual situation:
   - *Structural funding & liquidity risk:* The potential negative impact on an organisation's income or cash position due to mismatches between expected liquidity tenors of assets and liabilities
   - *Customer behaviour funding & liquidity risk:* The potential negative impact on an organisation's income or cash position due to liquidity options embedded in assets and liabilities that include a client behaviour risk
2. Stress situation:
   - *Stress funding & liquidity risk:* The risk an organisation may become unable to meet its financial obligations when due, because insufficient cash is available or cannot be generated in time at a reasonable costs by attracting new unsecured funding or rolling over existing funding, or selling / repo-ing assets, potentially resulting in default.

Liquidity risk can materialise both through trading and non-trading positions.

Governance
Within ING Bank, next to the Management Board Bank, staff (Risk and Finance) departments, Capital Management and the Bank Treasury function are responsible for managing funding and liquidity risk.

Bank Treasury (BT) is a 1st line function. Its main funding and liquidity responsibilities are to manage ING's funding gap and ING's regulatory liquidity position. Bank Treasury is ING's primary contact to the market for long and short term funding, with exception of capital and securitisation transactions which are under the responsibility of the Capital Management function and the execution of some specific structured funding products which are executed by Financial Markets under a mandate that provides strict guidance around pricing, volumes, optionalities and tenors.

The Management Board Bank defines the funding and liquidity strategy, target funding and liquidity position and the risk appetite based on recommendations from Bank Treasury, Capital Management, Market Risk Management and Finance.
Liquidity risk management within ING Bank falls under the supervision of the ALCO function, with ALCO Bank as the highest approval authority overseeing the execution of the overall strategy set by the Board.

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. ING Bank's liquidity risk framework is based on the three lines of defence concept, whereby risk principles are implemented, monitored and controlled in conjunction with both first and second line functions within the Bank.

The identification of liquidity risks is primarily a responsibility of the 1st line business management function.
The 2nd line Market Risk Management function is responsible for defining the governance with regard to funding and liquidity management. Next to this, Market Risk Management sets the standards for the funding and liquidity risk approach (identify, assess, control, monitor and report) and determines adequate policies and procedures for managing and monitoring liquidity risk in view of compliance with guidelines and limits.

Liquidity risk management framework
ING's liquidity risk management framework incorporates all relevant risk principles with regard to the daily and on-going management of funding and liquidity risk. The framework contains the following key elements:
- *Liquidity risk appetite:* This is set by Management Board Bank in line with ING's complexity, business mix and liquidity risk profile and is reviewed on an annual basis by ALCO Bank and forms part of the input of business units in their medium term business plans. The defined risk appetite is allocated to the regional ALCO's.
- *Funding:* The Bank Treasury function will set and update the funding strategy and funding planning, taking into account diversification in sources and tenor of funding.
- *Intraday Liquidity Management:* Bank Treasury actively manages its short term liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions.
- *Collateral Position Management:* Bank Treasury actively manages the liquidity risk of its collateral positions to meet ING's collateral needs, and resources, under both normal and stressed conditions and in accordance with all internal and regulatory rules.
- *Liquidity buffers:* ALCO Bank ensures that sufficient liquidity is maintained, in accordance with Bank- and regulatory rules and standards, including a buffer of unencumbered, high quality liquid assets, to withstand stress events, such as those involving the loss or impairment of both unsecured and secured funding sources.
- *Liquidity risk transfer and pricing:* ALCO Bank sets and maintains a Funds Transfer Pricing (FTP) framework that optimises Bank-wide funding and liquidity risk management, whereby all business units must transfer their structural funding and liquidity risks to Bank Treasury whilst managing their own customer behaviour liquidity risk costs.
- *Stress testing:* ALCO ensures that liquidity stress tests are planned, designed, conducted and reviewed, to identify sources of potential liquidity strain, to determine how these can and will be addressed and to ensure that current exposures remain within the established liquidity risk tolerance.
- *Contingency Funding Plan:* ALCO ensures the design, regular test and maintenance of formal Contingency Funding planning, setting out the strategies for addressing liquidity shortfalls in emergency situations, outlining procedures to manage these situations, establishing clear lines of responsibility, and articulating clear implementation and escalation procedures.

Implementation of the framework
Liquidity risk appetite
ING's liquidity risk appetite is expressed in a set of limits to manage the level of liquidity risk ING is willing to take in the pursuit of its strategic objectives. These limits are embedded in risk appetite statements (RAS) which reflect three pillars of addressing risk:
- Structural sources of risk:
  - Limits on liquidity mismatches
  - Limits on exposures to short term professional money markets
  - Defining target Loan-to-Deposit ratios
- Levels of liquidity:
  - Compliance with regulatory requirements
  - Adequate levels related to defined stress scenarios
- Funding diversification:
  - Limiting or reducing dependency on single providers
  - Concentration limits per funding sources

Based on the above, ING Bank has defined the following funding and liquidity risk management risk appetite statements:
- The structural mismatch in expected liquidity tenors of ING Bank's assets and liabilities per significant currency is manageable.
- Home/host regulatory liquidity limits should be pro-actively complied with.
- The time-to-survive in a funding stress situation should extend over multiple quarters.
- Funding of all longer-term assets and investments should be done by stable and longer-term liabilities.
- Geographical dependencies with respect to intra-group funding are to be limited or decreased.
- Diversification should be in place of funding profile, across funds providers, instrument types, geographic markets, tenors and currencies.

Also refer to Note 48 in which 'Assets by contractual maturity' are shown.
The risk appetite statements are also directly linked to liquidity stress testing.

Funding
In detailing the activities of the bank regarding utilisation of professional market funding sources, the following key principles apply:
- Maintaining adequate market access in both normal and stressed but operable market conditions.
- Managing risk by adhering to internally and externally imposed risk limits and balance sheet ratios.
- Optimising the cost of funding under the principles above.

With respect to funding sources, ING Bank manages its balance sheet prudently, whereby short-term funding is primarily utilised for shortterm assets. The bank aims to fund all longer term assets and investments by stable and longer term liabilities. In the third quarter of 2013, the uncertainty with regard to the US debt ceiling outcome gave rise to increased monitoring of the USD positions. 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. ING Bank reviews its funding plan on at least a quarterly basis, assessing market developments and funding requirements.

In 2013, ING Bank had readily access to a large variety of funding sources, both short term and long term.

In the table below, the various funding sources are presented in the funding mix.

ING Bank Funding Mix	2013	2012
Funding type		
Retail deposits	**46%**	45%
Corporate & other deposits	**23%**	22%
Interbank (incl. central bank)	**5%**	6%
Lending/repurchase agreement	**4%**	3%
Public debt	**20%**	21%
Subordinated debt	**2%**	3%
Total	**100%**	100%

The funding mix remained well diversified and according to targets set. Retail deposits accounted for 46% of the total funding mix, improved from 45% per 2012 year end. Ultimo 2013 the Loan-to-Deposit ratio (excluding securities at amortised costs and IABF receivable) equals 1.04 (2012: 1.13).

Intraday liquidity management
The objective of managing intraday liquidity and its risks at ING is twofold: it is focused on preventing damage to the institution's own liquidity position, and, in light of its role in global financial markets, ING also takes into account the potential damage to other parties which can arise through chain effects in payment and securities transactions.

Collateral position management
The objective of the Collateral Management is to ascertain that ING Bank can at all times meet collateral requirements for ING's collateral needs.

Liquidity buffers
The liquidity buffer ING Bank holds can be seen as the short end of the counterbalancing capacity, i.e. the total of available sources and measures within ING to generate liquidity, and serves as a cushion for liquidity needs under normal and stressed conditions.
The size and composition of the Liquidity buffer depends on ING Bank's Risk Appetite (risk tolerance) and regulatory liquidity standards. In the buffer, only assets that are included that are 'unencumbered' and freely available for liquidity purposes.

Bank Treasury ensures central management of all liquidity buffers within ING Bank, both buffers at Bank level and buffers at local business unit level.

The liquidity buffer is held as an insurance against a range of stress scenarios, covering the additional need for liquidity that may arise over a defined short period of time under stress conditions. ING's minimum standards for liquidity buffers are described below:
- When local regulatory rules require so, local liquidity buffers can be established. Although locally established, these buffers must be centrally functionally managed by the ALM function.
- The buffer must be adequate in relation to the contractual expiry calendars and expected or planned developments
- The size of the buffers is supported by estimates of liquidity needs performed under the Bank's or business entity's stress testing and be aligned with the liquidity risk appetite.

- The liquidity buffer is composed of cash and core assets that are central bank eligible and/or highly marketable, which are not pledged to payment systems or clearing houses. For longer term buffer purposes, a broader set of liquid assets might be appropriate, subject to the Bank's or entity's ability to generate liquidity from them under stress, within the specified period of time.
- The location and size of liquidity buffers reflects the Bank's or entity's structure (e.g. legal and geographical) and business activities.
- The size and status of the buffers are reported to ALCO on a monthly basis.

As part of the liquidity buffer management, ING Bank also monitors the existing asset encumbrance. More information may be found in Pillar 3.

Liquidity risk transfer and pricing
Funds Transfer Pricing (FTP) is an internal measurement and allocation system that assigns a profit contribution to funds raised, lent, or invested. FTP is used within ING to transfer interest rate risk, basis risk and liquidity risk positions from commercial units to Bank Treasury. The FTP framework enables local ALCOs to set their local FTP levels and manage these risks for all internal transfers at local level. This means that these risks are transferred from the business to a separate Bank Treasury book where they can be monitored and managed more efficiently and effectively. The liquidity costs, benefits and risks are considered in the product pricing, design and offering and in every relevant Product Approval and Review Process (PARP) or deal approval and other related processes for commercial products by the business units.

Stress testing
Stress testing allows a bank to examine the effect of exceptional but plausible future events on the liquidity position of the bank and provides insight into which entities, business lines or portfolios are vulnerable to which type of risks or in which type of scenarios. Liquidity stress testing is an important tool in identifying, assessing, measuring and controlling funding and liquidity risks, providing a complementary and forward-looking perspective to other liquidity and funding risk management tools.

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. The outcome of stress tests is evaluated and provides input to any follow-up and additional contingency measures required.
In addition to the bank-wide stress test framework as described in the ING Bank risk profile section, ING Bank produces several stress test reports with respect to the funding and liquidity position on a regular basis. Some of these stress tests are regulatory driven, and others 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 (bank) level and for the main entities, and split in EUR and USD.
- On a monthly basis ING Bank reports a number of stress scenarios, either based on regulatory requirements:
  - 1-month DNB liquidity buffer, according to DNB regulation
  - Liquidity Coverage Ratio (LCR), based on Basel III and CRR/CRD IV or on own defined stress scenarios.

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 also serves as input for the contingency funding plan.

Contingency funding plan
In the contingency funding plan, contingency liquidity risk is addressed which specifically relates to the organisation and planning of 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. These contingency plans are tested on a regular basis, both centrally and at business unit level.

Regulatory developments
In 2013, there were many regulatory developments which relate to the future management of funding and liquidity. The most important one was the publication of CRR/CRD IV, setting the direction for implementation of Basel 3 requirements within Europe. As part of the implementation of the CRR/CRD IV, the EBA has the responsibility to finalise guidelines and standards with regard to monitoring and reporting, leading to a significant number of additional requirements for banks. This is also part of the upcoming reporting stage of the liquidity ratios as of the first quarter of 2014.

Another important element in 2013 was the establishment of the European Banking Union, paving the road for a Single Supervisory Mechanism (SSM) with supervision from large banks in the near future to be led out of the ECB. As part of this implementation, banks will be reviewed in 2014 (ECB Asset Quality Review) and will be involved in a stress test.
All of these developments mirror a changing landscape for banks, also on the funding and liquidity front, as current reporting and regulatory reporting lines migrate to the future settings.

NON-FINANCIAL RISK
Introduction
The Non-Financial Risk (NFR) department encompasses the operational and compliance risk management functions. It ensures appropriate risk controls in these functional areas by implementing clear and accessible policies and minimum standards which are embedded in ING Bank business processes in all divisions. The necessary 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 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 spirit and letter of laws and regulations, but also with integrity, whilst being open and clear, respectful, and responsible.

Governance
At all levels in the organisation Non-Financial Risk Committees (NFRCs) are established to appropriately measure, manage and monitor the operational and compliance risks of a region or business unit and to ensure that appropriate management action is taken. 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 Bank NFRC is the primary approval and oversight committee for non-financial risk matters.

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 divisions. The Non-Financial Risk Dashboard provides management on regional, divisional and Bank level with an overview of key risks within the NFR risk areas including compliance risks, information security risks, continuity risks, governance and control risks, fraud and unauthorised activities risks and personal and physical security risks, enabling management to focus and set priorities.

The Chief Compliance Officer (CCO) is the general manager of the compliance risk management department and the Head of the Compliance function within the Bank. This is an independent function responsible for developing and establishing the Bank-wide compliance risk management charter & framework which establishes the minimum standards for managing compliance risks. The CCO assists and supports the Management Board Bank in managing ING Bank's compliance risks and control framework.

The non-financial risk department uses a layered functional approach within divisions 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 as well as obligations to veto and escalate.

Framework
ING Bank has a comprehensive framework for operational and compliance risks. This supports and governs the process of identifying, measuring, mitigating 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. Adherence 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 analyses (e.g. lessons learned based on information from incident reporting), key risk indicators and threat scans.

Business units and departments perform regular Business Environment Assessments (BEAs) and Risk & Control Self-Assessments (RCSAs) to identify and assess risks. These are conducted with involvement of the business and their Operational Risk, Compliance and Legal 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 Bank 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.

Main developments in 2013
Internal and external fraud
ING Bank continues its strong commitment to preventing any involvement in fraud. In line with its peers, ING Bank is exposed to many types of fraud, from internal fraud, such as the embezzlement of corporate funds, to external fraud whereby clients or others misuse the financial products of ING Bank. To mitigate the staff involvement with fraudulent payments, preventive organisational

controls for payment processes have been redefined for implementation by the entities. The controls include key control testing requirements.

In the Netherlands the risk of criminal skimming activities of debit cards has been significantly mitigated in 2013. This is due to the introduction of Geo-blocking, which prevents criminals using data from skimmed cards, in combination with the EMV chip, the global standard for credit and debit payment cards. ING Bank continues to stringently monitor possible new fraud methodologies that can emerge following the introduction of new payment methods and products.

Cybercrime

Cybercrime is an increasing threat to companies in general and to financial institutions specifically. Both the frequency and the intensity of attacks are increasing at a global scale. In April 2013 Dutch banks, including ING Bank were targeted by Distributed Denial of Service (DDoS) attacks which resulted in some noticeable unavailability of services.

Following the establishment of a Cybercrime Task Force in 2012, ING Bank has set up a Cybercrime Resilience Program in 2013 to structurally address the cybercrime threats. Within the programme, ING Bank has defined a wide range of measures, on top of existing IT security measures, to strengthen ING's resilience against e-banking fraud, DDoS and targeted attacks (also called Advanced Persistent Threats). To monitor and to respond to cybercrime effectively across ING Bank, a permanent central CyberCrime Emergency Response Team has been established.

ING Bank is continuously working on strengthening its global cybercrime resilience including strengthened collaboration against cybercrime with the financial industry, law enforcement authorities, government (e.g. National Cyber Security Center) and Internet Service Providers (ISPs).

Advanced Measurement Approach (AMA)

ING Bank has an Operational Risk Capital model in place in which the risk profile is 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. In 2013 workshops were held at the regional level and the scenario coverage has been expanded by introducing more relevant scenario topics. The internal data based calculation is combined with an external loss data (ORX) based calculation. The better scenario coverage is demonstrated for a unit of measure, the more weighting is given to scenarios in the calculation.

In April 2013 ING Bank obtained accreditation for use of its enhanced AMA model for regulatory supervision purposes. ING Bank is reporting the regulatory capital numbers on a quarterly basis. The AMA capital for the fourth quarter of 2013 amounts to EUR 2,822 million. For the fourth quarter of 2012 the AMA capital amounted to EUR 2,836 million.

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 stakeholders of ING Bank.

The compliance risk management function supports management in mitigating the compliance risks and by establishing a compliance control framework derived from laws, regulations and standards. The compliance risk management function actively educates and supports the business in managing compliance risks related, but not limited to, money laundering, terrorist financing, sanction and export control compliance, conflicts of interest, mis-selling, bribery and protection of customer interests.

ING Bank categorises compliance risk into four conduct-related integrity risk areas: client conduct, personal conduct, organizational conduct and financial conduct. ING Bank has a Whistleblower Policy which encourages staff to speak up if they know or suspect a breach of external regulations, internal policies or Business Principles.

Financial Economic Crime ('FEC') policy

The ING Bank FEC Policy provides a clear statement of what is required by all ING Bank entities 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. The requirements in the ING Bank FEC Policy cover minimum standards and controls related to: money laundering, terrorist financing, export trade controls, proliferation financing, sanctions (economic, financial and trade) and countries designated by ING Bank as Ultra High Risk Countries (UHRC).

The ING Bank FEC Policy directly reflects relevant national and international laws, regulations and industry standards. The ING Bank FEC Policy is mandatory and applies to all ING banking entities, majority owned ING business, businesses under management control, staff departments, product lines and to all client engagements and transactions.

Management of ING Bank entities introduce appropriate local procedures that enable them to comply with local laws, regulations and the relevant ING Bank FEC Policy. Where local laws and regulations are more stringent, the local laws and regulations are applied. Likewise the FEC Policy prevails when the standards therein are stricter than local laws and regulations.

As a result of frequent evaluation of all businesses from economic, strategic and risk perspectives ING Bank continues to believe that for business reasons doing business involving certain specified countries should be discontinued. In that respect, ING has a policy not to enter into new relationships with clients from these countries and processes remain in place to discontinue existing relationships involving these countries. At present these countries are Myanmar, North Korea, Sudan, 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 U.S. economic sanctions and export controls.

Regulatory measures and law enforcement agencies investigations

Agreement with U.S. Authorities

On 12 June 2012, ING Bank entered into a Settlement Agreement with U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) and Deferred Prosecution Agreements with the Department of Justice, the United States Attorney's Office for the District of Columbia and the District Attorney of the County of New York (together the 'U.S. Authorities') in relation to the investigation by those agencies into compliance with U.S. economic sanctions and U.S. dollar payment practices until 2007.

The Agreements have expired as of 12 December 2013 and the related proceedings against ING Bank N.V. have been dismissed by the US District Court of Columbia.

Singapore

The Monetary Authority of Singapore (MAS) announced on 14 June 2013 that it has reviewed banks' processes for setting rates for various financial benchmarks in Singapore. ING Bank participated in the setting of Non-Deliverable Forward FX rates (NDFs). MAS has found 20 banks, including ING Bank, to have deficiencies in their processes and directed the banks to adopt measures to address their deficiencies, report on the progress and requires them to hold additional statutory reserves. ING Bank fully cooperated with the review as it is committed to conducting its business with the highest levels of integrity, including strict compliance with all applicable laws, regulations and standards in each of the markets and jurisdictions in which it operates. Furthermore ING Bank has taken a number of remedial actions, amongst other actions, to enhance our procedures for submitting rates, and will continue to monitor these processes and train staff.

Main developments in 2013

ING Group Whistleblower Policy

ING Group issued a revised ING Group Whistleblower Policy. The Policy covers reports of employees about actual or suspected irregularity of a general, operational or financial nature within ING. Employees are encouraged to report any of these behaviours through the specific Whistleblowing channels, including anonymously.

Regulator relationships

Bank Compliance Risk Management continued its policy of investing in pro-active relationship building with regulators in the jurisdictions where ING Bank operates, by striving for an open two-way approach to communication and cooperation in identifying and mitigating compliance risks for ING Bank as well as seeking to contribute to the regulatory debate going forwards.

Awareness

Promoting Integrity Programme

The Promoting Integrity Programme was started in 2010 and is an innovative programme consisting of e-modules on key bank-wide topics and follow-up dialogue sessions in which managers discuss the issues raised with their teams. The programme is sponsored by board members and senior managers and is created to ensure that every employee in every part of ING understands how their actions and behaviour can help earn and retain customer and stakeholder trust. The modules consist of several case studies and real life examples which require staff to think about various aspects of the issue. Each module also starts with an opening statement from a senior manager.
The topics covered in 2013 were:

- 'Think before you post' looking at the use of email and social media. This topic provided a way of ensuring staff were aware of the risks and clear on what they should and should not do, online or when using e-mail. The focus was on staff identifying actions that they can take to protect themselves and ING Bank.
- 'Legal but harmful' which highlighted the need to look beyond what is strictly legal and think about the wider implications. It challenged staff to think not just 'can I do this?', but 'should I do this?' and to think about the longer term implications of their actions.

Learning

Global education and awareness training was provided on topics such as sanctions and competition law and on other specialist topics in face to face sessions and e-learning modules. This included training in introduction programmes for new staff and talent programmes. 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.

RISK MANAGEMENT NN GROUP

Introduction

Risk taking is integral to the business model for insurance, investment management, and banking organisations such as NN. NN has developed and implemented a risk management structure that is designed to identify, assess, control and monitor the risks associated with its business. Through its risk management practices, NN seeks to meet its obligations to policyholders and other customers and creditors, manage its capital efficiently, and comply with applicable laws and regulations.

NN's approach to risk management is based on the following components:

- **Risk management structure and governance systems.** NN's risk management structure and governance systems follow the 'three lines of defence' model, which outlines the decision-making, execution and oversight responsibilities for the implementation of NN's risk management. These structure and governance systems are embedded in each of NN's organisational layers, from the holding level to the individual business units.
- **Risk management framework.** NN's risk management framework takes into account the relevant elements of risk management, including its integration into NN's strategic planning cycle, the management information generated, and a granular risk assessment.
- **Risk management policies, standards and processes.** NN has a comprehensive set of risk management policies, standards and processes, which are updated regularly to align with market leading practices, applicable laws and regulations, and to changes in NN's business and risk profile. These risk management policies, standards and processes apply throughout NN and are used by NN to establish, define, and evaluate NN's risk tolerance levels and risk control processes and to ensure that the tolerance levels and policies are communicated throughout the organisational structure.

ORGANISATIONAL RISK MANAGEMENT STRUCTURE

Management Board and its (sub)committees

The Management Board is responsible for defining, installing, and monitoring the risk management organisation in order to ensure its control systems are effective. The Management Board or its subcommittees approve all risk management policies as well as the quantitative and qualitative elements of NN's risk appetite. The Management Board reports and discusses these topics with the Risk Committee, which is a sub-committee of the Supervisory Board, on a quarterly basis.

While the Management Board retains ultimate responsibility for NN's risk management, it has delegated certain responsibilities to a committee of the Management Board, the Risk and Finance Committee, which is responsible for day-to-day risk and finance related risk management decision-making, processes and controls. The Risk and Finance Committee has further delegated certain tasks to subcommittees, which advise the Risk and Finance Committee on risk and finance-related topics. These sub-committees are the Asset and Liability Committee, the Non-Financial Risk Committee, the Product Risk Committee, the Model Committee, the Finance Committee, the Investment Committee, and the Crisis Committee.

Chief risk officer

The chief risk officer of NN (the **CRO**) is a member of the Management Board. The CRO bears primary and overall responsibility for NN's risk management. The CRO must ensure that both the Management Board and the Supervisory Board are at all times informed of, and understand, the material risks to which NN is exposed. Each business unit has its own chief risk officer, who reports (directly or indirectly) to the CRO.

The CRO is primarily responsible for:

- setting risk policies;
- formulating NN's risk management strategy and ensuring that it is implemented throughout NN;
- monitoring compliance with NN's overall risk policies;
- supervising the operation of NN's risk management and business control systems;
- reporting of NN's risks and the processes and internal business controls; and
- making risk management decisions with regard to matters which may have an impact on the financial results of NN or its reputation, without limiting the responsibility of each individual member of the Management Board in relation to risk management.

Supervisory Board and its committees

The Supervisory Board is responsible for supervising the Management Board and the general affairs of the Company and its business. For risk management purposes the Supervisory Board is assisted by two committees:

- **Risk Committee.** The Risk Committee assists the Supervisory Board in supervising and advising the Management Board with respect to NN's risk management strategy and policies.
- **Audit Committee.** The Audit Committee reviews and assesses the applicable accounting standards and the Company's compliance therewith, the going concern assumption, significant financial risk exposures, significant adjustments resulting from audit, compliance with statutory and legal requirements and regulations, tax and tax planning matters with a material impact on the financial statements, and detection of fraud and other illegal acts.

Three lines of defence model

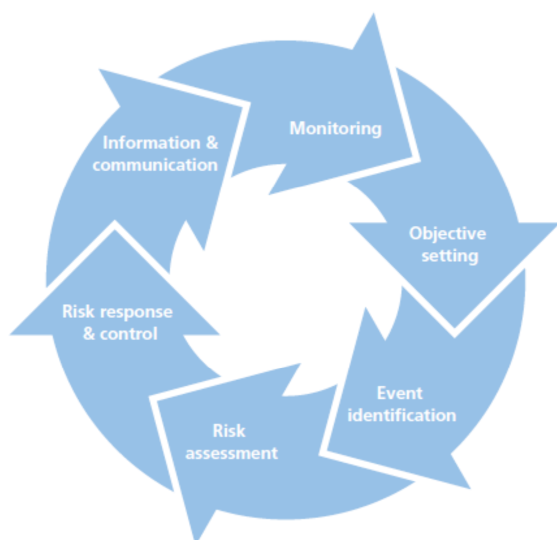
The three lines of defence model, on which NN's risk management structure and governance is based, defines three risk management levels, each with distinct roles, decision authorities, execution responsibilities, and oversight responsibilities. This framework ensures that risk is managed in line with the risk appetite as defined by the Management Board, ratified by the Supervisory Board, and cascaded throughout NN.

- **First line of defence:** the CEOs of the business units of NN and the other management board members of the business units have primary accountability for the performance of the business, operations, compliance and effective control of risks affecting

their businesses. They underwrite the insurance products that reflect local needs and thus know their customers and are well-positioned to act in both the customers' and NN's best interest.
- **Second line of defence:** oversight functions at the Head Office and at the business units with a major role for the risk management organisation, headed by the CRO and the corporate legal and compliance function. The membership of the CRO on the Management Board ensures that risk management issues are heard and discussed at the highest level. The CRO steers a functional, independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to prevent risk concentrations and other forms of unwanted or excessive risks. These oversight functions:
  - develop the policies and guidance for their specific risk and control area;
  - encourage and objectively challenge/monitor sound risk management throughout the organisation and coordinate the reporting of risks;
  - support the first line of defence in making proper risk-return trade-offs;
  - have escalation/veto power in relation to business activities that are judged to present unacceptable risks to NN.
- **Third line of defence:** corporate audit services (**CAS**). CAS provides an independent assessment of the standard of internal control with respect to NN's business and support processes, including governance, risk management and internal controls.

RISK MANAGE MENT FRAMEWORK

NN's risk management framework comprises a series of sequential steps, through which NN seeks to identify, measure and manage the risks to which it is exposed. The diagram below sets out these steps.



- **Objective setting.** Business planning and priority setting is undertaken through an annual medium term planning (MTP) process, which is integrated with NN's own risk and solvency assessment (**ORSA**) process. At the start of the MTP process, NN establishes strategic objectives at a holding level. Those strategic objectives are used to establish and define NN's risk appetite, which consists of quantitative and qualitative statements defining those risks NN wishes to acquire, to avoid, to retain and/or to remove. The strategic objectives are cascaded through the enterprise and business unit plans and evaluated against the risk appetite. Targets and risk limits for the business units are derived from NN's overall strategy and risk appetite framework.
- **Event identification.** NN identifies events that may potentially impact its risk position, recognising that uncertainties exist, and that NN cannot know with certainty which events will occur and when,, or what the outcome or impact would be if it did occur. As part of event identification, NN considers both external and internal factors that affect event occurrence. External factors include economic, business, natural environment, political, demographic, social and technological factors. Internal factors reflect NN's choices and concern such matters as infrastructure, personnel, process and technology.
- **Risk assessment.** NN, centrally at the executive level and at the business unit level, considers how events identified in the previous step might affect the achievement of NN's strategic objectives. Key risks are assessed on a regular basis and, where appropriate, this analysis is supported by models (such as for NN's economic capital calculation; see also 'NN's Risk Profile-Economic capital'). NN conducts regular top-down assessments of its key risks, both at the holding level and at the level of the individual business units.
- **Risk response and control.** Once a risk is assessed, NN identifies potential responses to those risks and analyses the mitigating impact of those responses. Taking into account the risk tolerances set out in the risk appetite framework NN designs its response for each assessed risk. Risk and control activities are performed throughout NN, at all organisational levels.
- **Information and communication.** Communication of information is a key part of NN's risk management framework. Risk management officers, departments, and committees within NN are informed regularly of NN's position compared to its strategic objectives and its risk appetite to enable them to monitor developments and to timely take appropriate decisions. Comprehensive reports on NN's financial and insurance risks, and on its non-financial risks, are prepared and discussed every quarter. These reports analyse, amongst others, developments in financial markets and their impact on NN's capital position, the effectiveness of NN's hedge positions, and any incidents that may have occurred.
- **Monitoring.** The effectiveness of NN's risk management itself is also monitored. Regular monitoring ensures that risk management is maintained at all organisational levels of NN and is carried out by all three lines of defence.

RISK MANAGEMENT POLICIES, STANDARDS AND PROCESSES

NN has a comprehensive set of risk management policies, standards and processes in place. These policies, standards and processes are regularly updated to align with industry practices and changes in NN's business profile, and to comply with applicable laws and regulations. Key areas of risk management for which NN has established policies, standards and processes are set out below.

Risk appetite framework

NN's risk appetite framework determines which risks NN wishes to take, to avoid, to retain and/or to remove. The risk appetite framework consists of qualitative and quantitative statements as to risk preferences, risk tolerances, risk limits and risk controls. The risk appetite framework is based on three key quantitative measures that aim to:

- ensure cash capital is sufficient following a 1 in 20 annual risk sensitivity; NN quantifies this using regulatory capital sensitivities and potential capital management actions.
- ensure economic solvency is sufficient following a 1 in 20 annual risk sensitivity; NN quantifies this risk using available financial resources/economic capital and related sensitivities. Available financial resources (AFR) is a before tax market value surplus defined as market value of assets less market value of liabilities.
- ensure IFRS results before tax are sufficient following a 1 in 20 annual risk sensitivity; NN quantifies this risk using sensitivities on the IFRS results before tax.

In addition to the key quantitative measures, qualitative statements form part of the risk appetite framework that serve to guide risk taking for conduct in the areas of underwriting, Asset and Liability management (**ALM**), investing and operations. These statements support NN's strategy, contribute to avoiding unwanted or excessive risk taking, and aim to further optimise the use of capital. The qualitative risk appetite statements are organised under the following categories:

- **Managing underwriting.** Underwriting and product development is paramount to the insurance business. NN strives for appealing, easy to understand and transparent value-for-money products that can be effectively risk-managed over the expected life of the contract.
- **ALM.** NN aims to match its asset portfolio to its liabilities with optimal strategic asset allocation and by limiting any mis-matches to an acceptable degree. The ALM process is integral in ensuring adequate liquidity for policyholder obligations.
- **Managing investments.** NN has an appetite for investments that will provide an appropriate risk and return for NN's policyholders and shareholders.
- **Managing operations.** Under this category, NN stipulates requirements for managing reputation, business continuity, processes and controls, as well as providing a safe and engaging work environment for a competent workforce.

Risk policy framework

NN's risk policy framework ensures that all risks are managed consistently and that NN as a whole operates within its risk tolerances. The policies/minimum standards focus on risk measurement, risk management and risk governance. To ensure that policies are efficient and effective they are governed by the risk committee structure. Potential waivers to the policies have to be approved through the respective risk committees.

Risk limits

The quantitative risk appetite statement is translated into quantitative risk limits for the business units. The business units report regularly on their risk profile compared to applicable risk appetite and risk limits.

Product approval and review process

The product approval and review process (**PARP**) has been developed to enable effective design, underwriting, and pricing of all products as well as to ensure that they can be managed throughout their lifetime. This process establishes requirements as to the product risk profile features to ensure that products are aligned with NN's strategy. The PARP takes into account customer benefits and product suitability, expected sales volumes, value-oriented pricing metrics and relevant policies. It includes requirements and standards to assess risks as per the risk categories, as well as the assessment of the administration and accounting aspects of the product.

New investment class and investment mandate process

NN maintains a new investment class approval and review process (**NI CARP**) for approving new investment classes of assets. At the holding level, NN establishes a global list of asset classes in which the business units may invest. Each business unit also maintains a local asset list that is a subset of the global asset list. The local asset list includes asset allocation parameters, which prescribe the relative proportions in which the relevant business unit may invest in different asset classes, as well as asset, industry, regional, and credit concentration limits.

Own Risk and Solvency Assessment and Internal Capital Adequacy Assessment Process

NN (and each of its regulated insurance subsidiaries) produces an own risk and solvency assessment (**ORSA**) at least once a year. In the ORSA, NN articulates its strategy and risk appetite, describes its key risks and how they are managed, analyses whether or not its risks and capital are appropriately modelled and how susceptible the capital position is to shocks through stress and scenario testing. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of NN. Stress testing can also be initiated outside ORSA, either internally or by external parties such as De Nederlandsche Bank (DNB) and European Insurance and Occupational Pensions Authority (EIOPA). The ORSA includes an overall assessment of NN's solvency position in light of the risks it holds. NN's banking and investment management operations, at least once a year, run an internal capital adequacy assessment process (**ICAAP**) in conformity with Basel II requirements. ICAAP tests whether current capital positions are adequate for the financial risks that the relevant NN entities bear.

IFRS reserve adequacy test
All of NN's operating insurance entities need to ensure that their IFRS insurance reserves 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 to ensure 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, anticipated new premiums and reinvestment rates in relation to maturing assets.

Non-financial risk dashboard
Non-financial risks are monitored through the non-financial risk dashboard (**NFRD**) process at all levels in the organisation. The NFRD is one tool which provides management at all organisational levels with information about key operational, compliance and legal risks and incidents. The exposure of NN to non-financial risks is regularly assessed through risk assessments and monitoring. After identification of the risks, each risk is assessed as to its likelihood of occurrence as well its potential impact should it occur. Actions required to mitigate the risks are identified and tracked until the risk is either reduced, if such a reduction is possible, or accepted as a residual risk if the risk cannot be mitigated.

Model governance and validation
NN's model governance and validation function seeks to ensure that NN's models achieve their intended purpose. Models and their disclosed metrics are approved by the Model Committee. The findings of the model validation function are also reported regularly to the Model committee. This committee is responsible for modelling policies, processes, methodologies, and parameters which are applied within NN. Furthermore, the model validation function carries out validations of internal models related to Solvency II. To ensure independence from the business and other risk departments, the model validation department head reports directly to the CRO.

Recovery planning
NN has determined a set of measures for early detection of and potential response to a crisis should it occur. These include monitoring indicators which are expected to provide early-warning of emerging crises, advance preparation of options to raise or release capital, and allocation of roles and responsibilities in case of a crisis, and other practical arrangements that may be required depending on the type of crisis.

RISK PROFILE

Main types of risks
The following principle types of risk are associated with NN's business:

- **Insurance risk.** Insurance risks are the risks related to the events insured by NN and comprise actuarial and underwriting risks such as mortality, longevity, morbidity, and non-life insurance risks, which result from the pricing and acceptance of insurance contracts.
- **Business risk.** Business risks are the risks related to the management and development of the insurance portfolio but excludes risks directly connected to insured events. Business risk includes policyholder behaviour risks and expense risks. Business risks can occur because of internal, industry, or wider market factors.
- **Market and credit risk.** Market risk is the risk of potential losses due to adverse movements in financial market variables. Counterparty default risk is the risk of potential losses due to default by NN's debtors (including bond issuers), trading counterparties or mortgage holders. In relation to market and credit risk, NN distinguishes between its general account businesses and its separate account businesses.
  - *General account businesses.* The general account businesses are those in which NN bears the market and credit risk. NN's earnings from the general account businesses depend not only on underwriting, but also on the performance of NN's investment portfolio. The general account includes NN's life insurance and non-life insurance businesses. Market and credit risks include (i) equity risk, (ii) real estate risk, (iii) interest rate risk, (iv) credit spread risk, (v) counterparty default risk and (vi) foreign exchange risk.
  - *Separate account businesses.* The separate account businesses are those in which the policyholder bears the market and credit risk. NN's earnings from the separate account businesses are primarily driven by fee income. However, in the case of variable annuities and the guaranteed separate account pension business in the Netherlands, NN retains risk associated with the guarantees provided to its policyholders. Businesses in this category are (i) the variable annuities (**VA**) portfolio, (ii) the group pension business in the Netherlands for which guarantees are provided, and (iii) other separate account business, primarily the unit linked business.
- **Liquidity risk.** Liquidity risk is the risk that one of NN's entities does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner.
- **Operational risk.** Operational risk is a non-financial risk that includes direct or indirect losses resulting from inadequate or failed internal processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error, and certain external events.
- **Compliance risk.** Compliance risk is the risk of impairment of NN's integrity. It is a failure (or perceived failure) to comply with NN's Business Principles and the Compliance Risk-related laws, regulations and standards that are relevant to the specific financial services offered by a business or its ensuing activities, which could damage NN's reputation and lead to legal or regulatory sanctions and financial loss.

Economic capital
Economic capital is NN's internal measurement of the amount of capital required for the risks that NN is exposed to through its balance sheet, its business and its daily operations.

NN determines economic capital as the amount of additional assets it must hold above the market value of its liabilities in order to withstand adverse movements in one year, based on a 99.5% level of confidence and before any adjustment for tax impact. A 99.5% level of confidence means that NN would be able to fulfil its obligations to its policyholders without requiring additional capital in 199 out of 200 annual scenarios. NN's economic capital is calculated in three steps.

- In the first step, NN models the market and credit risks to which NN's balance sheet is exposed using 50,000 stochastic real-world scenarios over a one-year time horizon, which are calibrated to historically observed market data. The model then quantifies the extent to which NN's assets must exceed its liabilities to ensure it is able to fulfil its policyholder obligations at a 99.5% level of confidence. This constitutes the economic capital for market and credit risk.
- In the second step, NN models insurance and business risk by defining stress scenarios at a 99.5% confidence interval using empirical data, when available, and expert judgement on the characteristics of NN's portfolio. With regards to longevity and expense risk, these stress scenarios are measured over a multi-year horizon. Mortality, morbidity, and property and casualty (P&C) risks are measured over a one-year horizon. These measurements are made at the individual business unit level and are modelled to capture the offsetting of certain risks, which occurs where certain risk events preclude the possibility of others. For example, if risk capital is based on the risk event that people will live longer (longevity risk), then the risk event that the same people will die earlier (mortality risk) is precluded. These risks are also aggregated with each other, as well as with the market and credit risk calculated in step one, using correlations based on expert judgement. As a result of this aggregation, the economic capital for the aggregate risk is less than the sum of the economic capital for the individual risks because the probability of all of the various risks materialising concurrently is less than 0.5%. This difference is the diversification benefit, reflecting the benefits of NN's risk pooling.
- In the third step, NN adds economic capital for operational risks and for business units that are not reflected in the internal model, without recognising any further diversification benefit. The economic capital for operational risk is based on the draft of the standard formula set out in Solvency II. Certain business units do not form part of NN's internal model. Depending on the type of business, the economic capital for these business units is approximated using commercial capital requirements, the Insurance Group Directive, local regulatory capital requirements or IFRS equity net of intangibles. See '-Economic capital for entities outside of NN's internal model'.

NN's internal model uses, among others, statistics, observed historical market data, insurance policy terms and conditions, and NN's own judgment, expertise and experience, and includes assumptions as to the levels and timing of payment of premiums, benefits, claims, expenses, interest rates, credit spreads, investment portfolio performance (including equity market and debt market returns), longevity, mortality, morbidity and product persistency, and customer behaviour (including with respect to surrenders or extensions). NN follows strict governance, periodically revisiting these assumptions and regularly challenging them. NN also models risk to regulatory capital and IFRS results using models. As such, NN's economic capital calculations and risk sensitivities should be considered as estimates.

The table below sets out NN's economic capital by risk category as at 31 December 2013 and 2012, respectively.

Economic capital by risk category		
	2013	2012
Insurance risk	**1,697**	1,918
Business risk	**2,128**	2,539
Market and credit risk: General account	**3,211**	3,214
Market and credit risk: Separate account	**964**	930
Diversification benefit between risk categories	**-2,505**	-2,783
Total modelled risk insurance operations	**5,495**	5,818
Operational risk	**531**	566
Economic capital of other business; NN Bank, IIM units on local required capital levels and other non-modelled	**988**	2,335
Total	**7,014**	8,719

The following sections will explain the risk profile, risk mitigation and risk measurement of all the categories above except for the diversification benefits between the different risk categories. Diversification benefits are recognised both on the risk category level (reflecting, for instance, diversification benefits between different countries, and diversification benefits between different risks within a particular risk category), as well as diversification benefits between risk categories. The diversification benefit between insurance risk, business risk, and market and credit risk of both the separate and general account decreased from 2012 to 2013. Insurance and business risks diversify well with each other and also with the market and credit risks, and in 2013 the reduced exposure to insurance and business risk resulted in an overall lower diversification benefit for NN.

The overall economic capital for NN decreased by over EUR 1.7 billion from 2012 to 2013 primarily because NN sold most of the Asian business units. This is further explained in the *'Economic capital for entities outside NN's internal model'* section.

Impact of scope change on economic capital for 2012

The 2012 economic capital numbers have been updated to reflect the change in scope from Insurance Europe as reported in the 2012 Annual Report to numbers comparable to those reported for 2013.

Economic capital 2012 comparable in scope to 2013	
	2012
As reported for ING Insurance EurAsia (excluding isontinued operations) in 2012	5,868
Changes in model and methodology	438
Include Japan Life and Japan Closed Block VA as modelled business after diversification	689
Include the other Asian held-for-sale business units as unmodelled business	1,504
Include legacy units and holding as unmodelled business	220
Economic capital for 2012 for NN Group	8,719

In 2013, NN continued to refine and update the internal model to prepare for the Solvency II Directive, increasing economic capital by EUR 438 million. Modelling changes included updates to the correlation matrix and a more granular modelling of asset risk.

Also, Japan Life and Japan Closed Block VA businesses were classified as discontinued operations until 4th quarter 2013 and therefore were not included in the scope of NN's 2012 risk disclosures. The scope of the current disclosure includes the Japan Life and Japan Closed Block VA businesses, which were modelled using the internal model after diversification. The Asian held for sale insurance businesses for which transactions have been concluded during 2013 are included in the adjusted 2012 figures using 150% of the Solvency I requirements. The economic capital of other entities that are part of NN but were not reported in 2012 as part of ING Insurance Eurasia have been approximated with IFRS equity, as they were held for sale.

Solvency II

In 2013 NN continued the internal model pre-application process with regulators in order to ensure the model is approved as an internal model under the Solvency II regulations and is fit for local use in all of its regulated entities. Over the course of 2014, NN intends to move its economic capital calculations to full Solvency Capital Requirements (**SCR**), in accordance with the current draft of the Solvency II Directive. Differences in the calculation of SCR compared to current calculations of economic capital can arise from Omnibus II Directives, in particular related to long term guaranteed business. NN's economic capital ratio, calculated as available financial resources/economic capital will be adjusted to own funds/SCR.

The table below provides a summary of the largest expected differences in the calculation methodology of available and required capital from the current internal methodology to Solvency II, as interpreted by NN. Several of the Solvency II items have not yet been defined well enough to provide a reliable estimate of the impact, but each one could potentially be material.

	Available capital		Required capital	
	Current Available financial resources	Solvency II Own funds	Current Economic capital	Solvency II capital requirement (SCR)
Last liquid point [(1)]	20 years	20 years	30 years	20 years
Illiquidity adjustment	Illiquidity premium	Volatility balancer / matching adjustment	Illiquidity premium	Volatility balancer / matching adjustment
After tax	No	Yes	No	Yes
Credit risk adjustment	No	Yes	No	Yes
Contract boundaries [(2)]	Internal model	Solvency II regulation	Internal model	Solvency II regulation
Loss absorption of taxes and fungability	Full capital fungability assumed	After tax and fungability is restricted	Full capital fungability assumed	Test the loss absorption capacity
Risk Margin	Market Value Margin based on internal approach	Less diversification recognised than internal approach	Not applicable	Not applicable
Supervisory Action	Not applicable	Not applicable	Not applicable	Potential for capital add-on

(1) The last liquid point is the last point on the swap curve considered to be liquid and is used to define the discount rate under Solvency II.
(2) The future date at which a policy may be terminated or varied in such a way that, pursuant to the expected requirements of Solvency II, cash flows from premiums may not be recognised.

INSURANCE RISK

Insurance risks are the risks related to the events insured by NN and comprise actuarial and underwriting risks such as mortality, longevity, morbidity, and non-life insurance risks, which result from the pricing and acceptance of insurance contracts.

Risk profile

Mortality risk occurs when claims are higher due to higher mortality experience (for instance in relation to term insurance). Longevity risk is the risk that insured persons live longer than expected due to mortality improvements. While NN is exposed to both longevity and mortality risks, these risks do not fully offset one another as the impact of the longevity risks in the pension business in the Netherlands is significantly larger than the mortality risk in the other businesses, not only due to the size of the business but also due to the current low interest rate environment. Changes in mortality tables impact the future expected benefits to be paid and the present value of these future impacts is reflected directly in measures like available financial resources and available regulatory capital in the Netherlands. Longevity risk exposes NN primarily to mortality improvements and the present value impact is larger when interest rates are low.

NN's morbidity risk lies in health insurance which pays out a fixed amount, reimburses losses (e.g. loss of income), or pays for expenses of medical treatment related to certain illness or disability events. The main exposures to morbidity risks within NN are

the disability insurance policies underwritten in Netherlands Non-Life, the health and accidental death covers within the Corporate Owned Life Insurance business in Japan Life, and the healthcare insurance business in Greece.

The Netherlands Non-Life portfolio also includes Property & Casualty products covering risks such as fire damage, car accidents, personal and professional liability, windstorms, hail, and third party liabilities.

Risk mitigation
Proper pricing, underwriting, claims management, and diversification are the main risk mitigating actions for insurance risks.

By expanding insurance liabilities to cover multiple geographies, product benefits, lengths of contract, and both life and non-life risk, NN reduces the likelihood that a single risk event will have a material impact on NN's financial condition.

Management of the insurance risks is done by ensuring that the terms and conditions of the insurance policies that NN underwrites are correctly aligned with the intended policyholder benefits to mitigate the risk that unintended benefits are covered. This is achieved through NN's underwriting standards, product design requirements, and product approval and review processes.

Insurance risks are diversified between business units. Risk not mitigated by diversification is managed through concentration and exposure limits and through reinsurance:
- tolerance limits for non-life insurance risks are set by line of business for catastrophic events and individual risk; for instance, every year Netherlands Non-Life and ING Re reinsure windstorm catastrophe risks. As windstorm risk diversifies well with other risks taken by NN, from 2014 NN has increased its tolerance level for this risk and decreased the re-insurance cover for windstorm catastrophe 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 risk levels (such as morbidity reinsurance in the COLI business in Japan Life). Reinsurance creates credit risk which is managed in line with the reinsurance credit risk policy of NN, and;
- NN participates in industry pools in various countries to mitigate the risk from terrorism.

Risk measurement
The table below sets out NN's economic capital for insurance risk as at 31 December 2013 and 2012, respectively.

Economic capital for insurance risk

	2013	2012
Mortality (including longevity)	**1,556**	1,805
Morbidity	**380**	385
P&C	**429**	367
Diversification benefit	**-669**	-639
Total	**1,696**	1,918

The economic capital for insurance risks is dominated by mortality risk, in particular by longevity risk in the Netherlands pension business. The economic capital amount related to longevity risk is also highly sensitive to the level of interest rates. The decrease in the mortality risk capital was mainly caused by a decrease in longevity risk capital because of the increase of the discount curve in 2013 and by surrenders and contract changes of defined benefit pension contracts. The morbidity risk is primarily due to Netherlands Non-Life illness and disability contracts, as well as Netherlands Life and Japan Life.

The P&C risk is primarily underwritten by Netherlands Non-Life and partially reinsured by ING Re. The higher windstorm catastrophe risk retention level for 2014 resulted in an overall increase in economic capital for P&C risk.

BUSINESS RISK
Business risks are the risks related to the management and development of the insurance portfolio but excludes risks directly connected to insured events. Business risk includes policyholder behaviour risks and expense risks. Business risks can occur because of internal, industry, or wider market factors.

Risk profile
Policyholder behaviour risk
Policyholder behaviour risk is the risk that policyholders use options available in the insurance contracts in a way that is different from that expected by NN. Depending on the terms and conditions of the insurance policy and the laws and regulations applicable to the policy, policyholders could have the option to surrender, change premiums, change investment fund selections, extend their contracts, take out policy loans, make choices about how to continue their annuity and pension savings contracts after the accumulation phase, or even change contract details. As a result, over the life of an insurance policy, a policyholder may seek to change the terms of that policy, and NN may consult with the relevant customer with a view to verifying that the relevant policy remains suitable for the policyholder, sometimes resulting in changes to the relevant insurance policy. Policyholder behaviour therefore affects the profitability of the insurance contracts. The risk that policyholders maintain their contracts longer than NN has assumed is specific to the variable annuity business when guarantees are higher than the value of the underlying policyholder funds, the pension business in the Netherlands, and the older higher interest rate guaranteed savings business in Europe. The risk that policyholders hold their contracts for a shorter period than NN has assumed relates to the life business in Japan and the unit linked businesses in the Central and Eastern European businesses.

Changes in tax laws and regulations can affect policyholder behaviour, particularly when the tax treatment of their products affects the attractiveness of these products for customers. For instance, changes in tax treatment may affect the tax efficiency of the products of the Japan Life corporate-owned life insurance **(COLI)** business.

The available regulatory capital in the Netherlands and the economic capital calculations for policyholder behaviour risk take into account the present value impact of changes in assumptions.

A change in policyholder behaviour assumptions would result in an immediate change in the present value of the liabilities used to determine Available Financial Resources, IFRS result before tax for variable annuities, and available regulatory capital in the Netherlands.

Expense risk
Total administrative expenses for NN in 2013 amounted to EUR 1,842 million. Part of these expenses is variable, depending on the size of the business and sales volumes, and part are fixed and cannot immediately be adjusted to reflect changes in the size of the business. Expense risk relates primarily to the fixed part of NN's expenses, and is the risk that actual per policy expenses in the future exceed the assumed per policy expenses. A significant portion of the fixed expenses is incurred in the closed block operations of Netherlands Life, where NN is exposed to the risk that the overheads relating to IT administration systems will remain constant, or even increase, while the number of policies in the in-force book gradually decreases, leading to a per policy expense increase.

A change in expense risk assumptions, though it would be reflected over time through IFRS result before tax, would result in an immediate change in the present value of the liabilities used to determine Available Financial Resources and available regulatory capital in the Netherlands.

Risk mitigation
Policyholder behaviour risk
Policyholder behaviour risks are managed through the product development, product approval and review processes and by ensuring that appropriate advice is given to the customer, not only at the point of sale but also during the lifetime of the product. The policyholder behaviour experience of in force policies is assessed at least annually.

As part of its strategy, NN has put several programs in place to own and improve the customer experience. These programs seek to improve the match between customer needs and the benefits and options provided by NN's products and, over time, to improve NN's understanding and anticipation of the choices policyholders are likely to make, thereby decreasing the risk of a mismatch between actual and assumed policyholder behaviour.

Expense risk
Several initiatives have been put in place to manage expenses, such as the restructuring of Netherlands Life and NN's head office in the Netherlands. These initiatives also seek to convert fixed expenses into variable expenses so that expenses vary in accordance with the size of the in-force portfolio. This is particularly relevant for the closed blocks of business, the Dutch individual life and the Japan Closed Block VA businesses.

Risk measurement
The table below sets out NN's economic capital for business risk as at 31 December 2013 and 2012, respectively.

Economic capital for business risk

	2013	2012
Policyholder behaviour	**1,096**	1,400
Expense	**1,388**	1,663
Diversification benefit	**-356**	-525
Total	**2,128**	2,538

The main contributors to policyholder behaviour risk in 2013 are the corporate owned life insurance business in Japan Life, Netherlands Life, the unit linked business in Europe, and the Japan Closed Block VA. Economic capital for policyholder behaviour risk decreased due to the increase of the discount curve in Netherlands Life and the weakening JPY.

Over 80% of the expense risk capital is driven by Netherlands Life. The economic capital amount related to expense risk in Netherlands Life is sensitive to the level of interest rates, and the decrease in the expense risk capital was primarily attributable to the increase of the discount curve in 2013, together with a decrease in overall expenses.

The diversification in business risk is driven by the fact that policyholder behaviour and expense risk are largely uncorrelated and therefore receive a benefit given the low likelihood that they will both occur concurrently.

MARKET AND CREDIT RISK: GENERAL ACCOUNT
Market and credit risks are the risks related to the impact of financial markets on NN's balance sheet. In relation to market and credit risk, NN distinguishes between its general account and its separate account. The table below sets out NN's asset class market values for the general account as at 31 December 2013 and 2012 (in this table derivatives are excluded and specific risk management asset classifications and valuations are applied). 2012 figures are on a comparable basis to 2013.

General Account Assets	Market Value	% of total	Market Value	% of total
		2013		2012
Fixed income	**79,473**	**83%**	79,104	83%
Government bonds	**44,251**	**46%**	50,831	53%
Financial bonds	**4,452**	**5%**	5,845	6%
Corporate bonds	**6,453**	**7%**	7,503	8%
Asset Backed Securities	**7,199**	**7%**	7,267	8%
Mortgages	**14,218**	**15%**	5,398	6%
Other Loans	**2,9**	**3%**	2,26	2%
Non-Fixed income	**10,436**	**11%**	10,017	10%
Common & Preferred Stock	**2,5**	**3%**	2,087	2%
Private Equity	**943**	**1%**	855	1%
Mutual Funds	**2,336**	**2%**	2,02	2%
Real Estate	**4,657**	**5%**	5,055	5%
Cash	**6,749**	**7%**	6,778	7%
Total Investments	**96,657**	**100%**	95,898	100%

The economic capital for the fixed income bonds is calculated within spread risk and the economic capital for the fixed income loans (to the extent applicable) within counterparty default risk. For the non-fixed income assets, equity and real estate, NN uses asset-specific risks to calculate economic capital.

The table below sets out NN's economic capital for the general account as at 31 December 2013 and 2012, respectively.

Economic capital general account	2013	2012
Equity risk	**1,406**	1,162
Real estate risk	**744**	807
Interest rate risk	**262**	194
Credit spread risk net of illiquidity premium offset	**2,234**	2,521
Foreign exchange risk	**213**	377
Inflation risk	**51**	8
Counterparty default risk	**519**	354
Diversification benefit	**-2,219**	-2,208
Total	**3,210**	3,215

Market and credit risk of the general account is dominated by credit spread and equity risk. Whilst there were significant movements in the underlying risks, overall the economic capital for market and credit risk remained fairly stable. The inflation risk relates to the disability business of Netherlands non-life.

The following sections provide more detail per risk type.

Equity risk

Equity risk in the general account is due to impact of changes in prices of directly held equities and equity derivatives such as futures and options.

Risk profile

The table below sets out NN's general account equity assets as at 31 December 2013 and 2012, respectively.

General account equity assets	2013	2012
Common & Preferred Stock	**2,500**	2,087
Private Equity	**943**	855
Mutual Funds	**2,336**	2,020
Total	**5,779**	4,962

Overall equity exposure increased due to positive revaluations and net purchases of equities in line with strategic asset allocation.

The equity investments held in the Netherlands are part of the so-called '5% holdings', in which investors who hold 5% or more of the outstanding shares of a stock receive favourable tax treatment in the Netherlands. About EUR 2.3 billion is invested in these 5% holdings. For these equity investments, NN may not be able to liquidate its position quickly because of the size of these holdings.

NN invests in private equity through its holding of Parcom Capital Management. Parcom Capital Management is a captive mid-market private equity firm active in the Netherlands, France and Germany.

Price changes in equity holdings and equity-related derivatives are directly reflected in Available Financial Resources, the IFRS balance sheet and in the regulatory available capital in the jurisdictions in which NN has general account equity holdings. Only value movements of derivatives and impairments of equity holdings are reflected in the IFRS result before tax.

Risk mitigation
Equity exposures belong to a well-diversified asset portfolio of an insurance company with long term illiquid liabilities. The concentration risk on individual issuers is mitigated under relevant investment mandates.

From time to time, NN protects the downside risk of the general account equity portfolio by buying put options and other hedge instruments. The most recent occasion on which NN did so was during the euro crisis in 2011-2012.

Risk measurement
Economic capital for equity risk in the general account increased from EUR 1,162 million in 2012 to EUR 1,406 million in 2013. This exposure includes mutual funds with both fixed income and equity underlying positions. On a look-through basis in the overall exposure, the weighting of equities, which requires a higher economic capital than fixed income investments, increased due to stock market developments. Real estate risk.

Real estate risk is the risk of loss of market value of real estate assets due to a change in rental prices, required investor yield, or other factors.

Risk profile
NN's general account real estate exposure decreased from EUR 5,055 million at 31 December 2012 to EUR 4,657 million as at 31 December 2013. The real estate exposure is mainly present in Netherlands Life and Netherlands Non-Life. NN has two different categories of real estate: (i) investments in real estate funds and real estate directly owned, and (ii) investments in buildings occupied by NN. Several of the real estate funds owned by NN include leverage and therefore the actual real estate exposure is larger than NN's positions in these funds. During 2013, the gross real estate exposure decreased mainly as a result of market value decreases.

The general account real estate portfolio is held for the long term and is illiquid. Furthermore there are no hedge instruments available in the market to effectively reduce the impact of market volatility.

The table below sets out NN's real estate exposure by sector type excluding leverage as at 31 December 2013 and 2012, respectively. Real estate is valued at fair value in the economic capital model and the available regulatory capital calculations in the Netherlands. Fair value revaluations of 53% of the real estate portfolio directly affect the IFRS result before tax.

General account real estate assets by sector

	Revalued through P&L	Not revalued through P&L	Revalued through P&L	Not revalued through P&L
		2013		2012
Residential	**3%**	**17%**	2%	17%
Office	**10%**	**9%**	14%	10%
Retail	**30%**	**9%**	28%	7%
Industrial	**9%**	**0%**	8%	0%
Other	**2%**	**12%**	3%	11%
Total	**54%**	**47%**	55%	45%

Risk mitigation
Real estate exposures belong to a well-diversified asset portfolio of an insurance company holding long term illiquid liabilities. The concentration risk on individual issuers is mitigated under relevant investment mandates.

Risk measurement
Economic capital for real estate risk decreased from EUR 807 million at year-end 2012 to EUR 744 million at year-end 2013 due to reduced real estate exposures and lower leverage in the real estate funds.

Interest rate risk
Interest rate risk is the impact of interest rate changes on available capital as a result of the associated change in the value of the assets and liabilities. NN generally uses swap curves as benchmark interest rate curves when assessing interest rate risk.

Risk profile
The table below provides an overview of NN's general account undiscounted policyholder liability cash flows (net of expenses and commissions) by maturity.

General account liabilities' annual undiscounted cash flows (net of expenses and commissions) [1]

Maturities	Eurozone EUR		Japan JPY [2]		Liabilities originated in Other Currencies [2]	
	2013	2012	**2013**	2012	**2013**	2012
0-1	**-4,627**	-4,010	**222**	138	**-183**	-143
1-2	**-4,148**	-3,971	**-84**	-174	**-177**	-306
2-3	**-5,235**	-4,317	**-307**	-329	**-168**	-209
3-5	**-7,452**	-7,356	**-870**	-938	**-352**	-561
5-10	**-15,076**	-15,109	**-2,204**	-2,285	**-786**	-927
10-20	**-23,545**	-23,219	**-2,357**	-2,718	**-1,087**	-1,208
20-30	**-15,422**	-15,977	**-907**	-973	**-413**	-489
30+	**-14,752**	-16,976	**-577**	-515	**-82**	-95
Total	**-90,257**	-90,935	**-7,084**	-7,794	**-3,248**	-3,938

[1] The 'minus' sign in the table mean cash outflow from NN to the policyholders
[2] Japan and Other liabilities are presented at constant FX of 31December 2013. Other includes CZK, HUF, PLN, RON, and USD.

To effectively match its assets to liabilities, NN looks at the undiscounted liability cash flows and then determines which assets to purchase to reduce interest rate risk. As can be seen in the table, the EUR denominated liabilities have a significant amount of long-term liability cash flows, which relate primarily to the pension business in the Netherlands.

Liability valuations depend on the discount rate applied and are sensitive to movements in that discount rate, particularly given that approximately one third of the liability cash outflows occur from year 20. Different policyholder liability discount rates apply depending on the accounting or regulatory framework; thus, the interest rate risk differs by accounting regime.

- **IFRS result before tax.** Under IFRS-EU, NN values its general account policyholder liabilities using a discount rate that is set when the policies are sold, and subjects them to a reserve adequacy test using current interest rates. As a result, changes in interest rates do not affect IFRS earnings through liability valuations, unless the adequacy of the reserves of a segment falls below the 50th percentile level. As of 1 January 2014, NN's reserves for all segments are adequate at the 90th percentile. Apart from a few exceptions, interest rate movements do not impact IFRS result before tax as investment income for fixed income assets is recorded as amortised cost value. A few derivative instruments not subject to hedge accounting could cause volatility in IFRS result before tax due to interest rates. See '-IFRS result before tax sensitivities'.
- **A vailable regulatory capital (outside the Netherlands).** For the purposes of available regulatory capital in all jurisdictions outside the Netherlands in which NN operates, general account policyholder liabilities are valued at a single discount rate set when the policies are sold. General account fixed income assets are typically held at the same value as is reported on the IFRS balance sheet, although in several jurisdictions such as Japan, Spain and Greece, certain assets can be held at amortised cost on the regulatory balance sheet. Changes in interest rates affect available regulatory capital in these jurisdictions when fixed income assets are valued at market value, and the liability valuations are insensitive to interest rate movements
- **A vailable regulatory capital (Netherlands).** For the purposes of available regulatory capital in the Netherlands, general account policyholder liabilities are measured at fair market value based on the DNB swap curve. In 2013 NN moved from the discount curve based on the ECB AAA yield curve to the DNB swap curve, which, amongst other things, is more liquid and less subject to dislocations. Since mid-2012, the DNB curve has been adjusted to include an ultimate forward rate (**UFR**), extrapolating the curves beginning in year 20 to an ultimate forward rate of 4.2% at year 60. General account fixed income assets are held at market value, thereby creating interest rate sensitivities in the available regulatory capital, which are the same as the liability sensitivities for matching cash flows up to 20 years. However, mismatches occur for longer-term cash flows due to the application of the UFR.
- **Economic capital.** To determine economic capital, NN uses a swap curve plus an illiquidity premium to discount the insurance liabilities. The illiquidity premium is treated as part of the credit spread risk. NN extrapolates the EUR swap curve from the 30 year point onwards to the UFR, as swap markets tend to be highly illiquid for durations longer than 30 years. To determine economic capital, all assets are valued at market value and therefore subject to interest rate risk. The economic capital for interest rate risk therefore primarily depends on the level of cash flow matching between assets and liabilities.

Risk mitigation

NN hedges its economic interest rate exposure by investing in long-term bonds matching liability maturities and further reduces the remaining interest rate gap through purchases of receiver swaps and swaptions. Interest rate risk is also mitigated through a disciplined pricing and renewal strategy in the Dutch corporate pensions business.

Risk measurement

The Economic capital for general account interest rate risk increased from EUR 194 million at year-end 2012 to EUR 262 million at year-end 2013. This economic capital is small relative to the general account insurance provisions, due to effective ALM and interest rate hedges. The increase in capital is modest for the total balance sheet size and reflects a small reduction in asset duration.

Credit spread risk

Credit spread risk reflects the impact of credit spreads widening due to increased default expectation, illiquidity and any other risk premiums priced into the market value of bonds. Credit spread risk takes into account both the impact on the asset side as well as the corresponding interaction with the general account liabilities.

Risk profile

The nature of long-term insurance liabilities gives insurers the potential to hold fixed income assets even in adverse market conditions, thereby continuing to receive the coupons and the principal amount at maturity. Credit spread risk materialises in

different ways depending on the different valuation curves used to discount assets and liabilities in order to determine these metrics.

- **IFRS result before tax.** Market value movements of general account fixed income assets do not impact the IFRS result before tax as the assets are classified as available for sale. Therefore, there is no sensitivity to credit spread risk in IFRS result before tax. However fixed income securities might be subject to impairments under IFRS, affecting the IFRS result before tax.
- **A vailable regulatory capital (outside the Netherlands).** For the purposes of available regulatory capital in all jurisdictions outside the Netherlands in which NN operates, general account fixed income assets are typically held at the same value as is reported on the IFRS balance sheet, although in several jurisdictions such as Japan, Belgium, Spain and Greece, certain assets can be held at amortised cost on the regulatory balance sheet. In those cases where assets are held at fair, value credit spreads affect available regulatory capital through fixed income asset valuations, whereas the liability valuations are insensitive to credit spread movements.
- **A vailable regulatory capital (Netherlands).** On the regulatory capital balance sheet, general account fixed income assets are held at market value, thereby creating credit spread sensitivities in the available regulatory capital. The long duration of NN's fixed income assets amplifies the impact of credit spread sensitivities. By contrast, the liabilities are not sensitive to credit spread movements.
- **Economic capital.** To determine economic capital, general account fixed income assets are held at market value, thereby creating credit spread sensitivities. Just as in the available regulatory capital (Netherlands), the long duration of NN's fixed income assets amplifies the impact of credit spread sensitivities for economic capital. The discount rate to value the insurance liabilities consists of the swap rate plus an illiquidity premium. NN uses the spreads of a covered bond index to determine the illiquidity premium at a given point in time. The fact that the bonds are fully collateralised means that there is limited credit risk in relation to these bonds. Any spread movements in the covered bond index therefore represent illiquidity related to demand and supply characteristics and/or market sentiment at any point in time. As NN does not invest in the covered bond index to back the general account liabilities, there can be mismatches between illiquidity experienced on NN's own assets and the illiquidity depicted by the covered bond index.

The table below sets out the market value of NN's general account fixed-income bonds which are subject to credit spread risk by type of issuer at 31 December 2013 and 2012, respectively.

General account fixed-income bonds by type of issuer [1]

	Market Value		Percentage	
	2013	2012	**2013**	2012
Government Bonds	**44,251**	50,831	**71%**	71%
Asset Backed Securities	**7,199**	7,267	**12%**	10%
Financial Institutions	**4,452**	5,845	**7%**	8%
Utilities	**1,501**	1,815	**2%**	3%
Transportation & Logistics	**857**	449	**1%**	1%
Telecom	**795**	1,013	**1%**	1%
General Industries	**638**	591	**1%**	1%
Food, Beverages & Personal Care	**622**	675	**1%**	1%
Other Corporate and Financial Bonds	**2,04**	2,961	**3%**	4%
Total	**62,355**	71,445	**100%**	100%

(1) Bond values include accrued interest.

NN primarily uses long-term bonds issued by central governments and other public agencies of governments to match its long term liabilities as such bonds are amongst the few tradable fixed income securities generating cash flows for 20 years and longer. The table below sets out the market value of NN's general account assets invested in government bonds by country and maturity.

General account market value government bond exposures [1]

			Market value of government bond 2013 by number of years to maturity									
	Rating [2]	Domestic Exposure [3]	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	**Total**	Total 2012
Germany	AAA	0%	155	70	115	331	263	3,288	4,215	153	**8,59**	12,225
Netherlands	AAA	98%	17	132	82	104	1,21	1,458	3,399	6,402	**7,183**	
France	AA+	0%	64	100	44	108	265	276	2,472	2,197	**5,526**	5,586
Belgium	AA	41%	141	242	210	830	1,413	911	1,498	69	**5,314**	4,739
Japan	AA-	99%	276	68	128	331	1,425	1,74	837	294	**5,099**	8,183
Austria	AAA	0%	210	44	85	174	803	1,462	588	728	**4,094**	3,937
Italy	BBB	0%	21	109	21	63	178	880	124	5	**1,401**	1,393
Multilateral	AAA	2%	81	65	132	44	345	285	376	34	**1,362**	719
Finland	AAA	0%	7	16	14	49	343	355	324		**1,108**	1,079
Spain	BBB-	65%	3	25	14	60	46	513	387		**1,048**	907
United States	AAA	0%	39	401	31	190	51	4	177		**893**	1,018
Others		46%	227	264	364	524	1,01	676	348	0	**3,413**	3,862
Total		37%	1,241	1,536	1,24	2,808	7,352	11,848	14,745	3,48	**44,25**	50,831

(1) Bond values include accrued interest.
(2) NN uses the second best rating of Fitch, Moody's and S&P to determine the credit rating label of its bonds
(3) Percentage of the bonds held in the local unit, e.g. percentage of Dutch bonds held by entities registered in the Netherlands.

Exposures to Dutch, German and French government bonds are primarily held by Netherlands Life. Of the EUR 15 billion German and Dutch government bonds held by NN, more than half will mature after year 20, and more than 80% of the EUR 5.5 billion French government bonds held by NN will mature after year 20. These long-term government bonds are sensitive to sovereign credit spread movements versus EUR swap rates. With regards to Central and Eastern Europe, government bond exposures in Poland, Czech Republic, Hungary, Slovakia, Romania, and Turkey are mainly domestically held). In 2011 and 2012, NN reduced its Greek, Italian, Spanish and French government bond exposures in response to the deteriorating credit ratings of these countries and to alleviate concentration risk. The remaining Greek government bonds are all held by NN's Greek business unit, and 65% of the Spanish government bonds are held by NN's Spanish business unit. During 2013, NN began reducing its German and Dutch government bond positions to invest in higher-yielding asset classes. It also began reducing its holdings of government bonds in Japan where such bonds were held for liquidity reasons.

The table below sets out the general account market value of non-government fixed-income securities (excluding mortgages and derivatives) by rating and maturity. The AAA securities are primarily asset-backed securities.

General account market value of non-government fixed income securities [(1)]

			Market value of non-government bond securities 2013 by number of years to maturity							
	0-1	1-2	2-3	3-5	5-10	10-20	20-30	30+	**Total**	Total 2012
AAA	158	90	280	691	1,514	972	1,299	1,977	**6,981**	6,732
AA	238	140	300	323	620	549	320	2,49	**3,615**	
A	348	472	700	880	1,344	465	410	95	**4,714**	6,053
BBB	321	248	291	411	692	405	149	648	**3,165**	3,209
BB	87	8	34	97	155	9		183	**573**	616
B	19	15	18	23	26		57		**158**	226
CCC								6	**6**	161
Other	1				12	2			**15**	2
Total	1,172	973	1,623	2,425	4,363	2,402	2,235	2,909	**18,102**	20,614

(1) Bond values include accrued interest.

The table below sets out NN's holdings of asset-backed securities by market value of asset type and the percentage of NN's total general account asset-backed securities portfolio as at 31 December 2013 and 2012, respectively.

General Account Asset-backed securities

	Market Value	% of total	Market Value	% of total
		2013		2012
RMBS	**3,822**	**53%**	4,356	60%
Car loans	**1,848**	**26%**	1,415	19%
Credit cards	**463**	**6%**	382	5%
CMBS	**358**	**5%**	343	5%
Student loans	**251**	**3%**	318	4%
SME loans	**233**	**3%**	227	3%
Consumer loans	**117**	**2%**	134	2%
Other	**106**	**1%**	91	1%
Total	**7,198**	**100%**	7,266	100%

Risk mitigation

NN aims to maintain a low-risk, well diversified credit portfolio. NN has a policy of maintaining a high quality investment grade portfolio while avoiding large risk concentrations. In order to reduce the credit spread risk, NN has increased its investments in non-listed and own-originated assets. Going forward, the volatility in NN's credit spread risk will continue to have possible short term negative effects on the balance sheet. However, in the long run, these investments will back the long-dated and illiquid liabilities well. The concentration risk on individual issuers is managed using rating-based issuer limits on one (group of related) single name(s), effectively managing the default risk of the issuers.

Risk measurement

The economic capital for credit spread risk reflects, with 99.5% level of confidence, the maximum amount of capital needed to absorb the impact of spreads widening. Credit spreads are stressed depending on the assets with regard to the credit rating, duration, and region, to determine the economic capital for spread risk. Furthermore, the illiquidity premium on the liabilities is stressed to dampen the impact of credit spread stresses.

The table below sets out NN's general account economic capital for credit spread risk.

General Account Asset-backed securities

	2013	2012
Credit spread risk assets	**5,617**	5,718
Illiquidity premium offset	**-3,383**	-3,197
Total Credit Spread risk net of illiquidity premium offset	**2,234**	2,521

Counterparty Default risk
Counterparty default risk is the risk of loss of investments due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors (including reinsurers) of NN Group. The economic capital for counterparty default risk is primarily based on the associated issuer's probability of default (**PD**) and the estimated loss-given-default (**LGD**) on each individual asset combined with diversification across assets. Note that fixed income bonds are also subject to counterparty default risk, but this risk is included in credit spread risk.

Risk profile
Counterparty default risk emanating from residential mortgages and policy loans (retail credit risk) represent the majority of the portfolio of economic capital for counterparty default risk.

Loans form a relatively small source of credit risk for NN Group (as compared to bonds). Other sources of credit risk include the claims on counterparties from over-the-counter derivatives, money market exposures and reinsurance.

General account mortgages, reinsurance and loans and advances

	2013	2012
Mortgages	**14,218**	5,398
Reinsurance	**331**	348
Other loans	**2,900**	2,260
Cash	**6,749**	6,778
Total	**24,198**	14,784

NN Group has notably increased its exposure to Dutch residential mortgages during the course of 2013, both at NN Bank as well as Netherlands Life. In the third quarter, EUR 4.7 billion of Dutch residential mortgage loans were transferred from Westland Utrecht Bank (WUB) to NN Bank's mortgage loan portfolio. In the fourth quarter of 2013, Netherlands Life's exposure to residential mortgages also increased, with the transfer of EUR 2.6 billion residential mortgages from ING Bank to Netherlands Life. As of 31 December 2013, the total general account risk exposure to mortgages is EUR 6.23 billion for NN Bank and EUR 7.99 billion for Netherlands Life.

Risk mitigation
NN Group uses different credit risk mitigation techniques. For retail lending portfolios, mortgages on the house, pledges of insurance policies, or retaining the investment accounts of clients are all important elements of credit risk mitigation. For OTC derivatives, the use of ISDA master agreements accompanied with credit support annexes is an important example of risk mitigation. Other forms of credit risk mitigation include reinsurance collateral.

The Loan-to-Value (LTV) for residential mortgages, which is based on the net average indexed loan to value, at NN Bank and Netherlands Life stands at 92% and 96% respectively. The perceived high LTV is due to the high proportion of interest-only mortgages. With the change in the Dutch tax regime in 2013 with regards to mortgage interest deductibility, a shift from essentially interest-only mortgages to annuity and linear payment type mortgages is being observed. The inherent credit risk is compensated primarily by means of the underlying property, but also through the inclusion of mortgages guaranteed by the Nationale Hypotheek Garantie (NHG) and other secondary covers like savings, investments and life insurance policies. Mortgages with NHG accounted for was 26% and 20% at NN Bank and Netherlands Life respectively at 31 December 2013.

The credit portfolio is under constant review to ensure troubled assets are identified early and managed properly. With regards to (mortgage) loans, all loans with past due financial obligations of 90 days or more are classified as non-performing loans (NPLs). All loans not classified at initial recognition as being either (1) assets at market value through profit-and-loss, (2) assets held for trading, or (3) assets available-for-sale are measured against amortised cost value and are subject to impairment review. For bonds and other fixed income securities, criteria for impairment include (but are not limited to) expected and actual credit losses resulting from e.g. failure to pay, market information regarding expected and actual credit losses, as well as other evidence that the issuer/borrower will be unable to meet its financial obligations. Material breaches in financial covenants can also trigger the reclassification of a loan as being impaired.

Credit quality: NN mortgage loan portfolio, outstandings

	Netherlands Life		NN Bank	
	2013	2012	2013	2012
Performing mortgage loans	**7,769**	5,107	**6,118**	136
Past due mortgage loans (1–90 days)	**185**	129	**93**	2
Non-performing mortgage loans (more than 90 days past due)	**37**	24	**17**	1
Total	**7,991**	5,260	**6,228**	139

If a payment of interest or principal is more than one day late, the loan is considered 'past-due'. If the arrear still exists after 90 days, the loan is categorised as non-performing loan. It keeps this status until the arrear is resolved. Of the mortgage loans that are past-due, 68% have been past-due for 1-30 days.

Aging analysis (past due but not impaired): NN mortgage portfolio outstanding

	Netherlands Life		NN Bank	
	2013	2012	**2013**	2012
Past due for 1–30 days	**125**	96	**64**	2
Past due for 31–60 days	**42**	23	**22**	
Past due for 61–90 days	**19**	10	**8**	
Total	**186**	129	**94**	2

Risk measurement

The economic capital backing NN Bank's portion of the mortgage exposure is accounted for in non-modelled business because NN Bank applies Basel II for capital purposes (see '-Economic capital for entities outside NN's internal model'). The economic capital backing the Netherlands Life's portion of the mortgages is calculated in the counterparty default risk. The total mortgage exposure is managed at company level and included in the tables above.

Economic capital for counterparty default risk increased from EUR 354 million at year-end 2012 to EUR 519 million at year-end 2013. This increase is mainly due to the increased residential mortgage portfolio at Netherlands Life. As noted, related economic capital for fixed income bonds is included fully in credit spread risk.

Foreign exchange risk

Foreign exchange (**FX**) risk measures the impact of losses related to changes in currency exchange rates.

Risk profile

FX transaction risk can occur on a local entity level, while FX translation risk can occur when items included in the financial statements of each of NN's entities are measured using the country's functional currency instead of NN's reporting currency, the Euro.

Risk mitigation

The FX risk at the local entity level is mitigated by limiting investment to the local currency assets. The exceptions are Japan Life, where USD and EUR assets are held to diversify the portfolio and the FX risk is managed through rolling FX forward contracts and in the large general account portfolio of Netherlands Life. The FX risk at the holding level is managed using FX forward contracts.

Risk measurement

Economic capital for foreign exchange risk decreased from EUR 377 million at year-end 2012 to EUR 213 million at year-end 2013 primarily due to the weakening of the yen in 2013.

MARKET AND CREDIT RISK: SEPARATE ACCOUNT

The separate account businesses are those in which the policyholder bears the majority of the market and credit risk. NN's earnings from the separate account businesses are primarily driven by fee income. However, in the case of variable annuities and the guaranteed separate account pension business in the Netherlands, NN retains risk associated with the guarantees provided to its policyholders. Businesses in this category are (i) the variable annuities (VA) portfolio, (ii) the group pension business in the Netherlands for which guarantees are provided, and (iii) other separate account business, primarily the unit linked business.

Variable annuity portfolio

Risk profile

Variable annuity business overview, 2013

	Number of policies	**Account Value [1]**	**Net Amount at Risk [2]**	**Additional IFRS Reserve for Guarantee**	**Average Remaining Years**
Variable Annuity Japan GMAB	**299,563**	**11,575**	**458**	**811**	**3.2**
Variable Annuity Japan GMDB [3]	**46,743**	**3,112**	**205**	**57**	**7.1**
Variable Annuity Europe	**40,931**	**1,238**	**33**	**25**	**7.2**

[1] The Account value is the value of the underlying funds which belong to the policyholder.
[2] The net amount at risk is the difference between the guaranteed minimum value and the account value, for those policies where the guaranteed value exceeds the account value.
[3] The Additional IFRS reserve for the guarantees backing the GMDB block as of 1 January 2014 is EUR 219 million higher (total EUR 276 million) due to the application of fair value accounting.

Variable annuity business overview, 2012

	Number of policies	Account Value [1]	Net Amount at Risk [2]	Additional IFRS Reserve for Guarantee	Average Remaining Years
Variable Annuity Japan GMAB	317,402	13,150	2,841	3,064	4.2
Variable Annuity Japan GMDB	60,050	3,744	1,346	253	9.5
Variable Annuity Europe	44,330	1,147	47	78	7.5

[1] The Account value is the value of the underlying funds which belong to the policyholder.
[2] The net amount at risk is the difference between the guaranteed minimum value and the account value, for those policies where the guaranteed value exceeds the account value.

From a risk management perspective, NN distinguishes three blocks of variable annuities:

- **Guaranteed minimum accumulation benefit (GMAB) products of Japan Closed Block VA:** Under this type of variable annuity, a minimum guaranteed benefit is paid upon death or at maturity of the policy at the end of the initial investment period. The survival guarantee is only available up until the original policy term, mainly 10 years, and cannot be changed. The minimum guaranteed benefit is either a single premium or an amount which may lock-in at a higher guarantee level depending on the product. The GMAB product was sold from 2005 until 2009 in Japan through banks and security brokers. The guarantees of this product were highly in the money but with the improving stock markets in Japan and the weakening of the JPY, have moved closer to at-the-money. The volatility risks of the options and guarantees increase when the option is at the money and closer to maturity.
- **Guaranteed minimum death benefit (GMDB) products of Japan Closed Block VA:** Under this type of variable annuity, a minimum guaranteed benefit is paid upon the death of the policyholder. The GMDB product has a generally predefined term of 10 years and provides the option to extend the guarantee of the policy during the investment phase up to age 90, and in the case of some policies, also allow further extension to whole of life. At death, the product pays a maximum of the guaranteed value and the account value. During the insured period, the client can receive the maximum of the minimum guaranteed benefit and the account value at death or at survival after the term of the product. There are different funds underlying the policyholder account value, including Japanese equity, Japanese bond, global equity and global bond funds. The value of the minimum guarantee depends on the level and volatility of equity, bond and foreign exchange markets.
- **VA products of Insurance Europe:** NN has been selling VA products in Europe since 2008, including in Belgium, Italy, Luxembourg, Poland, Spain and Hungary. The products mostly have minimum guaranteed living benefits such as survival benefit or withdrawal benefits.

The number of policies in the Japan Closed Block VA will have decreased by more than 86% by the end of 2019, driven by the maturity of the GMAB products.

Risk mitigation

NN has hedging programs in place for the Japan Closed Block VA business and the European variable annuity business. These hedging programs target equity, interest rate, and FX risks. The market risks that remain for the Japan Closed Block VA business are increases to market volatility, both implied and realised, and basis risk. Basis risk is the difference in market movements between the benchmarks used for hedging and the actively managed funds in the separate account. The table below sets out the estimated changes in the value of these options and guarantees, and the corresponding estimated changes in the value of the assets hedging this portfolio for the years ended 31 December 2009 through 2013 with regard to the Japan Closed Block VA.

Closed Block VA Japan Asset and Liability Movements					
	2013	2012	2011	2010	2009
Change in Value of Policyholder Guarantee	**-2,411**	-1,652	748	481	-543
Change in Value of Hedge Assets	**-2,367**	-1,482	582	537	-458
Economic Hedge Result	**44**	170	-166	56	85

The change of the value of the policyholder guarantees depends on market movements. The value of the Japan Closed Block VA guarantees, which was considerable at year-end 2008 due to the credit crisis, moved significantly over the past years, decreasing in 2012 and 2013 as a result of the economic stimulus packages in Japan. In 2008 the hedge program was not yet fully developed and was therefore only partially able to follow strong market movements, resulting in significant hedge losses. Hedge losses were incurred in 2011 as well, partially attributable to significant spread movements that were not hedged in 2011.

Separate account guaranteed group pension business in the Netherlands

Risk profile

Separate account guaranteed group pension business in the Netherlands		
	2013	2012
Account value	**10,858**	12,487
Additional IFRS reserve for guarantee	**606**	744

In the Dutch separate account pension portfolio, investments are held in separate accounts on behalf of the sponsor employer who concluded the contract with NN. Regardless of actual returns on these investments, NN guarantees pension benefits for the beneficiaries under the contract. Contracts are typically re-negotiated every five years, but the guarantee obligations to the beneficiaries survive termination of the contract with the sponsor employer unless otherwise agreed.

The sponsor employer selects the investments based on a basket of equity and fixed income instruments and real estate and pays a fee for the guarantee. The value of the guarantee that NN provides is sensitive to interest rates, movements in the underlying funds and the volatility of those funds.

Risk mitigation

NN currently hedges the value of the guarantees it provided under group pension contracts in the Netherlands. For this purpose, the exposure under such guarantees is discounted at the swap curve without the extrapolation to the UFR. The hedge program includes equity basket options, swaps and equity futures. Upon contract renewal, NN offers policyholders defined contribution products with investments in portfolios that NN can more easily hedge, thus reducing the risk to NN. As of August 2013, NN aims to hedge the full economic risk of the guarantee provided. Before August 2013, the hedge was aimed at mitigating a combination of IFRS earnings volatility and regulatory capital volatility.

Other separate account business
Risk profile
The other separate account business primarily consists of unit linked insurance policies, which provide policyholders with fund selection combined with an insurance cover. In a unit linked policy, the investment risk is borne by the policyholder, although there are some unit linked products where NN has provided guarantees on the performance of specific underlying funds. Unit linked products without guarantees do not expose NN to market risk, except to the extent that the present value of future fees is affected by market movements of the underlying policyholder funds.

Risk mitigation
The market risks of the unit linked and other separate account business are managed at the design of the product. Currently NN does not hedge the market risks related to the present value of future fee income derived from this business.

Risk measurement
NN determines economic capital for the market and credit risks of the separate account business in aggregate through direct modelling or applying a hedge effectiveness ratio.

The table below sets out the economic capital for the market and credit risk of the separate account businesses as at 31 December 2013 and 2012, respectively.

Economic capital for the separate account businesses		
	2013	2012
Variable annuity	**591**	812
Separate account guaranteed group pension business in the Netherlands	**264**	101
Other separate account business (unit linked)	**217**	187
Diversification benefit	**-108**	-170
Total	**964**	930

The decrease in the variable annuity economic capital was due to a weakening JPY over the course of 2013. The increase in economic capital in the group pension business in the Netherlands was mainly due to changes in the hedging position over the course of the year. Considering that the size of the group pension business in the Netherlands is EUR 10.9 billion, the overall risk on this portfolio remains relatively low and well-hedged. The increase in assets under management of the funds underlying the other separate account business resulted in a higher present value of future fee income and therefore higher risk capital related to this future fee income.

LIQUIDITY RISK
Liquidity risk is the risk that one of NN's entities does not have sufficient liquid assets to meet its financial obligations when they become due and payable, at reasonable cost and in a timely manner. 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.

Risk profile
NN identifies two related liquidity risks: funding liquidity risks and market liquidity risks. Funding liquidity risk is risk that a company will have the funds to meet its financial obligations when due. This risk is in particular relevant for NN Bank. Market liquidity risk is the risk that an asset cannot be sold without significant losses. The connection between market and 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.

Risk mitigation
NN 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.

NN 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 liquidity crisis events can be distinguished: a market event and an NN specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale.

Risk measurement
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. NN does not hold a specific economic capital for liquidity risk in its insurance economic capital model as liquidity is sufficiently available in the insurance business units.

OPERATIONAL RISK

Risk profile

Operational risk is a non-financial risk that includes direct or indirect losses resulting from inadequate or failed internal processes (including as a result of fraud and other misconduct), systems failure (including information technology and communications systems), human error, and certain external events.

The operational risk management areas can be defined as given below:

- **Control and processing risk:** the risk due to non-adherence with business policies or guidelines as well as the risk of loss due to unintentional human error during (transaction) processing.
- **Fraud risk:** the risk of loss due to abuse of procedures, systems, assets, products or services of NN by those who intend to unlawfully benefit themselves or others.
- **Information (technology) risk:** the risk of financial or reputational loss due to inadequate information security, resulting in a loss of data confidentiality, integrity and availability.
- **Continuity and security risk:** the risk of threats that might endanger the continuity of business operations and the security of our employees.
- **Unauthorised activity risk:** the risk of misuse of procedures, systems, assets, products and services.
- **Employment practise risk:** the risk of loss due to acts inconsistent with employment, health or safety laws, agreements and from payment of personal injury claims or diversity/discrimination events.

Risk mitigation

For operational risk NN has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks.

Operational risk assessments are done not only based on historic data but also on a forward looking basis in order to capture future risks. Once mitigating measures have been implemented and proven to be effective through monitoring and testing, the residual risk becomes the managed risk.

Mitigation of operational risks can be preventive in nature (e.g. training and education of employees, preventive controls, etc.) or can be implemented upon discovery of a risk (e.g. enforcement of controls, disciplinary measures against employees). Risk mitigating actions or controls are based on a balance between the expected cost of implementation and the expected benefits.

NN conducts regular risk and control monitoring to measure and evaluate the effectiveness of the key risks and key controls. It determines whether the risks are within the norms for risk appetite and in line with the ambition levels and policies and standards.

The business process owners are responsible for the actual execution of the controls and for assessing the adequacy of their internal controls. Operational risk management, as part of the second line of defence, is responsible for providing management with an objective assessment of the effectiveness and efficiency of NN risks and controls.

Risk measurement

NN's economic capital for operational risk was EUR 531 million and EUR 566 million as at 31 December 2013 and 2012, respectively. The economic capital is calculated based on the standard formula for Solvency II. As it is additive to the total economic capital, then it should be considered as net of diversification with other NN Group risks.

COMPLIANCE RISK

Risk profile

Compliance risk is the risk of impairment of NN's integrity. It is a failure (or perceived failure) to comply with NN's Business Principles and the Compliance Risk-related laws, regulations and standards that are relevant to the specific financial services offered by a business or its ensuing activities, which could damage NN's reputation and lead to legal or regulatory sanctions and financial loss.

Risk mitigation

NN's compliance function has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting compliance risks. The compliance function works with a scorecard process to annually evaluate the level to which the compliance risk management framework is embedded in each business. NN continuously enhances its compliance risk management program to ensure that NN complies with international standards and laws.

NN separates compliance risk into four risk areas: client conduct, personal conduct, organisational conduct, and financial services conduct. In addition to effective reporting systems, NN has a whistle blower procedure which protects and encourages staff to speak up if they know of or suspect a breach of external regulations, internal policies or business principles. NN also has policies and procedures regarding anti-money laundering, sanctions and anti-terrorist financing, gifts and entertainment, anti-bribery, customer suitability, Chinese walls and confidential and inside information, as well as a code of conduct for its personnel.

NN 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 U.S., EU or UN sanction target. Furthermore, NN 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,

U.S. and other sanctions regimes. NN 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 NN's on-going efforts to run down the legacy portfolio of commitments.

NN 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 customer expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations, and regulatory activity. For more information on the status of the unit linked legal proceedings in the Netherlands, see 'Legal Proceedings' of the Annual Account.

The compliance function and the business work closely together to optimise both products and services to meet the customers' needs. NN's compliance function has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting compliance risks.

ECONOMIC CAPITAL FOR ENTITIES OUTSIDE NN'S INTERNAL MODEL

NN has several businesses which are not included in the internal model as the internal model has been developed for insurance operations. NN determines the economic capital for these businesses using an approach consistent with the way these businesses are included in the AFR calculations as described in the Capital Management section.

Economic capital of other business; NN Bank, II M units on local required capital levels and other non-modelled

	2013	2012
Pension fund business in Europe	**178**	157
NN Bank	**271**	34
ING Investment Management	**191**	223
Other non-modelled entities	**236**	417
Asia discontinued	**112**	1,504
Total	**988**	2,335

The Pension Fund businesses in Central Europe have been included on the basis of their local required capital using sectoral rules. NN Bank has been included in 2013 using 12% of risk weighted assets. At year-end 2012 NN Bank was not of meaningful size and its economic capital was based on its IFRS equity. The IIM entities and the other non-regulated business units have been included at their amount of IFRS equity adjusted for intangibles. The discontinued insurance operations in Asia have been included in the economic capital using 150% of the Solvency I requirement. The economic capital reduced significantly due to the 2013 closing of the sale of the life insurance businesses in Hong Kong, Macau, India, South Korea and Thailand as well as the closing of the sale of the investment management businesses in South Korea and China. At 31 December 2013, the life insurance Joint Venture in China and the investment management entities in Taiwan and India are the only remaining discontinued Asian businesses. The economic capital of these businesses is added without taking into account diversification benefits.

REGULATORY CAPITAL AND IFRS RESULT BEFORE TAX SENSITIVITIES

The following two sections will provide the sensitivities of regulatory capital and IFRS result before tax, which are also important risks monitored by management and can be different from economic sensitivities. The following table sets out the shocks to parameters used to assess the sensitivities.

Sensitivity Descriptions

	Regulatory Capital	IFRS Result Before Tax
Interest rate risk	Measured by the impact of a 30% upward and downward movement in interest rates (parallel shift based on 30% of the 10 year rate)	Same shock applied as under Regulatory Capital sensitivities
Equity risk	Measured by the impact of a 25% upward and downward movement in equity prices	Same shock applied as under Regulatory Capital sensitivities
FX risk	Measured by the impact of the worse of a 10% upward or downward movement in all currencies compared to the euro	Same shock applied as under Regulatory Capital sensitivities
Credit spread risk	- Measured by the impact of a relative increase based on multiplying duration by a rating-based shock calibrated to the 1 in 10 sensitivities of the internal model (e.g. Double A 10-year bond shock is 120 basis points) - AAA and AA-rated government bonds and home government bonds in local currency excluded, exception only applicable to Greek bonds - Shocks for structured credit are 50% higher than for similarly rated corporate and government bonds.	Not calculated as spread risk is minimal for IFRS results

Real estate price risk	This is measured by the impact of a 10% drop in real estate prices only for the minority holdings and direct for all real estate re-valued through P&L. Other holdings will be included in case of possible impairments caused by the drop in prices however as rental income is not assumed under the regulatory capital base case, the -10% shock applied is off-set by +5% rental income resulting in an effective shock of -5%.	This is measured by the impact of a 10% drop in real estate prices only for the minority holdings and direct for all real estate re-valued through P&L. Other holdings will be included in case of possible impairments caused by the drop in prices. As rental income is already included in planned annual earnings, no offset (to the -10% shock) is taken into account for rental income.
Variable Annuity risk	This is measured by a 1 in 10 impact of the aggregate market risk shocks of the internal model on the variable annuity business	Same shock as applied for the regulatory capital sensitivities. Note that both the 2013 and 2012 sensitivity have been based on the assumption that the accounting policy chane for the Japan Closed Block VA GMDB business as of 1-1-2014 has already been implemented.
Mortality (Including Longevity)	Not shown. In general, similar to the IFRS sensitivity other than longevity risk in the Netherlands, for which changes to assumptions can impact available capital on a present value basis.	Mortality sensitivity is determined using a 1 in 10 mortality sensitivity of internal model
Morbidity	Not shown. In general, similar to IFRS sensitivities.	Morbidity sensitivity is determined using a 1 in 10 morbidity sensitivity of internal model
P&C	Not shown. In general, similar to IFRS sensitivities.	P&C sensitivity is determined using a 1 in 10 P&C sensitivity of internal model

SENSITIVITIES OF REGULATORY CAPITAL AT RISK

One of the three quantitative risk appetite statements of NN is to ensure that there is sufficient cash capital. The cash capital is determined by the ability of subsidiaries to pay dividends and their potential need for capital injections to continue operations within the local market. Whether or not a capital injection is necessary is assessed based on available regulatory capital and commercial target levels of regulatory required capital. Market stresses primarily impact the available regulatory capital, but in the case of regulated entities within Netherlands Life and ING Life Japan, required regulatory capital also moves with market movements.

Estimated regulatory capital sensitivities

	2013	2012
Market risk and credit risk		
Interest Rate +30% in 10y rate [(2)]	**-148**	-50
Interest Rate -30% in 10y rate [(2)]	**224**	75
Equity -25%	**-747**	-595
Equity +25%	**748**	652
Real estate -10%	**-170**	-192
FX - 10%	**-106**	-90
Credit spread	**-1,894**	-1,902
Counterparty default	**-27**	-7
Variable Annuity (Europe and Japan)	**-260**	-357

(1) In 2012, NN did not report regulatory capital sensitivities Therefore, the 2012 regulatory capital sensitivities are high level estimates based on internal risk management reports.
(2) A high level estimate has been used to calculate the impact of interest rate stresses on the risk margin which is used to determine the regulatory available and required capital in Netherlands Life.

The credit spread sensitivity is the largest risk to cash capital and is primarily caused by Netherlands Life given the long term assets in the Netherlands Life portfolio and the spread risk to the liability discounted at the swap rate (see Market and Credit Spread Risk: General Account Business—Credit spread risk). Also, Netherlands Non-Life, Spain Life, Greece Life and Japan Life are exposed to credit spread risk on their regulatory balance sheet as assets are valued at market value.

The available regulatory capital balance sheet of Netherlands Life (which includes a significant amount of long-term liabilities) is modestly exposed to lower interest rates mostly due to the UFR impact on the liability discount curve. The other regulated entities are, however, exposed to higher interest rates as assets are at market value, but liabilities are not. This results in an overall position which is relatively insensitive to interest rates.

The equity sensitivity is primarily related to the general account equity holdings and increased during the year as the total value of equity securities increased.

FX primarily reflects open positions in investments held by Japan Life and Netherlands Life. This does not include any translation risk.

The variable annuity risk is dominated by Japan Closed Block VA and decreased significantly over 2013 due to depreciation of the JPY versus EUR.

Apart from the estimated sensitivities set out above, NN is exposed to volatility and basis risk with regards to the separate account guar anteed group pension business in Netherlands Life. Netherlands Life is also exposed to changes in assumptions with regards to longevity, expenses and policyholder behaviour as the present value impact on the policyholder liabilities of such assumption changes will be immediately reflected in the available regulatory capital.

SENSITIVITIES OF IFRS RESULT BEFORE TAX

The table below sets out various market and insurance risk shocks for IFRS result before tax sensitivities.

Estimated IFRS result before tax sensitivities		
	2013	2012
Market risk and credit risk		
Interest Rate +30% in 10y rate	**-3**	-56
Interest Rate -30% in 10y rate	**7**	99
Equity -25%	**-362**	-437
Equity +25%	**273**	367
Real estate -10%	**-485**	-508
FX -10%	**-58**	-53
Counterparty default	**-96**	-85
Variable annuity (Europe and Japan)	**-260**	-357
Insurance risk		
Mortality (including longevity)	**-26**	-29
Morbidity	**-100**	-100
P&C	**-92**	-82

The reported market risk sensitivities for 2013 reflect the refinement of the accounting for the separate account pension business in the Netherlands. This change significantly reduced the sensitivity of NN's result before tax to interest rates as both the interest rate hedges and the technical provisions for this book move the same way with interest rates.

As at 31 December 2013, the result before tax sensitivities to equity risk primarily relate to the general account equity holdings in the Netherlands and Belgium, the hedging of the separate account pension business in the Netherlands and fee income from NN's investment management business, for which earnings sensitivities have been included as of year-end 2013. IFRS real estate sensitivities reflect investments in real estate funds and direct real estate assets. Market movements in real estate are reflected in the IFRS result before tax. The sensitivities decreased in 2013 due to lower real estate exposures.

The variable annuity risk for 2012 and 2013 primarily relates to Japan Closed Block VA and decreased due to FX movements. Both the 2012 and 2013 figures are adjusted to reflect the implementation of the move towards fair value accounting on the reserves for the guaranteed minimum death benefits of the Japan Closed Block VA, as of 1 January 2014.

In 2013, result before tax sensitivities to P&C risk increased primarily due to increased retention levels for windstorm catastrophe risk.

Capital management

OBJECTIVES

ING Group Capital Management (Capital Management) is responsible for the sufficient capitalisation of ING Group entities at all times in order to manage the risk associated with ING's business activities. This involves the management, planning and allocation of capital within ING Group. ING's Capital 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, NN Group and ING Bank. ING takes an integrated approach to assessing the adequacy of its capital position in relation to its risk profile and its operating environment. This implies taking into account the interests of its various stakeholders. 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 fixed coverage ratio) and internal metrics such as Available Financial Resources (AFR) and Economic Capital (EC).

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 (NN Group) – 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. As of 30 September 2013, the IGD ratio for NN Group was adjusted for the transfer of ING U.S. Inc. from ING Verzekeringen N.V. to ING Groep N.V. and a change in the calculation methodology. Prior period has not been restated to reflect these adjustments, as the impact is not material.
- AFR (NN Group excluding US Insurance business) –This is a pre-tax market value concept, defined for the insurance operations in scope of the IPO as the market value of assets (MVA) less the market value of liabilities (MVL) on the balance sheet. The liabilities valuation includes an adjustment for liquidity premium. For other businesses a proxy is used for AFR, i.e. statutory net equity for third party pension funds and NN Bank, and IFRS Equity adjusted for Goodwill for Asian divestments and Investment Management companies. The qualifying perpetual hybrid capital is considered equity and included in AFR. AFR is used as the measure of available capital in comparison with EC employed.
- EC (NN Group excluding US Insurance business) – This is the pre-tax required capital for the insurance operations in scope of the IPO, based on a 99.5% confidence interval on a one-year horizon. This is considered an interim step to the Solvency II capital framework. The EC for other businesses is based on a proxy, i.e. sectoral rules for third party pension funds and NN Bank, 150% EU required capital for Asian divestments, and (adjusted) IFRS Equity (adjusted for Goodwill) for Investment Management companies.
- Regulatory Capital framework – Insurance and Investment Management legal entities have to comply with local statutory capital frameworks that are under supervision of local regulators. Most of these frameworks for insurance businesses in Europe are based on Solvency I principles and are expected to migrate to Solvency II starting in 2016.
- Financial Leverage (NN Group). Financial Leverage is the sum of hybrid capital, sub-debt and net financial debt.

DEVELOPMENTS

In 2013 Capital Management's main focus remained the strengthening of the capital position of ING Group, ING Bank and NN Group. ING's capital is well prepared to withstand financial market challenges, new regulations and the ambition to repay the remaining outstanding Core Tier 1 securities. ING aims to ensure that it has sufficient loss-absorbing capacity to cope with severe unexpected losses without jeopardising its business-as-usual franchise.

In November 2013, ING repaid EUR 750 million of the Core Tier 1 securities issued in November 2008. ING paid EUR 1.125 billion to the Dutch State, including a EUR 750 million repayment of Core Tier 1 securities and EUR 375 million in premiums and interest.

The payment of EUR 1.125 billion is the second tranche of a series of four tranches that are part of the amended EC Restructuring Plan which was announced on 19 November 2012. The third tranche is scheduled to be paid in March 2014 and the final tranche is scheduled to be paid ultimately in May 2015.

ING has reached an agreement with the Dutch State on the unwinding of the Illiquid Assets Back-Up Facility (IABF). The unwinding of the IABF added approximately 10 basis points to ING Bank's core Tier 1 ratio. ING Bank called its USD 2 billion 8.5% Tier 1 hybrid per call date 15 December 2013 and launched an exchange offer on EUR 4.7 billion existing Tier 2 securities for new CRD IV compliant Tier 2 securities. This transaction was successfully completed on 15 November 2013 at an average participation of 55% (take-up rate). Through the offers, ING Bank issued EUR 2.6 billion of new CRD-IV eligible Tier 2 securities.

In May 2013, the US Insurance business was successfully separated and listed (VOYA) on the NYSE. ING Group has partly divested this business in several tranches. In May ING Group sold approximately 28% shares in Voya and succesfully completed the secondary offering of Voya with proceeds of EUR 644 million. On September 30th NN Group transferred its remaining shares of

the US Insurance business to ING Group. In October 2013, ING Group sold another tranche of approximately 15% shares in Voya with proceeds of EUR 788 million. At the end of 2013, ING Group still owns 56.7% of the US Insurance business.

The proceeds from the Initial Public Offering of the US Insurance business and from the partial divestment of Sul América S.A. in Brazil to GrupoSura and to the Larragoiti family were fully paid up to ING Group and used to reduce core debt at the Group.

NN Group reduced its financial leverage substantially, from 31% by the end of 2012 to 26% ultimo 2013. This was mainly driven by the proceeds from the sale of its Asian Insurance business o.w. Hong Kong, Korea, Thailand and India, a capital injection from ING Group, the transfer of the US business from NN Group to ING Group and dividends from operating companies, offset by capital injections into operating companies, including a cash capital requirement for IPO purposes and holding company interest costs and expenses. In September NN Group N.V. redeemed senior debt of EUR 1.3 billon and an intercompany loan from ING Group of EUR 0.7 billion. The redemptions were funded by a new short-term intercompany loan of EUR 2 billion from ING Group, which was reduced to EUR 1 billion in December following a capital injection from ING Group.

Nationale Nederlanden Bank N.V. (part of NN Group) acquired parts of Westland-Utrecht Bank (owned by ING Bank) per July 1st, 2013. This acquisition was funded by a capital injection from ING Group and therefore not increasing financial leverage of NN Group. ING Bank paid a dividend to ING Group to finance the capital injection into National Nederlanden Bank.

In order to comply with the obligations toward the European Commission, ING Group largely finalised the divestment of its Asian business, US business and Brazilian business; the total proceeds from divestments in 2013 were EUR 4.1 billon.

Additionally, ING Group is in process of preparing NN Group for a separate listing in 2014. As part of those preparations to become a stand-alone company, ING Group injected EUR 1 billion of capital to further strengthen capitalisation.

In 2013 ING Bank issued EUR 25.7 billion of debt. This amount is split in EUR 1.9 billion with an original tenor up to two years and EUR 23.8 billion with an original tenor of more than two years. This includes a USD 2 billion Lower Tier 2 that was executed by ING Bank (including subsidiaries). Furthermore, ING reduced the amount outstanding by executing Government Guaranteed Bond buy-backs, leading to a total net issuance in 2013 of EUR 19.7 billion.

In 2012 ING Bank issued 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. For the Capital 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 NN Group 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 2013, ING Group, ING Bank and NN Group were adequately capitalised. The comparative figures of 2012 have been restated to reflect the new pension accounting requirements under IFRS-EU which took place on 1 January 2013.

General account liabilities' annual undiscounted cash flows (net of expenses and commissions) [1]

	Group		Bank		NN Group		Insurance ING U.S.	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Shareholders' equity (parent)	**45,941**	51,777	**32,805**	34,964	**14,227**	26,423	**5,464**	
Core Tier 1 securities	**1,500**	2,250						
Group hybrid capital [1]	**7,493**	9,223	**5,123**	6,774	**2,394**	2,438		
Group leverage [2]	**4,910**	7,100						
Total capitalisation	**59,844**	70,350	**37,928**	41,737	**16,621**	28,861		
Adjustments to equity:								
Revaluation reserve debt securities	**-4,227**	-10,516	**-833**	-1,265				
Revaluation reserve crediting to life policyholders	**2,914**	5,673						
Revaluation reserve cash flow hedge	**-1,878**	-2,689	**776**	761	**-2,726**	-3,548	**5**	
Goodwill [3]	**-1,160**	-1,431	**-1,057**	-1,242	**-264**	-351		
Defined benefit remeasurement	**2,671**	1,860	**2,671**	1,860				
Revaluation reserves fixed income & other	**-1,680**	-7,103	**1,557**	114	**-2,990**	-3,899	**5**	
Revaluation reserves excluded from Tier 1 [5]			**-1,236**	-1,691				
Insurance hybrid capital [6]						476		
Minority interests			**1,065**	959	**68**	217	**4,359**	
Deductions Tier 1			**-1,082**	-991				
Tier 1 capital for Bank			**38,232**	40,128				
Other qualifying capital [7]			**8,263**	7,142				
Insurance Group Directive adjustments [8]					**-2,446**	-3,209		
Group leverage (core debt)	**-4,910**	-7,100						
Total capital (Adjusted Equity for Group, BIS capital for Bank and IGD capital for Insurance)	**53,254**	56,146	**46,496**	47,270	**11,253**	22,446	**9,828**	

(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 NN Group. 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 NN Group and ING Bank.

(3) According to the regulatory definition

(4) As result of the revision of IAS 19, this number is EUR 154 million higher than was presented in the 2012 annual report, resulting in slightly higher capital ratios.

(5) Includes mainly EUR -1,038 million (2012: EUR -1,385million) in participations (e.g. Kookmin, Bank of Beijing) and other equity investments, EUR -325 million (2012: EUR -338 million) for Real estate for own use and EUR 125 million (2012: EUR 28 million) for own credit risk. The Dutch banking regulator requires this deduction to be made from Tier 1 capital. This deduction is added back to Tier 2 capital.

(6) Qualifying dated subordinated debt issued by NN Group at nominal value.

(7) Consists of EUR 9,345 million (2012: EUR 8,132 million) Tier 2 capital and no Tier 3 (2012: nil), offset by EUR 1,082 million (2012: EUR 991million) of regulatory deductions.

(8) 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.

Capital position of ING Bank		
	2013	2012
Shareholders' equity (parent)	**32,805**	34,963
Minority interests [(1)]	**1,065**	959
Subordinated loans qualifying as Tier 1 capital [(2)]	**5,123**	6,774
Goodwill and intangibles deductible from Tier 1 [(1)]	**-1,057**	-1,242
Deductions Tier 1 [(3)]	**-1,082**	-991
Defined benefit remeasurement [(4)]	**2,671**	1,86
Revaluation reserve [(5)]	**-1,293**	-2,195
Available capital - Tier 1	**38,232**	40,129
Supplementary capital – Tier 2 [(6)]	**9,345**	8,132
Available Tier 3 funds		
Deductions [(3)]	**-1,082**	-991
BIS capital	**46,496**	47,27
Risk-weighted assets	**282,503**	278,656
Core Tier 1 ratio	**11.72%**	11.97%
Tier 1 ratio	**13.53%**	14.40%
BIS ratio	**16.46%**	16.96%
Required capital based on Basel I floor [(7)]	**26,913**	28,767
BIS ratio based on Basel I floor [(7)]	**13.82%**	13.15%

(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) As result of the revision of IAS 19, this number is EUR 154 million higher than was presented in the 2012 annual report, resulting in slightly higher capital ratios.
(5) 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.
(6) Includes eligible lower Tier 2 loans and revaluation reserves equity and real estate revaluations removed from Tier 1 capital.
(7) Using 80% of Basel I Risk-Weighted Assets.

Basel III

In 2010 the Basel Committee on Banking Supervision issued new solvency and liquidity requirements, which will supersede Basel II. In Europe these requirements start to apply gradually as of 1 January 2014, with the full requirements being effective as of 1 January 2018. How the table above would be impacted by the Basel III rules is shown in the Pillar 3 disclosure section.

Deductions Basel III		
	2013	2012
Expected loss in excess of IFRS provisions after tax	**1,293**	1,085
Insurance entities >10%	**33**	28
Financial institutions >10%	**837**	868
Securitisation first loss		
Total deductions Basel II	**2,163**	1,981
50% deductions Basel II	**1,082**	991

ICAAP/SREP process

On a yearly basis ING Bank N.V. submits extensive documentation on the Internal Capital Adequacy Assessment Process (ICAAP) to its regulator (DNB) as prescribed in the Basel II framework. This documentation includes a description of ING's internal capital models, its risk appetite framework, an asset quality analysis and a capital planning, both under normal circumstances and in certain stressed scenarios. This documentation is an important input for DNB's Supervisory Review and Evaluation Process (SREP) resulting in a letter to ING Management. The 2013 letter indicated that the minimum capital ratios DNB considers adequate for ING Bank consolidated are sufficiently covered by ING's own capital standards. In addition the regulator examines on a regular basis ING's internal models and processes, which resulted in several add-ons on ING's economic capital requirements. Nevertheless ING capital position is more than sufficient to meet these requirements and as such these add-ons do not lead to incremental capital requirements compared to what results from ING's own assessment.

NN GROUP

Regulatory requirements

On 1 January 2014, an interim solvency regulation (commonly referred to as Solvency 1.5) will come into force in the Netherlands, in addition to the existing Solvency I framework. This new regulation fits within DNB's approach to make the supervision of insurance companies more risk sensitive and forward looking. Solvency 1.5 places additional requirements on management of capital. The legislation also introduces the Theoretical Solvability Criterion (theoretisch solvabiliteitscriterium; TSC), which applies to large and medium-sized life insurance companies in the Netherlands. The aim of the TSC is to ensure that, after the realisation of some pre-defined stress scenarios, insurance companies still comply with their solvency requirements. In case the solvency position of an insurer is below the TSC, the DNB could require the insurance company to submit a recovery plan. Additionally, if the solvency position is below the TSC, DNB could require a declaration of no objection for dividend payments and other withdrawals from own funds.

The Dutch life insurance companies of NN Group have been using the ECB AAA curve to perform the regulatory test of adequacy of their insurance liabilities at year end 2012. On 12 July 2013, Fitch downgraded France to AA+, resulting in French government bonds no longer being included in the ECB AAA curve. The downgrade caused a drop of the ECB AAA curve of on average 15 basis points (dependent on the point on the curve), leading to an increase in the valuation of the liabilities and therefore a decrease in available regulatory capital. The DNB swap curve is the only alternative curve to the swap curve allowed by DNB that is available to Dutch life insurance companies to discount liabilities in the regulatory test of adequacy. As of Q3 2013, the Dutch life insurance companies of NN Group have been granted permission by DNB to use the DNB swap curve the test of adequacy. The impact of the downgrade of France had an immediate unfavourable impact on NN Life's regulatory solvency ratio of about 39%-points.

Capital adequacy assessment
During 2013, NN Group was adequately capitalised.

Capital position of NN Group		
	2013	2012 [4]
Shareholder's equity (parent)	**14,227**	26,423
Hybrids issued by ING Group [1]	**2,394**	2,438
Hybrids issued by NN Group [2]		476
Required regulatory adjustments	**-5,368**	-6,891
IGD capital	**11,253**	22,446
EU required capital base	**4,379**	9,523
IDF Solvency I ratio [3]	**257%**	236%

(1) Hybrids issued by ING Group at notional value.
(2) Hybrids issued by NN Group at notional value capped at 25% of EU required capital. As from 1 January 2013 the hybrid issued by NN Group N.V. with notional amount of EUR 476 million does not qualify anymore for IGD Capital based on regulations from DNB.
(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.
(4) The IGD Solvency I ratio reported in the 2012 Annual Report of 245% is restated due to the change in accounting policy for employee benefits as disclosed in the section 'Changes in accounting policies in 2013'.

During 2013, the IGD ratio of NN Group increased from 236% at the end of 2012 to 257% at the end of 2013. This improvement reflects a decrease of shareholders' equity and a release of required capital following the various divestments that closed during 2013, the IPO of ING U.S. and the transfer of the remaining stake in ING U.S. to ING Group. In addition, the improvement was supported by favourable market developments, net operating results and the EUR 1 billion capital injection from ING Group to redeem debt. This was only partially offset by the impact of the downgrade of France by Fitch on the NN Life solvency ratio, the exclusion of a EUR 0.5 billion hybrid loan that no longer qualifies as capital and the write down of the DAC for the Japan Closed Block VA business.

NN Group 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 NN Group is appropriate relative to the capital base.

Capital base and financial leverage of NN Group		
	2013	2012
Shareholder's equity (parent)	**14,227**	26,423
Revaluation reserve debt securities	**-2,804**	-9,282
Revaluation reserve crediting to life policyholders	**2,579**	5,673
Revaluation reserve cash flow hedge	**-2,726**	-3,548
Goodwill	**-264**	-351
Minority interests	**68**	217
Capital base for financial leverage (a)	**11,080**	19,132
Hybrids issued by ING [1]	**2,401**	2,451
Hybrids issued by NN Group [2]	**491**	496
Total hybrids (b)	**2,892**	2,947
External debt issued by NN Group N.V.		694
External debt issued by US Holding companies		2,307
Group debt	**1,000**	1,311
Other net financial debt [3]		1,457
Total financial debt (c)	**1,000**	5,769
Total financial leverage (d) = (b) + (c)	**3,892**	8,716
Financial leverage ratio (e)v= (d) / {(a) + (d)}	**26%**	31%

(1) Hybrids issued by ING Group at amortised cost value consistent with IFRS carrying value.
(2) Hybrids issued by NN Group at amortised cost value consistent with IFRS carrying value.
(3) Includes net internal borrowings from the operating subsidiaries, offset by net current assets of the holding companies in excess of a cash capital requirement.

(4) The Capital base for financial leverage as reported in the 2012 Annual Report of EUR 20,007 million is restated due to the change in accounting policy for employee benefits as disclosed in the section 'Changes in accounting policies in 2013'.

For NN Group 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 IG D capital and Capital base for financial leverage		
	2013	2012
IGD capital	**11,253**	22,446
Hybrids issued by ING Group	**-2,394**	-2,438
Hybrids issued by NN Group		-476
Revaluation reserve debt securities	**-2,804**	-9,282
Revaluation reserve crediting to life policyholders	**2,579**	5,673
Revaluation reserve adjustments	**2,446**	3,209
Capital base for financial leverage	**11,080**	19,132

The table below provides the capital ratios for the larger Insurance subsidiaries according to local regulatory capital frameworks:

Local Capital ratios for the larger Insurance operations		
	2013 (2)	2012 (1)
NN Life	**222%**	191%
ING Re Netherlands	**1,314%**	320%
ING Life Japan	**1,366%**	989%

(1) Comparable capital ratio for ING Life Japan is at March 31st, 2013, as the financial year for ING Life Japan runs from April 1st until March 31st.
(2) The 2013 capital ratios are not final until filed with the regulators.

NN Life's capitalisation improved due to a EUR 0.6 billion capital injection, higher performance of the equity portfolio, lower credit spreads, but offset by the change in valuation curve from ECB AAA curve to DNB Swap curve. Following the subordinated loan to NN Life and the impact of the pension agreement in the first quarter of 2014, the estimated pro-forma solvency I ratio for NN Life is 234%.

The capital ratio of ING Re increased mainly due to a capital injection of EUR 0.6 billion to strengthen its capitalisation from an economic basis, favourable market developments and a decrease in required capital. Required capital decreased mainly due to lower value of the guarantees for the reinsured Japan VA business and the termination of the Stop-Loss contract with Poland.

ING Life Japan's capital ratio improved due to profits in the period from 1 April until 31 Dec 2013, growth of business volume driven by continuous good sales for COLI business and lower required capital, reflecting decreasing SPVA minimum guarantee reserve, which is led by favourable market developments and the increased SPVA lapse.

For NN Group, 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 SII regulations are not final and material deviations from our proxy could materialise; see the risk management section for more details. AFR in the 2012 Annual Report of ING Verzekeringen N.V. was derived for ING Insurance EurAsia excluding Asian Insurance and Investment Management businesses and the reinsured Japan VA guarantees to ING Re (Netherlands) N.V. that were classified as held-for-sale operations. ING announced in 2013 that NN Group N.V. will be divested instead of ING Insurance Eurasia N.V., and after carefully exploring and evaluating the options available for the divestment of ING Life Japan, it was concluded that ING Life Japan will be included with NN Group's insurance and investment management businesses in the base case IPO of NN Group in 2014, subject to market and other conditions. As a result, ING Life Japan and the Japanese Closed Block VA guarantees reinsured to ING Re ('NN Group's business in Japan') are no longer classified as held-for-sale operations. All references to Asia in this disclosure therefore, refer to the insurance and investment management businesses in Asia other than NN Group's business in Japan.

The following table presents the reconciliation from the 2012 AFR for Insurance EurAsia excluding Asian held-for-sale operations as reported in the Annual Report 2012, to the comparable basis for NN Group excluding US Insurance business. The impact of the change in scope on EC is explained in detail in the Risk paragraph.

Change of scope of AFR 2012	
amounts in billions of euros	AFR
As reported for ING Insurance EurAsia (excluding held-for-sale operations) in 2012	9.6
Change in model and methodology (1)	-0.8
Include NN Group's business in Japan as modelled business	2.4
Include the other Asian held-for-sale operations as unmodelled business	4.0
Include legacy units and holding	-3.8
NN Group 2012 excluding US Insurance business on a basis comparable to 2013	11.4

(1) The change in model and methodology refers to the change in accounting policy for employee benefits as disclosed in the section 'Changes in accounting policies in 2013'.

The table below provides AFR and EC on comparable basis for NN Group (excluding US operations).

AFR and EC positions		
amounts in billions of euros	**2013**	2012
AFR	**13.6**	11.4
EC	**7.0**	8.7
Excess AFR over EC	**6.6**	2.7
AFR-EC ratio	**193%**	131%

The AFR-EC ratio for NN Group excluding US Insurance business increased in 2013 as a result of higher AFR and lower EC. AFR increased from EUR 11.4 billion at the end 2012 to EUR 13.6 billion at the end of 2013. AFR increased mainly due to a capital injection from ING of EUR 1.3 billion (EUR 1.0 billion to redeem ING Group loan and EUR 0.3 billion to acquire parts of WestlandUtrecht Bank) and the inclusion of the 'Ultimate Forward Rate' (UFR) in the valuation curve of EUR 1.6 billion. This increase was partially offset by the change of treatment of the pension asset (included in 2012 figures but excluded in 2013) of EUR 0.7 billion and the change in treatment of the external hybrid of EUR 0.5 billion, which is not considered AFR as from January 1st, 2013 (consistent with IGD ratio). The change in EC during 2013 is explained in detail in the Risk paragraph.

ING GROUP

The debt/equity ratio of ING Group as at 31 December 2013 was 8.4% (2012: 11.2%).

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 NN Group 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		
	2013	2012
BIS capital	**46,496**	47,270
IGD capital Insurance operations	**20,903**	22,447
Group leverage (core debt)	**-4,910**	-7,100
Regulatory capital	**62,490**	62,619
Required capital banking operations	**26,913**	28,767
Required capital insurance operations	**8,153**	9,523
Total required capital	**35,066**	38,290
FICO ratio	**178%**	164%

Capital adequacy and ratios

Quantitative disclosures on capital measurements and ratios						
		Group		Bank		NN Group
	2013	2012	**2013**	2012	**2013**	2012
Core Tier 1 ratio (Bank)						
Year-end actual Tier 1 ratio			**11.72%**	11.97%		
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			**13.53%**	14.40%		
Regulatory minimum Tier 1 ratio			**4.00%**	4.00%		
Target minimum Tier 1 ratio			**11.50%**	10.00%		
BIS ratio (Bank)						
Year-end actual BIS ratio			**16.46%**	16.96%		
Regulatory minimum BIS ratio			**8.00%**	8.00%		
Target minimum BIS ratio			**15.00%**	10.00%		
Insurance Groups Directive						
Year-end actual Capital coverage ratio					**257%**	236%
Required capital					**100%**	100%
Target ratio					**150%**	150%
Debt/Equity ratio (Group)						
Debt/Equity ratio	**8.44%**	11.23%				
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. The actual ratios were 11.97% at the end of 2012 and 11.72% at the end of 2013.

Regulatory capital adequacy ING Group						
	Standard & Poor's		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
ING Groep N.V.						
- long-term	**A-**	**stable**	**A3**	**negative**	**A**	**negative**
ING Bank N.V.						
- short-term	**A-1**		**P-1**		**F1+**	
- long-term	**A**	**stable**	**A2**	**negative**	**A+**	**negative**
- financial strength			**C-**			
ING Verzekeringen N.V. [1]						
- short-term	**A-2**		**P-2**		**F2**	
- long-term	**BBB+**	**stable**	**Baa2**	**negative**	**A-**	**negative**

[1] Predecessor of NN Group N.V.

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.

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 se ction 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.

Enhanced Disclosure Task Force recommendations on financial disclosure

ING is a member of the 'Enhanced Disclosure Task Force' (EDTF), a private sector group established by the Financial Stability Board ('FSB') and composed of members representing both the users and preparers of financial reports, that published in the course of 2012 recommends for more comprehensive and consistent disclosures. For 2013 ING Bank reaffirms its commitment to the EDTF report by implementing additional recommendations, next to CRR/CRD IV disclosure requirements. Below an overview is given on where ING Bank has implemented the EDTF recommendations.

Reference guide EDTF recommendations

Type	Number	Brief description	Pages
General	1	Index to aid navigation through risk related information	8-9
	2	Describe and discuss top and emerging risks	2-6, 20-21
	3	Discuss regulatory developments, Once the applicable rules are finalised, outline plans to meet each new key regulatory ratio	19-20 *Leverage Ratio, LCR and NSFR will be disclosed when applicable standards are finalised.*
Risk governance, risk management and business model	4	Summarise the bank's risk management organisation, processes and key functions	9-12
	5	Bank's risk culture, related procedures and strategies	12-13
	6	Key risks arising from business model, risk appetite and how risks are managed	12, 13-15
	7	Use of stress testing within the bank's risk governance and capital frameworks	16-19
Capital adequacy and risk-weighted assets	8	Minimum Pillar 1 capital requirements, including buffers, or minimum internal ratio	94-98, 102
	9	Summarise composition of capital based on Basel Committee templates	102-104 *Additional quantitative information will be addressed in future disclosures*
	10	Flow statement of regulatory capital movements since the prior reporting, including changes in common equity tier 1, tier 1 and tier 2 capital	102-103
	11	Qualitatively and quantitatively discuss capital planning within a more general discussion of management's strategic planning	19-20, 92-93
	12	Analyse how risk-weighted assets relate to business activities	105-106
	13	Capital requirements for credit risk per Basel asset class and major portfolios	110
	14	Tabulate credit risk in the banking book per Basel asset classes and major portfolios	111-113
	15	Flow statement to display movements in RWAs for the reporting period	104-105 *Flow statement for market and operational RWA will be included in future disclosures.*
	16	Basel Pillar 3 back-testing, including model performance and validation	12, 30-31, 33, 113-114
Liquidity & Funding	17	Manages of liquidity risk and quantitative analysis of the liquidity buffer	63-66, 125-126
	18	Summarise encumbered assets in a tabular format	126 *Disclosure will be extended when applicable standards are finalised.*
	19	Discuss funding strategy, including key sources and any funding concentrations	63-66
Market risk	20	Link balance sheet items with positions in traded and non-traded market risk such as risk factor sensitivities, economic value and earnings scenarios and/or sensitivities	55-59, 63 *Link with balance sheet items will be addressed in future isclosures*
	21	Provide breakdowns of significant trading and non-trading market risk factors	52-63
	22	Qualitative and quantitative disclosures on market risk models	53, 62
	23	Describe other market risk techniques applied	52-63, 124-125
Credit risk	24	Understanding the bank's credit risk profile, including significant risk concentration	105-109
	25	Flow statements of non-performing or impaired loans, stock of loan losses and forbearance	39-43, 114-117
	26	Quantitative and qualitative analysis of counterparty credit risk	117-119
	27	Qualitative and quantitative information on credit risk mitigation, including collateral, netting arrangements and guarantees	43-52, 119-120

Other risk	28	Describe how 'other risk' types are identified, governed, measured and managed	66-69
	29	Discuss publicly known risk events related to other risks	67-69

REGULATORY CAPITAL

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.

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 Economic Capital (EC) and the underlying models used internally by banks and reviewed by supervisors. 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 aim for at least 85% (RWA weighted) of their portfolio on AIRB to qualify for the 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 Internal Ratings Based (FIRB) Approach.

During 2013 ING Bank's SA portfolio decreased in terms of Regulatory Exposure at Default (READ) by 20.5% as a result of mainly the sale of ING Direct UK. At December 2013, the largest portfolios under SA are the Turkey, India (ING Vysya Bank) and part of the Poland (ING Bank Slaski) portfolios. ING Bank continues to work with local regulators especially in Poland 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 sections of Pillar 3.

ING Bank uses the AIRB and the Internal Assessment Approach (IAA) for liquidity lines provided to Asset Backed Commercial Paper programmes and this is explained in more detail in the securitisation section.

Basel III Accord

The Basel III Accord was adopted in 2010 and consequently translated into regulation by the EU in the Capital Requirement Regulation (CRR) and a Capital Requirement Directive IV. The CRR is binding for all EU member states and became effective per 1 January 2014. For more information, please refer to the chapter 'Ongoing changes in the regulatory environment'.

REGULATORY CAPITAL REQUIREMENTS FOR ALL RISK TYPES

Regulatory capital requirements		
	2013	2012
Credit risk		
Portfolios subject to standardised approach	**2,023**	2,415
Portfolios subject to AIRB approach		
- Sovereigns	**540**	217
- Institutions	**1,505**	1,121
- Corporate	**8,050**	7,773
- Residential mortgages	**4,102**	3,524
- Other retail	**1,335**	1,286
Total portfolios subject to AIRB approach	**15,530**	13,920
Securitisation exposures	**218**	442
Equity portfolios in the banking book under the simple risk weight approach	**69**	201
Other Non-Credit Obligation Assets	**1,233**	1,708
Total Credit Risk	**19,074**	18,685
Market risk		
Standardised approach	**37**	28
Internal models approach - trading book	**667**	744
Total Market risk	**704**	772
Operational risk		
Advanced measurement approach	**2,823**	2,836
Total Basel II required Regulatory Capital	**22,600**	22,292
Basel I floor*	**26,913**	28,767
Additional capital requirement	**4,312**	6,475

This table includes securitisation benefits of the SA, AIRB and securitisation portfolios, amounting to EUR 21 million for 2013.
* The floor is 80% of Basel I required Regulatory Capital.

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 2013 is EUR 1,233 million (2012: EUR 1,708 million).

In 2007, 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 2013 and 2012 the capital requirement was not allowed to fall below 80% of the capital requirements calculated under Basel I regulations. The additional capital requirements according to the transition rules are EUR 4,312 million for 2013 (EUR 6,475 million in 2012).

The increase in Basel II required regulatory capital can be explained by the continuing deterioration in the economic conditions in many ING Bank markets leading to both rating migration and downward adjustments to key risk favours reflected in AIRB models. 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		
	2013	2012
Core Tier 1 capital		
Opening amount	**33,354**	31,761
Profit	**3,063**	3,281
Adjustment prudential filters own credit risk	**97**	468
Change in goodwill	**158**	130
Dividend	**-2,955**	-2,125
Change in revaluation reserves	**-726**	-471
Change in third party interest	**113**	148
Change in deductions from tier 1	**-91**	25
Other	**97**	137
Closing amount	**33,110**	33,354
Additional Tier 1 capital		
Opening amount	**6,774**	6,850
Issued capital		
Redeemed capital	**-1,506**	
Exchange rate differences	**-146**	-75
Closing amount	**5,122**	6,774
Tier 2 capital		

Opening amount	**7,142**	8,502
Change in Tier 2 capital instruments	**1,212**	-1,384
Change in deductions	**-91**	24
Closing amount	**8,263**	7,142
Total regulatory capital	**46,496**	47,270

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

Capital adequacy assessment

The Basel II capital adequacy is based on the guidelines developed by the Basel Committee on Banking Supervision 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.

The table below reflects own funds according to the CRD and Dutch legislation, both using the Basel II rules (as specified in the CRD III) and the Basel III rules (as specified in the CRR/CRD IV). As Basel III will be phased in gradually during 2014-2019, the table shows the Basel III positions both according to the 2019 end state rules and to the 2014 rules. This makes clear which items phase in directly, which gradually and which not yet in 2014.

ING Bank's capital consists of Tier 1 capital (referred to as 'original own funds' in CRD III) and Tier 2 capital (referred to as 'additional own funds' in CRD III) net after deductions. Tier 1 capital consists of both core Tier 1 capital (referred to as 'Common equity tier 1' in CRR/CRD IV) and other Tier 1 capital, also referred to as hybrid capital. Tier 2 capital consists mostly of subordinated loans.

ING Bank continues to maintain strong and high quality capital levels. ING Bank is already meeting the Basel III solvency requirements with a fully-loaded core Tier 1 ratio of 10.0%. This percentage is calculated on the basis of immediate and full implementation and disregarding the possible impact of future management actions.

Capital position of ING Bank

	2013 rules (Basel II)		2014 rules (Basel III phased in)		2019 rules (Basel III fully loaded)	
	2013	2012	**2013**	2012	**2013**	2012
Shareholders' equity (parent)	**32,805**	34,963	**32,805**	34,963	**32,805**	34,963
Regulatory adjustments						
Minority interests, counting as Core Tier 1 capital	**1,065**	959	**949**	857	**485**	449
Goodwill and intangibles deductible from Tier 1	**-1,057**	-1,242	**-1,167**	-1,349	**-1,606**	-1,778
Tier 1 deductions [1]	**-1,082**	-991	**-1,174**	-1,059	**-1,543**	-1,335
Revaluation reserve debt securities	**-833**	-1,265	**-833**	-1,265		
Revaluation reserve equity securities	**-1,038**	-1,385	**-1,038**	-1,385		
Revaluation reserve real estate	**-325**	-338	**-325**	-338		
Revaluation reserve cash flow hedge	**776**	761	**776**	761	**776**	761
Prudential filters						
Own credit risk	**125**	28	**125**	28	**125**	28
Defined benefit remeasurement (IAS19R) [2]	**2,671**	1,86	**2,671**	1,86		
Net defined benefit pension fund assets			**-110**	-117	**-551**	-587
Deferred tax assets			**-57**	-154	**-286**	-771
Own credit risk adjustments to derivatives (DVA)			**-12**	-14	**-60**	-70
Other	**1**	4	**1**	4	**1**	4
Available capital - Core Tier 1 (Basel III Common equity)	**33,11**	33,354	**32,612**	32,791	**30,145**	31,665
Subordinated loans qualifying as Tier 1 capital [3]	**5,123**	6,774	**5,123**	6,774	**5,123**	6,774
Minority interests, counting as Additional Tier 1 capital			**17**	18	**83**	91
Available capital - Tier 1	**38,232**	40,129	**37,751**	39,583	**35,351**	38,53
Supplementary capital - Tier 2 [3]	**8,653**	7,312	**8,653**	7,312	**8,653**	7,312
Revaluation reserve equity securities	**1,038**	1,385	**830**	1,108		
Revaluation reserve real estate	**325**	338	**260**	271		
Non-hedged subordinated loans	**83**	125	**66**	100		
Deduct participation Bank of Beijing	**-754**	-1.028	**-603**	-822		
Tier 2 deductions [1]	**-1,082**	-991	**-865**	-792		
Minority interests, counting as Tier 2 capital			**22**	16	**111**	80
Available tier 3 funds						
BIS capital	**46,496**	47,27	**46,115**	46,775	**44,116**	45,922
Risk-weighted assets	**282,503**	278.656	**300,958**	304.317	**300,958**	304,317

Core Tier 1 ratio	**11.7%**	12.0%	**10.8%**	10.8%	**10.0%**	10.4%
Tier 1 ratio	**13.5%**	14.4%	**12.5%**	13.0%	**11.8%**	12.7%
BIS ratio	**16.5%**	17.0%	**15.3%**	15.4%	**14.7%**	15.1%
Required capital based on Basel I floor	**26,913**	28,767	**26,913**	28,767	**26,913**	28,767
BIS ratio based on Basel I floor	**13.8%**	13.1%	**13.7%**	13.0%	**13.1%**	12.8%

(1) In Basel II the deductions, consisting of mainly the provision shortfall and significant investments in financial institutions, are for Basel II deducted 50% from Core Tier 1 capital and 50% from Tier 2 capital. In Basel III the provision shortfall is deducted fully from Core Tier 1 capital, while the significant investments in financial institutions, conditionally to certain thresholds, are 250% risk weighted.

(2) As result of the revision of IAS 19, this number is EUR 154 million higher than was presented in the 2012 annual report, resulting in slightly higher capital ratios.

(3) Assuming that non Basel III eligible Tier 1 and Tier 2 capital will be replaced by Basel III eligible equivalents before they stop to meet the Basel III grandfathering conditions.

CREDIT RISK

Basis and scope of credit risk presentation

In the credit risk section of the Pillar 3, data included in 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 of the Annual Accounts.

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) are 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 ISDA master agreements and Credit Support Annexes (CSAs).

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

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 billions of euros	**2013**	2012
Opening amount	**209.7**	252.7
Book size [1]	**-0.3**	-5.1
Divestments	**-6.0**	-32.4
Book quality [2]	**13.6**	3.3
De-risking	**-0.5**	-3.5
Model updates [3]	**9.7**	0.3
Methodology and policy [4]	**-0.6**	-3.3
Foreign exchange movements	**-4.1**	0.0
Other	**0.6**	-43.0
Total movement	**12.4**	-43.0
Closing amount	**222.2**	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 including changes to credit quality of portfolios.
(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 increased by EUR 12.4 billion to EUR 222.2 billion. A part of the increase in RWA resulted in a shift from ONCOA which does not impact capital ratio. In order to quickly implement complex, material capital changes, occasionally a top of the house adjustment is made to ONCOA before allocation to businesses and facilities.

- The decreasing book size, excluding divestments and de-risking of the portfolio, reduced RWA by EUR 13.6 billion. The book size decrease is a net result of primarily an increase in the DiBa mortgage portfolio and is offset by reductions in the Corporates book and the Lease run-off portfolio. Several smaller movements, both increases and decreases occurred in various portfolios throughout the year.
- The divestments in 2013 were mainly related to the sale of ING Direct UK to Barclays and the sale of primarily the commercial activities of WestlandUtrecht Bank portfolio to Nationale-Nederlanden Bank, which released EUR 2.4 billion and EUR 1.8 billion RWA respectively. Under the amended terms of the restructuring plan, the commercial operations of WestlandUtrecht Bank are to be combined with the retail banking activities of Dutch insurer Nationale-Nederlanden, which is to be divested as part of NN Group. WestlandUtrecht Bank's mortgage portfolio is largely retained by ING Bank. The unwinding of the Illiquid Assets Back-up Facility (IABF) additionally reduced RWA by EUR 1.8 billion.
- The deterioration of the book quality increased RWA by EUR 8.8 billion and was mainly a result of the reflection of the deteriorated market circumstances in the regulatory capital models applied. As the market circumstances keep on deteriorating, the downturn factor has been adjusted accordingly for the impacted portfolio's which are mainly the Dutch and Belgian Mortgage portfolios and the Small and Medium sized business. The downturn has also impacted the Cover Values negatively which resulted in higher Loss Given Default (LGD) for mainly the before mentioned Mortgage portfolios.
- De-risking in 2013 includes the sale of securitisations and the sale of ING's Real Estate Finance (US) assets to Wells Fargo, which is in line with ING's strategic objective of ensuring efficient use of capital across portfolios.
- There were several model updates through the year with a focus on mainly the Corporates portfolio and in particular the Commercial Property Finance portfolio. The key change relates to the determination of the LGD for this portfolio. The loss rate and the discount period taken into account now better reflect the current economic environment. The before mentioned change and multiple smaller changes resulted in an increase of EUR 9.7 billion.
- The overly cautious approach applied to off balance commitment calculations, which is a factor of the READ, has now been brought more in line with the actual experience for the best rated Corporates and Institutions portfolios, resulting in a significant READ decrease and reduced RWA. A long track record of a minimal amount of guarantees and LC's which have been called, was the basis for this change. The before mentioned change and multiple smaller changes resulted in a decrease of EUR 0.6 billion due to Methodology and Policy changes.
- Over year, FX movements decreased RWA by EUR 4.1 billion which was mainly due to the depreciation of the US Dollar (-4.57%), the Turkish Lira (–20.53%) and the Australian Dollar (–17.52%) against the Euro

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 recognized 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
The table below shows the total READ and RWA for ING Bank by Basel defined exposure types for both the SA and AIRB portfolio per exposure class.

Model approaches per exposure class	Sovereigns		Institutions		Corporate		Retail		Total 2013		Total 2012	
	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA
SA approach												
On-balance	3,713	2,472	1,887	998	8,64	8,557	14,442	9,025	28,682	21,051	36,085	24,762
Off-balance	6	6	480	204	2,069	2,068	2,114	1,578	4,669	3,856	6,19	5,183
Securities Financing	57	57	1						57	57		
Derivatives	14	14	413	187	125	127	2	1	553	329	425	245
Total	3,79	2,548	2,781	1,389	10,834	10,752	16,557	10,605	33,961	25,294	42,699	30,19
AIRB approach												
On-balance	80,12	6,17	57,42	10,057	144,96	75,041	299,76	65,014	582,26	156,28	606,15	132,27
Off-balance	4,801	199	13,441	3,485	53,838	20,47	14,225	2,913	86,305	27,066	102,19	30,16
Securities Financing	1,71	45	8,825	1,304	388	87			10,923	1,436	10,552	1,227
Derivatives	1,744	333	18,845	3,962	6,383	5,025	56	27	27,028	9,347	33,28	10,34
Total	88,374	6,747	98,53	18,808	205,57	100,623	314,041	67,954	706,52	194,13	752,18	174,00
SEC AIRB												
On-balance									7,92	2,541	9,188	3,391
Off balance									1,938	187	2,983	2,134
Total									9,858	2,728	12,101	5,525
Total Bank	92,164	9,295	101,311	20,197	216,40	111,375	330,598	78,558	750,33	222,15	806,98	209,72

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

The ING bank portfolio falls for 87.4% under the AIRB approach and for 12.6% under SA in terms of RWA. The total portfolio decreased in 2013 by EUR 56.6 billion in READ to EUR 750.3 billion while RWA increased by EUR 12.4 billion to EUR 222.2 billion. The increase in RWA is mainly a result of adjusting key risk factors in AIRB models to reflect the economic downturn environment, especially related to Dutch mortgages, SME clients in the Benelux and sovereign entities, while the decrease in READ is a result of the divestment of ING Direct UK, partially the WestlandUtrecht Bank portfolio and the targeted downsizing of the REF and securitisation portfolio. Next to the portfolio decline, a methodology change has also contributed significantly to the decrease in READ. The conservative approach of the off balance commitment calculations, which is a factor of the READ, has now been brought more in line with the actual exposure for the best rated Corporates and Institutions portfolios, resulting in a significant READ decrease.

Sovereign credit risk disclosure

The table below presents the READ, segmented by relevant factors, and the analysis for the 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		2013	2012	Delta %
Sovereigns	**Total per rating**	92,164	88,525	4%
	Performing	92,135	88,524	4%
	Impaired/Non-performing	29	1	4179%
Sovereigns	**Geography/business units**	92,164	88,525	4%
	Africa	262	313	–16%
	America	308	487	–37%
	Asia	5,112	5,677	–10%
	Australia	3,338	261	1178%
	Europe	83,145	81,787	2%
	Europe	83,145	81,787	2%
	Netherlands	19,419	19,393	0%
	Belgium	13,529	16,372	–17%
	Germany	18,881	16,174	17%
	Other Europe	31,316	29,847	5%
Sovereigns	**Product Type**	92,164	88,525	4%
	Bond Investments	57,219	53,491	7%
	Revolving	14,726	13,833	6%

	Money Market	**10,277**	10,445	–2%
	Term Loans	**6,133**	4,743	29%
	Derivatives	**1,758**	1,819	–30%
	Other	**2,052**	4,193	–42%
Sovereigns	**PD Bands**	**92,164**	88,525	4%
	<0.05%	**73,738**	70,958	4%
	0.05% to 0.5%	**15,424**	14,422	7%
	0.5% to 5%	**2,591**	2,971	–13%
	5% to 10%	**161**	126	58%
	10% to 20%	**198**	45	260%
	20% to 50%	**23**	2	819%
	>50%	**29**	1	4179%

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

The growth in the Sovereign portfolio was heavily impacted by increased retail customer liabilities. In preparation of the Basel III liquidity requirements, increased customer deposits require larger levels of high quality liquid assets. The primary source of high quality liquid assets is sovereign bonds which showed the most significant increase.

As a result of constant review of exposure classes certain public institutions have been reclassified from Corporates to Sovereigns, resulting in an increase in READ, in mainly the Term loan portfolio in the Netherlands.

In addition, ING Bank has intensified its payments and cash management offering which often requires additional revolving credit facilities. Since these facilities are often linked to payment services, there can be volatility in these figures depending on usage at any balance sheet date.

Given that a major purpose of sovereign credit exposure is to support high quality liquid assets, it is consistent that most exposure is in the best quality risk bands. Limited amounts of higher risk exposure exist due to ING Bank activities in countries with similar ratings.

Financial institutions credit risk disclosure
This table presents the READ, segmented by relevant factors and the analysis for the exposure class 'Institutions'.

Institutions - credit risk disclosure in READ				
		2013	2012	Delta %
Institutions	**Rating**	**101,311**	112,307	-9.80%
	Performing	**100,52**	111,425	-9.80%
	Impaired/Non-performing	**791**	882	-10.30%
Institutions	**Geography/business units**	**101,311**	112,307	-9.80%
	Africa	**305**	439	-30.40%
	America	**11,801**	13,151	-10.30%
	Asia	**14,375**	12,668	13.50%
	Australia	**2,684**	6,118	-56.10%
	Europe	**72,146**	79,931	-9.70%
	Europe	**72,146**	79,931	-9.70%
	Netherlands	**8,018**	9,485	-15.50%
	Belgium	**7,496**	6,924	8.30%
	Germany	**12,918**	14,076	-8.20%
	Other Europe	**43,713**	49,446	-11.60%
Institutions	**Product Type**	**101,311**	112,307	-9.80%
	Bond Investments	**26,372**	30,895	-14.60%
	Derivatives	**19,258**	18,527	3.90%
	Revolving	**13,273**	35,962	-63.10%
	Money Market	**11,927**	9,473	25.90%
	Term Loans	**11,763**	9,075	29.60%
	Other	**18,718**	8,375	123.50%
Institutions	**PD Bands**	**101,311**	112,307	15.10%
	<0.05%	**34,101**	44,245	70.90%
	0.05% to 0.5%	**51,568**	53,074	-2.80%
	0.5% to 5%	**14,267**	13,698	4.20%
	5% to 10%	**382**	371	2.80%
	10% to 20%	**52**	111	-53.20%
	20% to 50%	**150**	38	296.10%
	>50%	**791**	769	2.80%

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

Bond investments especially in Southern Europe were actively de-risked. Australian Bond Investments also showed a decrease. Growth was experienced in Money-Market exposure which tends to have a shorter tenor. Overall, this resulted in an improved average risk profile of the Institutions portfolio.

Corporate credit risk disclosure

This table presents READ, segmented by relevant factors, and the analysis for the 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				
		2013	2012	Delta %
Corporate	**Total per rating**	**216,408**	241,043	-10.2%
	Performing	**206,452**	231,535	-10.80%
	Impaired/Non-performing	**9,956**	9,508	4.70%
Corporate	**Geography/business units**	**216,408**	241,043	-10.20%
	Africa	**727**	731	-0.60%
	America	**23,626**	28,573	-17.30%
	Asia	**20,464**	22,074	-7.30%
	Australia	**2,722**	3,333	-18.30%
	Europe	**168,87**	186,332	-9.40%
	Europe	**168,87**	186,332	-9.40%
	Netherlands	**56,425**	64,952	-13.10%
	Belgium	**29,84**	31,772	-6.10%
	Germany	**5,154**	6,005	-14.20%
	Rest of Europe	**77,45**	83,604	-7.40%
Corporate	**Industry**	**216,408**	241,043	-10.20%
	Real Estate	**42,279**	51,371	-17.70%
	Natural Resources	**37,046**	41,665	-11.10%
	Transportation & Logistics	**21,434**	9,252	131.70%
	Food, Beverages & Personal Care	**15,717**	22,06	-28.80%
	Services	**15,109**	18,084	-16.50%
	Other	**84,823**	98,611	-14.00%
Corporate	**PD Bands**	**216,408**	241,043	-18.40%
	<0.05%	**9,106**	13,989	-34.90%
	0.05% to 0.5%	**92,315**	89,922	-19.20%
	0.5% to 5%	**84,089**	104,606	-19.60%
	5% to 10%	**7,235**	9,059	-20.10%
	10% to 20%	**5,531**	7,026	-21.30%
	20% to 50%	**8,17**	6,82	19.80%
	more than >50%	**9,961**	9,62	3.50%

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

The off balance commitment calculations, which is a factor of the READ, has now been brought more in line with the actual experience for the best rated Corporates and Institutions portfolios, resulting in a significant READ decrease. ING now has a long track record of showing that it is too conservative as a minimal amount of guarantees and LC's has been called resulting in a significant READ decrease. The targeted reduction of the REF portfolio, the sale of ING's Real Estate Finance (US) assets to Wells Fargo and the further decline of the ING Lease run-off portfolio have contributed to the decline and have led to an improvement of the risk profile of the Corporates portfolio.

Retail credit risk disclosure

This table presents the READ, segmented by relevant factors, and the analysis for the exposure class 'Retail'.

Retail credit risk disclosure in READ				
		2013	2012	Delta %
Retail	**Total per rating**	**330,598**	353,007	-6.30%
	Performing	**324,411**	347,508	-6.60%
	Impaired/Non-performing	**6,187**	5,499	12.50%
Retail	**Customer Segment**	**330,598**	353,007	-6.30%
	Private Persons	**302,437**	321,384	-5.90%
	Small Mid-sized Enterprises	**20,372**	22,281	-8.60%
	Private Banking	**3,536**	3,553	19.70%
	Other	**4,253**	5,79	-38.90%
Retail	**Geography/business units**	**330,598**	353,007	-6.30%
	Africa	**58**	57	1.00%
	America	**177**	146	20.60%
	Asia	**1,728**	1,684	2.60%

	Australia	**28,451**	34,438	-17.40%
	Other	**30**	-100.00%	
	Europe	**300,184**	316,652	-5.20%
	Europe	**300,184**	316,652	-5.20%
	Netherlands	**152,254**	164,777	-7.60%
	Belgium	**40,278**	39,703	1.40%
	Germany	**71,358**	68,457	4.20%
	Rest of Europe	**36,294**	43,715	-17.00%
Retail	**PD Bands**	**330,598**	353,007	-6.30%
	<0.05%	**23,185**	22,009	5.30%
	0.05% to 0.5%	**184,925**	192,85	-4.10%
	0.5% to 5%	**100495**	113,563	-11.50%
	5% to 10%	**5,804**	8,525	-31.90%
	10% to 20%	**5,529**	6,792	-18.60%
	20% to 50%	**3,571**	3,769	-5.30%
	more than >50%	**7,088**	5,499	28.90%

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

During 2013, Residential Mortgages were transferred from WestlandUtrecht Bank to NN Group, causing a decline of approximately EUR 10.9 billion READ. The transfer consisted of performing loans only. Additionally, the divestment of Direct UK, which mainly consisted of Residential Mortgages, also had an impact on the Retail portfolio as this resulted in a EUR 6.7 billion READ decline. Another EUR 6.0 billion decline was caused by FX movements, which were heavily visible in Asia due to the depreciation of the Australian Dollar against the Euro. In contrast to these declines, the German portfolio increased by EUR 2.9 billion which was mainly driven by Residential Mortgages.

Non-performing loans increased by EUR 0.7 billion which is primarily a result of the deteriorated risk profile of the Dutch Residential Mortgages portfolio as a result of the current economic circumstances. There are approximately EUR 500 million of Dutch mortgage loans that have been modified to temporarily support customers undergoing hardship. These loans are shown as impaired for the purposes of these tables but are included as performing in the Loan Loss Provisioning and Forbearance processes.

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

		2013		2012
	LTV	**READ**	LTV	READ
Netherlands [1]	**91%**	**138,364**	89%	149,965
Germany	**71%**	**63,821**	71%	61,754
Australia	**66%**	**28,516**	69%	34,507
Belgium, Luxembourg	**75%**	**31,575**	76%	30,42
Spain	**66%**	**9,137**	66%	9,077
Italy	**55%**	**7,713**	53%	7,44
United Kingdom	**n.a**	**n.a.**	59%	6,652
Poland	**59%**	**3,31**	59%	3,037
Turkey	**50%**	**955**	48%	1,065
Romania	**54%**	**632**	54%	587
India	**53%**	**646**	59%	710
Total	**83%**	**284,668**	79%	305,214

Includes both AIRB and SA portfolios.
[1] Netherlands includes Domestic Bank NL and WestlandUtrecht Bank.

The LTV for the Dutch Mortgage portfolio deteriorated from 89% to 91% as a result of the house prices in the Netherlands for the first 3 quarters of the year, even though the redemptions and new production have a positive effect on the LTV. In the 4th quarter of the year, a turnaround is noticeable as the LTV improved from 92% to 91% mainly as a result of the sale of part of the WestlandUtrecht Bank portfolio. The stabilized house prices in December have also contributed to the improved LTV.

Australia showed an improvement of its LTV for the mortgage portfolio as a result of improved house prices. The improvement in India is a result of increase in Home equity which is a low LTV product and it has grown nearly 49% in 2013 and Home equity loans' contribution in the residential mortgage portfolio has increased to 30.35% from 22%.

The ING policy is to index property values on a quarterly basis. In some markets only annual figures are available while others are more practical to do on an annual basis. Unfortunately, some markets do not have a reliable index that matches the local ING

portfolio. Quarterly or annual indexing is done for the Netherlands, Belgium, Australia, Italy and Spain representing 76% of the portfolio.

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.

Credit risk disclosure in READ

		Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
							2013	2012
Under SA approach	READ	3,79	2,781	10,834	5,936	10,621	33,961	42,699
	RWA	2,548	1,389	10,752	2,569	8,036	25,294	30,19
Under AIRB approach	READ	88,374	98,53	205,575	278,732	35,309	706,52	752,182
	RWA	6,747	18,808	100,623	51,269	16,684	194,131	174,006
Totals	READ	92,164	101,311	216,408	284,668	45,93	740,481	794,881
	RWA	9,295	20,197	111,375	53,838	24,72	219,425	204,197
	RWA density	10.1%	19.9%	51.5%	18.9%	53.8%	29.6%	25.7%
Securitisations*	READ						9,858	12,101
	RWA						2,728	5,525
Totals	READ	92,164	101,311	216,408	284,668	45,93	750,339	806,982
	RWA	9,295	20,197	111,375	53,838	24,72	222,152	209,722
	RWA density	10.1%	19.9%	51.5%	18.9%	53.8%	29.6%	26.0%

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

The sale of ING Direct UK was the main reason for the reduction of the SA portfolio. An insignificant part of the Dutch mortgage portfolio was moved from SA to AIRB, while the only portfolio that shifted from AIRB to SA was the UK Lease portfolio which is in run-off mode.

Due to the model redevelopments undertaken during the course of the year to reflect continued economic deterioration and due to negative risk migration seen in several portfolios, RWA density and risk weights increased compared to 2012. In terms of RWA density, the most significant movement was in the Sovereigns and the Corporates which was driven by model redevelopments implemented for these exposure classes.

STANDARDISED APPROACH

A subset of the ING portfolio is treated with the Standardized 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.

In order to calculate the regulatory capital requirements under the SA approach, ING Bank uses eligible external ratings from Standard & Poor’s, Moody’s, Fitch Ratings and in some cases from DBRS. Ratings are applied to all relevant exposure classes in the standardized 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. ING Bank’s exposure values in the SA approach by risk weight are shown before and after credit risk mitigation obtained in the form of eligible financial collateral and guarantees. There are two principal methods for reducing or mitigating Credit Risk: 1. by reduction of Credit Risk through the acceptance of pledged financial assets as collateral (such as marketable securities or cash) or 2. mitigation or shifting of credit risks to a lower risk weighting group by accepting guarantees from unrelated third parties.

Exposures (EAD) before and after risk mitigation and (EAD) after conversion factors				
	2013		2012	
	Exposure before risk mitigation	**Exposure after conversion factors ***	Exposure before risk mitigation	Exposure after conversion factors *
Risk Weight Buckets				
0%	**2**	**2**		
10%				
20%	**256**	**204**	107	55
35%	**5,218**	**5,177**	11,671	11,629
50%	**6,463**	**5,226**	5,513	4,43
75%	**16,566**	**10,447**	16,788	11,173
100%	**21,969**	**12,603**	27,251	15,206
150%	**444**	**302**	371	205
200%				
1250%				
Total	**50,918**	**33,961**	61,7	42,699

* 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 sale of ING Direct UK was the main reason for the reduction seen in the 35% risk bucket. The migration of the legacy Postbank consumer loan portfolio from SA to AIRB and the migration of the UK Lease portfolio from AIRB to SA were the primary reasons for the decline in the 75% risk bucket. The decline in the 100% risk bucket is explained by the reductions in the Indian and Australian SA portfolios.

THE ADVANCED INTERNAL RATING BASED APPROACH (AIRB)

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 rating model

The table below shows the AIRB portfolio per exposure class and the underlying rating models.

Exposures (READ) per AIRB rating model [1,2,3]			
		2013	2012
Sovereigns	Government Central	**44,154**	45,463
	Government Implied	**24,884**	26,525
	Government Local	**16,43**	9,802
	Other	**2,907**	2,673
Institutions	Bank Commercial	**46,189**	54,784
	Bank Implied	**17,173**	16,344
	Government Local	**11,472**	12,186
	Other	**23,696**	26,403
Corporate	Corporates Large	**60,352**	70,7
	Commercial Property Finance	**28,267**	29,509
	SME Belgium	**20,814**	20,644
	Other	**96,142**	108,076
Residential mortgages	Mortgages (Residential) Holland	**137,396**	148,879
	Mortgages (Residential) Germany	**63,821**	61,654
	Mortgages (Residential) Australia	**28,516**	34,507
	Other	**48,999**	47,609
Other retail	SB NL Client - Credit Risk Products	**6,441**	6,785
	Postbank Unsecured	**4,452**	2,275
	SME Belgium	**4,068**	4,273
	Other	**20,348**	23,09
Total		**706,52**	752,182

[1] Implied ratings are Risk Ratings derived from another organisation (usually from the same Legal or Economic One Obligor Group, but not always, for which the appropriate Rating Model has been used) but not directly given.
[2] For comparison reasons, intercompany loans to ING Group and NN Group were included in the 2012 figures in this table.
[3] For comparison purposes, the 2012 exposure class structure have been aligned for corporate and institutions with 2013.

AIRB credit exposures by internal rating grade

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 exposures 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 2013

Internal rating grade	PD range for each grade	READ in each grade	Average RPD	Average RLGD	RWAs in each grade (or band)	Risk Weight	External Rating Equivalent
Performing							
1	0.00-0.01	24,442	0.02	37.54	463	0.02	AAA
2	0.01-0.02	42,426	0.02	41.23	500	0.01	AA+
3	0.02-0.04	36,112	0.03	35.1	919	0.03	AA
4	0.04-0.05	18,279	0.04	35.39	2,182	0.12	AA-
5	0.05-0.06	18,79	0.06	31.81	2,61	0.14	A+
6	0.06-0.08	42,951	0.07	25.95	4,918	0.11	A
7	0.08-0.11	45,01	0.1	31.7	6,96	0.15	A-
8	0.11-0.17	39,669	0.15	23.14	6,229	0.16	BBB+
9	0.17-0.29	85,179	0.23	23.46	13,733	0.16	BBB
10	0.29-0.51	88,878	0.38	23.05	20,11	0.23	BBB-
11	0.51-0.89	98,819	0.6	21	25,474	0.26	BB+
12	0.89-1.54	56,717	1	21.29	19,787	0.35	BB
13	1.54-2.67	34,597	1.76	24.31	17,961	0.52	BB-
14	2.67-4.62	23,303	3.3	24.78	15,299	0.66	B+
15	4.62-8.01	11,336	5.88	27.13	9,023	0.8	B
16	8.01-13.88	7,815	10.85	26.97	8,73	1.12	B-
17	13.88-20.00	6,297	19.05	26.84	7,744	1.23	CCC
18	20.00-30.00	5,228	24.96	24.81	7,262	1.39	CC
19	>30%	4,216	43.55	25.25	5,138	1.22	C
Non-Performing							
20	100%	10,346	100	29.89	13,544	1.31	Default
21	100%	3,306	100	23.17	3,879	1.17	Default
22	100%	2,805	100	31.89	1,667	0.59	Default
Total		706,52	3.62	26.59	194,131	0.27	

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

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 discretionary 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 receive a zero risk weight due to the high quality rating (permanent partial use of the SA rules). Mortgages generally benefit from large levels of (over)collateralisation. For the last two years, ING has been working on a project to map the 1-19 rating grades to internal data instead of external rating agency scales. For many portfolios (especially sovereign, institution, and corporate) this has not been possible as insufficient internal defaults have been available. ING now has 8 years of default data covering a longer economic cycle. Starting in 2014, ING Bank expects to shift the basis of it's mapping from external rating agency scales to actual default rates. This will be done by portfolio (exposure class and geography) to ensure that sufficient conservatism will be applied. External ratings will still be used as a comparison but will not be leading in determining PDs for rating grades. Although this is a multi-year project that will be influenced by future data, initial results show a significant reduction in RWA for the impacted exposure classes.

Disclosures of model outcomes

The table next, 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 in the following paragraph.

Model approaches per exposure class for the AIRB portfolio

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2013	Total 2012
Average PD	0.12%	1.09%	6.86%	2.66%	8.14%	3.62%	3.28%
Average LGD	43.84%	28.17%	25.21%	18.92%	47.51%	26.59%	21.79%
EAD	88,374	98,53	205,575	278,732	35,309	706,52	752,182
RWA	6,747	18,808	100,623	51,269	16,684	194,131	174,006
RWA density	7.63%	19.09%	48.95%	18.39%	47.25%	27.48%	23.1%

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 receive a regulatory risk weight of 0%.

Changes in risk parameters since last reporting date

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', above.

Changes in AIRB risk parameters 2013 compared to 2012 in %

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total
Average PD	**56%**	**-12%**	**24%**	**13%**	**11%**	**10%**
Average LGD	**112%**	**21%**	**6%**	**11%**	**7%**	**22%**
READ	**5%**	**15%**	**-19%**	**-5%**	**-3%**	**-6%**
RWA	**149%**	**34%**	**4%**	**16%**	**4%**	**12%**
RWA density	**138%**	**17%**	**27%**	**22%**	**7%**	**19%**

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

Over the course of 2013, both average PD and average LGD increased significantly as a result of a general decrease in credit quality. The PD increase was driven by Corporates and was mainly part of the Commercial Property Finance and Dutch SME portfolios. The PD models were refined to better reflect the current economic environment. The LGD increase was mainly driven by the Sovereigns and Residential Mortgages portfolios. For Sovereigns the unsecured LGD percentage was partially changed to 45% for all jurisdictions. The Residential Mortgages LGD increase was the result of a refinement of the Dutch LGD model to accurately reflect the current down-turn. These changes resulted in an increase in the RWA density, specifically seen in the exposure classes Sovereigns, Corporates and Residential Mortgages.

Comparison with EBA Study Group

Comparison of RWA and risk weights across institutions is inherently challenging. Differences in RWA among banks have been classified by BIS 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.

For further analyses of the ING RWA stemming from differences in capital approach, please refer to the RMP section.

The European Banking Authority (EBA) published an analysis in December 2013, containing the average RWA density per asset class of the investigated 60 banks from 12 different countries in Europeą. The sample period of this study is 2012. In the below table, the RWA density of the peers are compared with ING Bank for the same period and for 2013. Over the course of 2013, ING has further reflected the deteriorated economic environment within the internal models and the RWA density has increased for all the portfolios.

RWA density comparison with EBA Study Group [1] - IRB only

	Sovereigns	Institutions	Corporate	Retail
RWA Density				
2013	7.6%	19.1%	49.0%	21.6%
2012	3.2%	16.3%	38.5%	18.3%
EBA Study Group				
2012	7.0%	20.0%	50.0%	22.0%

[1] Report on the pro-cyclicality of capital requirements under the Internal Ratings Based Approach, EBA - 17 December 2013.

Disclosure of estimated and actual loss parameters

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 backtesting indicates insufficient performance, than the model is either re-calibrated or re-developed. All model recommendations from Model Validation department are tracked via iRisk, the same internal database that management uses to track issues detected by the Internal Audit department, incidents and non-financial risk issues. All significant model changes are submitted to the Home Regulator (DNB) and implemented after regulatory approval. On average, 91% of the AIRB credit risk models in the validation cycle have had 'No to Remote' (58%) and 'Minor' (33%) model deficiencies.

The table below provides a backtesting of the PD models per exposure class. In order to better quantify the backtesting, ING has analysed the 31 December 2013 portfolio. The average PD of 31 December 2012 per portfolio is split per Basel II exposure class. The 31 December 2012 portfolio is followed through 2013 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 2013. This back-test is only representative of the year end 2012 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 next table, 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
						2013
Average PD 2012*	0.08%	0.35%	2.00%	1.13%	2.89%	1.29%
Observed Default Rate 2013	0.00%	0.00%	1.95%	1.43%	2.96%	1.28%

Includes the AIRB portfolio only; excludes securitisations, equities and ONCOA.
* Average PD 2012 includes performing loans only.

The table below gives insight in the Expected Loss rate and the Observed Loss rate per exposure class. The expected loss of 31 December 2012 for the performing portfolio is split per Basel II exposure class. The 31 December 2012 portfolio is followed through 2013 to determine the defaulted exposures. The models are based on long series of historical data. In the comparison, the expected loss rate is calculated by dividing the expected loss of the performing portfolio of December 2012 by the READ of the performing portfolio of the same period. The Observed Loss rate is a result of multiplying the observed defaulted exposures by its LGD. This back-test is only representative of the year end 2012 portfolio and can be influenced by small sample sizes or incidents. Nonetheless, the back-test gives a comparison of the Expected Loss rate PD versus the observed Loss rate.

Expected loss rate under the Advanced IRB approach versus the observed loss rate per exposure class						
	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total
						2013
Expected loss rate 2012*	0.0118%	0.0678%	0.4367%	0.1907%	1.1235%	0.2694%
Observed Loss Rate 2013	0.0000%	0.0003%	0.4368%	0.2425%	1.2113%	0.2833%

Includes the AIRB portfolio only; excludes securitisations, equities and ONCOA.
* Expected loss rate 2012 includes performing loans only.

Both of the backtests show that the expectations are quite in line with the observed default rate and the observed loss rate. For the exposure classes Retail Other and the Residential mortgages portfolio, the default rates and the loss rates exceed the predicted values as a result of the challenging economic circumstances in mainly the Netherlands and Belgium portfolio.

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

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

Reconciliation of non-performing loans disclosures [1,2]				
	Commercial Banking	Retail Banking Benelux	Retail Banking International	Total ING Bank
Impaired loan book movements				
Impaired loans at 1 January 2013	6,474	6,174	2,278	14,926
Classified as impaired during the year [1]	1,345	3,08	511	4,936
Transferred to not impaired during the period	-605	-1,367	-220	-2,192
Amounts written off	-756	-652	-201	-1,609
Changes in the composition of the Bank				
Exchange and other movements [2]	-41	-2	-97	-139
Impaired loans at 31 December 2013	6,417	7,233	2,271	15,921
Impairment allowances - movements				
Impairment allowances at 1 January 2013	2,304	1,864	1,337	5,505
Changes in the composition of the Bank	-2	-14	-4	-20
Amounts written off	-756	-652	-201	-1,609
Recoveries of amounts written off in previous	58	34	24	116
Addition to loan loss provisions (from income statement)	867	1,06	362	2,289
Exchange or other movements	-12	-28	-87	-127
Impaired allowances at 31 December 2013	2,459	2,264	1,431	6,154

(1) Unadjusted for exchange rate fluctuations.
(2) Based on start and end date of the outstanding positions, unadjusted for inflow and outflow.

The continuing economic distress in some of the regions had its impact on the development of the risk costs in 2013. The risk costs for Commercial Banking are in line with 2012. The risk costs for Retail Benelux exceeded EUR 1 billion, reflecting continued economic distress in the Benelux. The risk costs for Retail Banking International went up slightly compared to last year.

Large parts of the Investment portfolio are not administered at amortised costs (Loans & Receivables or Held-to-Maturity) and therefore out of scope for Loan Loss Provisions. Instead, these assets are evaluated for impairment. The Global Impairment Meeting is a quarterly process that reviews all assets that are subject to an IFRS impairment test.

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 [2]

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2013	2012
Real Estate	**4**		**1,423**	**7**	**113**	**1,547**	1170
Private Individuals			**6**	**839**	**379**	**1,224**	1150
Builders & Contractors			**456**	**5**	**113**	**575**	517
Food, Beverages & Personal Care			**358**	**5**	**67**	**430**	485
Services		**8**	**255**	**21**	**138**	**421**	344
General Industries			**325**	**13**	**73**	**410**	365
Transportation & Logistics			**291**	**2**	**52**	**345**	301
Retail			**149**	**5**	**69**	**222**	215
Natural Resources			**204**		**11**	**215**	182
Chemicals, Health & Pharmaceuticals			**138**	**2**	**18**	**158**	129
Media			**107**		**21**	**128**	238
Automotive			**75**	**3**	**25**	**104**	112
Non-Bank Financial Institutions		**19**	**45**	**1**	**20**	**85**	112
Telecom			**65**		**4**	**69**	63
Other [1]	**3**	**49**	**86**	**37**	**45**	**221**	122
Total	**7**	**76**	**3,983**	**940**	**1,148**	**6,154**	5,505

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'.
(2) At the end of 2013, the stock of provisions included provisions for amounts due from banks: EUR 19 million (2012: EUR 28 million)

The rise in the level of provisions over the year reflected the continued weak economic climate in which ING operates and the conservative treatment of some of the portfolios. Provisions for Real Estate showed a significant rise due to challenging commercial real estate markets in Netherlands and Spain. Weakness was also seen in the small and medium enterprises and residential mortgages sectors in the Netherlands.

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 applied 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.

Past Due Loans by economic sector

	Residential mortgages	Other retail	Total	Total
			2013	2012
Private Individuals	**5,705**	**361**	**6,067**	6,078
Other [1]		**744**	**744**	461
Total	**5,705**	**1,105**	**6,810**	6,539

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
Excludes revaluations made directly through the equity account.
(1) Economic sectors not shown specifically in the table have past due loans of less than EUR 150 million, and are grouped under 'Other'.

Overall past due loans increased slightly over the year due to the deterioration witnessed in Europe, the improvements in Asia/ Pacific compensated for this. Total non-performing loans at ING Bank were 2.4% of the credit outstandings, up from 2.1% at the end of 2012. This increase was mainly seen in the Real Estate sector.

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 [1]

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2013	2012
Netherlands	4	1	1,536	397	349	2,287	1,889
Belgium		1	398	62	212	673	646
Germany			74	379	153	606	600
Other Europe	1	39	1,603	90	421	2,154	1,779
Americas		1	171		1	173	213
Asia / Pacific	1	33	199	12	13	258	375
ROW	1	1	1			3	3
Total	7	76	3,982	940	1,149	6,154	5,505

(1) At the end of 2013, the stock of provisions included provisions for amounts due from banks: EUR 19 million (2012: EUR 28 million)

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 largely due to the level of (secondary) collateral and enforcement regime, which has an impact on the recovery rate and in turn drives the LGD higher. The Corporate segment is largely influenced by real estate companies, larger SME companies, and several run-off portfolios which are experiencing economic stress.
The rise seen in the Netherlands was due to increased provisions reserved owing to the weakness seen in the residential mortgages sector and specific provisions for the SME sector.

Other Europe increase was driven by increase in Spain and Luxembourg. Both these increases were seen in Real Estate provisions. Luxembourg increase was due to provision taken for one large client.

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
			2013	2012
Netherlands	2,698	3	2,7	2,661
Belgium	1,438	769	2,207	1,61
Germany	212	15	227	210
Other Europe	304	282	587	600
Americas	5		5	6
Asia / Pacific	1,047	36	1,084	1,45
ROW	1		1	4
Total	5,705	1,105	6,81	6,539

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

The increase in past due loans is mainly driven by Belgium where arrears increased due to a one-off impact as a result of the SEPA implementation. The provisions in Belgium remained relatively stable during the year. The past due loans in the Dutch Residential Mortgages portfolio remained on the same level. Although the past due loans in the Netherlands did not increase, the non-performing loans and provisions increased by 26% and 65% respectively. The declined level of past due loans in Asia / Pacific is seen in Australia. This decline is partly due to foreign exchange movements and partly due to an improved risk profile of the Residential Mortgages portfolio which is also seen in improved LTVs in this region.

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 two main factors (i) the difference between down-turn factors used in regulatory LGD calculations vs. point in time LGD requirement of IFRS and (ii) 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.

Loan Loss Provisioning Shortfall [1]

			2013			2012
	AIRB	SA	Total	AIRB	SA	Total
REL	6,962	n.a.	6,962	5,972	n.a.	5,972
Provisions [1]	5,550	604	6,154	4,774	731	5,505
Shortfall	1,412	n.a.	n.a.	1,199	n.a.	n.a.
Shortfall %	20%	n.a.	n.a.	20%	n.a.	n.a.

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
[1] At the end of 2013, the stock of provisions included provisions for amounts due from banks: EUR 19 million (2012: EUR 19 million)

Over the year, Regulatory Expected Loss (REL) for the AIRB portfolio increased from EUR 6.0 billion to EUR 7.0 billion. Provisions reported in the SA portfolio showed a decline while overall provisions showed a significant increase to EUR 6.1 billion. The shortfall amount increased to EUR 1.4 billion, while the shortfall as a percentage of the REL is stable at 21%.

OFF-BALANCE ITEMS

Undrawn commitments

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

Undrawn commitments

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2013	2012
Under SA approach	12	196	674	141	3,85	4,872	5,541
Under AIRB Approach	467	6,363	52,741	8,71	12,623	80,904	84,235
0% risk weight	295	1,933	9,163	7,322	7,161	25,873	
10% risk weight	98	2,302	9,546	875	1,552	14,374	
20% risk weight	45	1,341	13,923	316	1,296	16,922	
35% risk weight		426	8,904	99	843	10,272	
50% risk weight	3	270	5,733	70	696	6,772	
75% risk weight	24	31	3,097	10	544	3,706	
100% risk weight		29	1,668	12	436	2,145	
150% risk weight		2	293	3	60	358	
200% risk weight		29	415	4	33	481	
1250% risk weight							
Total	478	6,559	53,414	8,852	16,472	85,776	89,776

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

ING Bank has seen many of its Large Corporate customers obtain funding from capital markets in the course of 2013. 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. The overall decrease in undrawn commitments comes mainly from this Corporates portfolio where the limits where lowered. Much of the undrawn commitments in the mortgage area relate to forward commitments of clients to lock in interest rates in mainly the German, Australian and Dutch mortgage portfolio.

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 12%. 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 derivatives trading activities and securities financing, ING Bank enters into master agreements such as ISDA master agreements and Global Master Repurchase Agreements (GMRAs). Under the terms contained in sections related to Minimum Threshold Amounts and Minimum Transfer Amounts of Credit 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 marked-to-market (MtM) plus (regulatory) add-on methodology used for calculating Basel II RWA for determining the gross exposures. 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. 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.

Derivatives by product type in READ

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2013	2012
Interest Rate Derivatives	**1,481**	**12,832**	**5,028**		**40**	**19,381**	26,121
Foreign Exchange Derivatives	**274**	**2,152**	**965**		**8**	**3,400**	4,219
Equity Derivatives		**2,118**	**113**		**7**	**2,239**	1,867
Exchange Traded Products		**1,440**				**1,440**	194
Credit Derivatives		**482**	**2**			**484**	808
Commodity Derivatives	**2**	**75**	**242**		**3**	**321**	254
Derivatives	**1**	**157**	**158**			**315**	241
Total	**1,758**	**19,258**	**6,508**		**58**	**27,581**	33,705

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

The derivative portfolio of ING Bank is almost exclusively based on client related business including hedging of mortgage portfolios. This partially explains the difference between derivative amounts to Institutions and Corporates. These institutions are mainly spread across the UK, Netherlands, Germany and France portfolios. Exchange traded derivatives picked up this year mainly in the Eurozone market. The READ decrease in the Derivatives portfolio is mainly a result of a noticeable shift from bilateral OTC derivatives for which READ is calculated, to OTC derivatives cleared via a Central Counterparties (CCP) which carry zero READ as a result of regulations. If the regulatory calculation of READ for unilateral and bilateral derivatives would be similar, then the derivatives portfolio trend would be stable. The above table does not include the trading portfolio which is accounted for under Market Risk section of the Risk Management Paragraph.

Over-the-counter and exchange traded derivatives

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

		2013		2013
	Notional	**MtM**	Notional	MtM
OTC derivatives				
CCP	**1,728,308**	**-5,444**	1,417,454	-4,430
Non-CCP	**1,717,477**	**-1,446**	2,020,068	-3,154
ETD derivatives	**36,200**	**-3**	24,000	n/a
Total	**3,481,985**	**-6,894**	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, 85% has been documented under bilateral (93%) and unilateral (7%) 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 15% 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 (57%) and FX Derivatives (39%).

Securities financing by product type

The table below is based on the marked-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	Total
						2013	2012
Bond Financing Given	**1,460**	**1,921**	**31**			**3,412**	3,466
Equity Financing Given	**167**	**4,773**	**269**			**5,208**	5,276
Bond Financing Taken	**139**	**1,029**	**65**			**1,234**	743
Equity Financing Taken		**1,103**	**24**			**1,127**	1,067
Total	**1,766**	**8,826**	**388**			**10,981**	10,552

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

The increase of EUR 490 million in Bond Financing Taken is seen mainly in the US and UK institutions. The remainder of the Securities Financing portfolio as a whole 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 and GMRAs). 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

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-tomarkets 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 2013

					Cover Values*	Cover Values	Cover Values	Cover Values
	Gross MtM before netting and collateral	**MtM after netting**	**MtM after netting and collateral**	**Outstanding**	**Mortgages**	**Eligible Financial Collateral***	**Guarantees***	**Other Basel II eligible**
Sovereigns				**86,590**		**28**	**1,315**	**325**
of which Pre Settlement	**6,403**	**3,524**	**3,470**	**2,658**				
Institutions				**107,484**	**1,675**	**2,875**	**13,134**	**2,027**
of which Pre Settlement	**115,334**	**39,127**	**30,015**	**35,757**				
Corporates				**194,076**	**91,247**	**11,687**	**40,056**	**68,879**
of which Pre Settlement	**8,226**	**6,896**	**6,679**	**9,238**				
Residential Mortgages				**277,302**	**439,974**	**2,441**	**29,995**	**241**
of which Pre Settlement								
Other Retail				**37,764**	**18,312**	**1,139**	**3,570**	**5,935**
of which Pre Settlement	**60**	**58**	**58**	**86**				
Securitisations				**8,349**				
of which Pre Settlement	**198**	**198**	**198**	**284**				
Total Bank				**711,565**	**551,209**	**18,169**	**88,070**	**77,408**
of which Pre Settlement	**130,220**	**49,803**	**40,419**	**48,024**				

* Excludes 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. The cover values are pre-haircut but indexed values and exclude any cost of liquidation. Covers can either be valid for all limits, sublimits or a particular outstanding of a borrower, the latter being the most common.

In 2013, the mortgage values for the Dutch Residential Mortgages portfolio are measured against Market value whereas previously Foreclosure value was used. The guarantees for the same portfolio relate to mortgages covered by governmental insurers under the Nationale Hypotheek Garantie (NHG) in the Netherlands.

The Risk Management Paragraph of the Annual Report includes an extensive cover section where exposures are categorised into different Loan-to-Value (LTV) buckets which gives insight in the level of collateralisation of ING Bank's portfolio.

Credit default swaps

ING Bank participates in the credit risk derivative 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 (CDS) 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

	2013	2012
Credit derivatives used for hedging purposes		
- credit protection bought	**238**	884
- 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	Total
						2013	2012
Under AIRB Approach	**1,315**	**13,411**	**44,041**	**30,091**	**7,475**	**96,334**	94,211

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

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	Total
						2013	2012
Current Outstandings	86,561	106,054	184,471	274,181	34,478	685,745	713,582
1 month	76,006	82,96	177,069	273,633	33,882	643,551	668,82
3 month	67,179	76,682	167,708	273,037	33,212	617,819	621,476
6 month	64,859	69,646	155,853	272,206	32,148	594,712	603,879
1 year	58,852	58,777	118,819	269,642	25,384	531,475	541,57
2 years	56,461	49,363	92,213	265,183	21,022	484,241	485,206
3 years	53,437	42,152	71,664	260,291	18,087	445,632	447,324
5 years	43,194	23,214	41,242	249,624	12,228	369,501	372,654
7 years	33,969	18,206	28,244	232,781	8,676	321,876	334,049
10 years	17,248	6,56	17,082	204,661	5,661	251,212	273,138

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 UK and part of the WestlandUtrecht Bank portfolio which is mainly visible in the 10 years tenor bucket.

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

Depending on ING Bank’s role as investor, originator, or sponsor the objectives, the involvement and the rules applied may be different. ING Bank is primarily engaged in securitisation transactions in the role of investor (in securitisations arranged by others). To a lesser extent, ING Bank is also an originator or sponsor of securitisations that are usually traded in the public markets. ING does not re-securitise its securitisations exposure and even though ING bank hedges its securitisation positions, such instruments are not recognized as credit risk mitigants for regulatory capital purposes.

Valuation and accounting policies

ING Bank’s activities regarding securitisations are described in Note 57 ’Structured entities’ in the annual accounts. The applicable accounting policies are included in the section ‘Accounting policies for the consolidated annual accounts of ING Bank’ in the annual accounts. The most relevant accounting policies for ING Bank’s own originated securitisation programmes are ‘Derecognition of financial assets’ and ‘Consolidation’. Where ING Bank acts as investor in securitisation positions, the most relevant accounting policy is ‘Classification of financial instruments’.

Regulatory capital method used and Rating Agencies

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

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

ING Bank uses the Internal Assessment Approach (IAA) for the support facilities it provides to Asset Backed Commercial Paper (ABCP) conduit Mont Blanc Capital Corp., based on externally published rating agency methodologies. Under the IAA approach, the unrated position is assigned by the institution to an internal rating grade, which is estimated using an ING developed model. The position is then attributed a derived rating by mapping the internal rating grade to an externally published credit assessments corresponding to that rating grade.

At ING, the investment policies define eligible product types, minimum ratings, maximum tenors and exposure caps, both at issuer level as well as for portfolios. Under Basel III most Securitisations no longer qualify as high quality liquid assets for the liquidity buffer and are hence no longer eligible assets under the investment policies. The ING Direct units no longer invest in Securitisations and have not been investing in Securitisations during 2013. The dominant product classes in the existing investment portfolio are RMBS and ABS. Prior to purchase, each investment proposal is analysed by Credit Risk Management and decided upon by authorised mandate holders pursuant to the signatory approval process in place at ING Bank. In 2013 ING Direct did not purchase any new securitisations.

Securitisations - credit risk disclosure		2013	2012	Delta %
Securitisations	**Geography**			
	America	**4,285**	5,521	-22.4%
	Asia	**112**	172	-35.2%
	Australia	**85**	228	-62.7%
	Europe	**5,376**	6,179	-13.0%
		9,858	12,101	-18.5%
	Europe			
	Spain	**2,176**	2,53	-14.0%
	United Kingdom	**1,294**	1,428	-9.4%
	Italy	**827**	815	55.5%
	Netherlands	**553**	532	-32.2%
	Rest of Europe	**525**	873	-39.8%
		5,376	6,179	-13.0%
Securitisations	**Product Type**			
	Residential Mortgage Backed Securities	**5,273**	5,874	-10.2%
	Asset Backed Securities	**2,088**	2,399	-13.0%
	Securitisation Liquidity [1]	**1,618**	1,345	20.3%
	Revolvers	**378**	0	-
	Interest Rate Derivatives	**177**	262	-32.6%
	Synthetic Investment Bonds [2]	**0**	1,439	-100.0%
	Other	**325**	782	-58.4%
		9,858	12,101	-18.5%
Securitisations	**Exposure Class** [3]			
	Securitisation Investor	**7,544**	10,078	-25.1%
	Securitisation Sponsor	**2,314**	2,022	14.4%
	Total	**9,858**	12,101	-18.5%

Excludes equities and ONCOA.

(1) 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.

(2) This represents the guarantee granted by ING for the sold ALT-A bonds under the Alignment Transaction with the Dutch State.

(3) Securitisation benefits are excluded. Own originated securitisations are explained in a separate section.

Unwinding the IABF also resulted in eliminating a counter-guarantee that ING extended to the Dutch state in connection with the divestment of ING Direct USA in 2012. This was reflected in the EUR 1.4 billion decline in READ for Synthetic Investment Bonds which released EUR 1.8 billion in RWA.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 2014 in order to decrease impairment risk, credit migration and concentration risk on ING's non-trading books. 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. In line with ING's internal rating policy, securitisation exposures are rated using the worst external rating (Fitch, Moody's and S&P). ING keeps close track of the securitisation investment positions via monthly monitoring reports.

Purchased exposures per risk weight band	2013		2013	
	READ	**RWA**	READ	RWA
Risk weight band 1 <= 10%	**4,628**	**359**	4,917	394
Risk weight band 2 >10% and <= 18%	**249**	**33**	346	45
Risk weight band 3 >18% and <= 35%	**1,515**	**445**	2,639	665
Risk weight band 4 >35% and <= 75%	**602**	**376**	158	99
Risk weight band 5 >75% and <1250%	**505**	**646**	1,917	2,81
Risk weight 1250%	**45**	**567**	101	1,165
Total	**7,544**	**2,427**	10,078	5,179

Excludes equities and ONCOA.

The investment positions in securitisations are mainly originated in Spain, US and UK (75% of total portfolio). The majority of INGs' positions are of high quality with 94% of the portfolio externally rated AAA, AA or A. The main vintages in the underlying mortgages are between 2004-2007. All securitisations are subject to rigorous testing using various stress scenarios. Securitisation positions with underperforming collateral have been sold in order to mitigate RWA increases, the main driver for the reductions in the lowest bands compared to last year are driven by the unwinding of the Illiquid Assets Back-up Facility (IABF) as announced on 1 November 2013. Additionally, impaired positions have shown signs of improvement compared to last year, over the year ING's impairment charges due to underperforming securitisations have declined significantly, impairment charges related to investment securitisation positions for 2013 were minimal. Performance of the underlying assets is monitored on a quarterly basis through analysis of the relevant performance metrics (Delinquencies, Prepayments, Roll-Rates, Severities etc.), the review is performed for every vintage and loan type bucket.

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 ING originated Special Purpose Vehicle (SPV). The transactions are funded by the ING administered multi seller Asset Backed Commercial Paper (ABCP) conduit Mont Blanc Capital Corp. (rated A-1/P-1). Despite the conditions in the international money markets Mont Blanc Capital Corp. continues to fund itself externally in the ABCP markets.

In its role as administrative agent, ING Bank facilitates these transactions by acting as administrative agent, swap counterparty and liquidity provider to Mont Blanc. 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.

ING Bank supports the commercial paper programmes by providing the Special Purpose Entity (SPE) with short-term liquidity facilities. These liquidity facilities primarily cover temporary disruptions in the commercial paper market. Once drawn these facilities bear normal credit risk. A number of programmes are supported by granting structured liquidity facilities to the SPE, in which ING Bank covers at least some of the credit risk incorporated in these programmes itself (in addition to normal liquidity facilities), and might suffer credit losses as a consequence. Furthermore, under a Programme Wide Credit Enhancement ING Bank guarantees to a limited amount all remaining losses incorporated in the SPE to the commercial paper investors.
The liquidity facilities, provided to Mont Blanc are EUR 1,728.1 million. The drawn liquidity amount as at 31 December 2013 is EUR 158.7 million.
Mont Blanc has no investments in securitisation positions that ING Bank has securitised. Nor are there entities either managed or advised by ING Bank that invest in Mont Blanc.

The normal non-structured standby liquidity facilities and the structured facilities are reported under irrevocable facilities. All facilities, which vary in risk profile, are granted to the SPE subject to normal ING Bank credit and liquidity risk analysis procedures. The fees received for services provided and for facilities are charged subject to market conditions. Mont Blanc is consolidated by ING Bank. These transactions are therefore on-balance sheet arrangements.

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 (Flipper transaction). 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, Flipper in January 2013 and Memphis 2006 in May 2013. As of 31 December 2013, only one transaction totalling approximately EUR 0.5 billion (BEL SME 2006 on SME exposures) remain outstanding, as further detailed below.
Retained exposures on securitisation of ING Bank's own assets include the most senior tranches. Economically, on a total of about EUR 0.5 billion underlying exposures in the transaction mentioned above, ING Bank has transferred approximately EUR 251 million of mezzanine tranches to third parties. This transaction runs-off in March 2014.

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 the transaction 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						
2013	Cut-off Date	Initial Pool	Outstandings	Credit Events	Past due Assets	Losses
SME						
BEL SME 2006	30-Nov-13	**2.500**	**486**	**15**	**2**	**4**
Total						

* Both Memphis 2005 and Mars 2006 have been unwound in May 2013.

Exposures securitised						
2012	Cut-off Date	Initial Pool	Outstandings	Credit Events	Past due Assets	Losses
Residential Mortgages						
Memphis 2006	31-Oct-12	4.000	3.914	38,4		47,2
SME						
BEL SME 2006	30-Nov-12	2.500	761	76,7	4,1	14,7
Total						

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 2013 position of approximately EUR 76 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 2013, securitisation positions in trading books are reported under the Standardised Capital Framework in the Market Risk section.

MARKET RISK

Introduction
After the turmoil in the financial markets and the consequent need for governments to provide aid to financial institutions, financial institutions have been under more scrutiny from the public, supervisors and regulators. This has resulted in more stringent regulations intended to avoid future crises in the financial system and taxpayers' aid in the future. Reference is made to the General Risk Management section 'Ongoing changes in the regulatory environment'.

Capital at Risk
Capital at Risk measures the impact of predefined instant shocks of market risk factors such as interest rates, credit spreads, foreign exchange, equity prices and real estate prices on the volatility of IFRS-EU and core Tier 1 equity.

Main Drivers

The main market risk sensitivities of capital are interest rate and credit spread driven, resulting from cash flow hedges and available for sale debt securities. Furthermore the sensitivity of the currency translation reserve is an intended open position to stabilise the core Tier 1 ratio for foreign exchange movements, as the RWA are impacted as well by these market movements.

Risk profile

Capital Elements & Market Risk Impact on Capital								
Market Risk Sensitivity (before tax), excluding pension fund	IFRS-EU	Basel II	Basel III*	Interest Rate +100bp	Credit Spread +40bp	Equity Prices -10%	Real Estate -10%	Foreign Exchange +10%
Capital Elements								
Reserve								
Property revaluation reserve	•		•				-111	
Cash flow hedge reserve	•			-1,369				
Available-for-sale reserve								
Debt securities	•		•	-1,268	-1,176			
Equity securities	•		•			-145		-124
Currency translations reserve	•	•	•					-679
P&L								
All items impacting P&L, excluding DVA	•	•	•	-296	-182	-98	-187	-154
DVA own issued debt/structured notes	•				-222			
DVA derivatives	•	•		6	22			-7
Impact on Capital								
IFRS-EU Equity				-2,927	-1,558	-243	-298	-963
Core Tier 1 Equity (Basel II)				-290	-160	-98	-187	-840
Core Tier 1 Equity (Basel III, full spot)				-1,564	-1,358	-243	-298	-957

* Basel III on a fully loaded basis, no phase in assumed.
• Indicates the item has an impact on the capital as indicated in that column.

Revaluation Reserve Impact

The revaluation reserve for real estate, debt securities and equity securities are not part of Basel II equity, but will be part of Basel III equity. The revaluation reserve for cash flow hedges is not part of Basel II equity and will also not be part of Basel III equity. The revaluation reserve for foreign exchange is part of Basel II equity and will also be part of Basel III equity. The interest rate sensitivity shown for debt securities is the unhedged interest rate sensitivity, i.e. debt securities in hedge accounting relations are excluded.

P&L Impact

Items on fair value which revalue through P&L, excluding debit valuation adjustments, impact IFRS-EU equity as well as Basel II and Basel III equity. Debit valuation adjustments of own issued debt only impacts IFRS-EU equity and not Basel II or Basel III equity. Debit valuation adjustments of derivatives impacts Basel II equity, but will not be part of Basel III equity.

Pension Fund

The market risk impact of the pension fund is not included in the table due to announcement in January 2014 with regard to the transfer of all future funding and indexation obligations under ING's current closed defined benefit plan in the Netherlands to the Dutch ING Pension Fund. Reference is made to note 60 'Subsequent events' of the consolidated annual accounts section.

LIQUIDITY RISK

Funding and 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.

To protect the Bank and its depositors against liquidity risks the Bank maintains a liquidity buffer, which is based on the Bank's liquidity needs across all entities under stressed conditions. ALCO Bank ensures that sufficient liquidity is maintained, in accordance with Bank and regulatory rules and standards, including a buffer of unencumbered, high quality liquid assets.

Liquidity Buffer ING Bank	2013	2012
Cash and holdings at central bank	**6,099**	10,587
Securities issued or guaranteed by sovereigns, central banks and multilateral development bank	**74,334**	68,959
Liquid assets eligible at central banks (not included in above)	**92,871**	106,620
Other liquid assets	**6,700**	11,078
Total	**180,004**	197,244

The presented distribution of liquid assets over different classes represents the liquid assets across the whole bank. This includes also entities where restrictions may apply on transferability and convertibility due to regulatory constraints or other measures. The decrease of the buffer in 2013 in comparison with 2012 is due to less cash placed at the central bank and the unwinding of retained RMBS.

As part of the liquidity buffer management, ING Bank also monitors the existing asset encumbrance. Encumbered asset represent the on-balance sheet assets that are pledged or used as collateral for ING Bank's liabilities. Below presented table defines asset encumbrance as the total pool of assets used for covered bond programs, external securitisations and collateral posted for derivatives.

Encumbered assets ING Bank [1]

		2013	2012
Collateral type	**Source of funding**		
Residential mortgages	Covered bonds	**48,330**	44,447
Residential mortgages	External securitisations	**7,966**	3,652
Cash/deposits	Derivatives	**12,559**	14,944
Total encumbered assets		**68,855**	63,043

[1] Repo business is excluded from the table