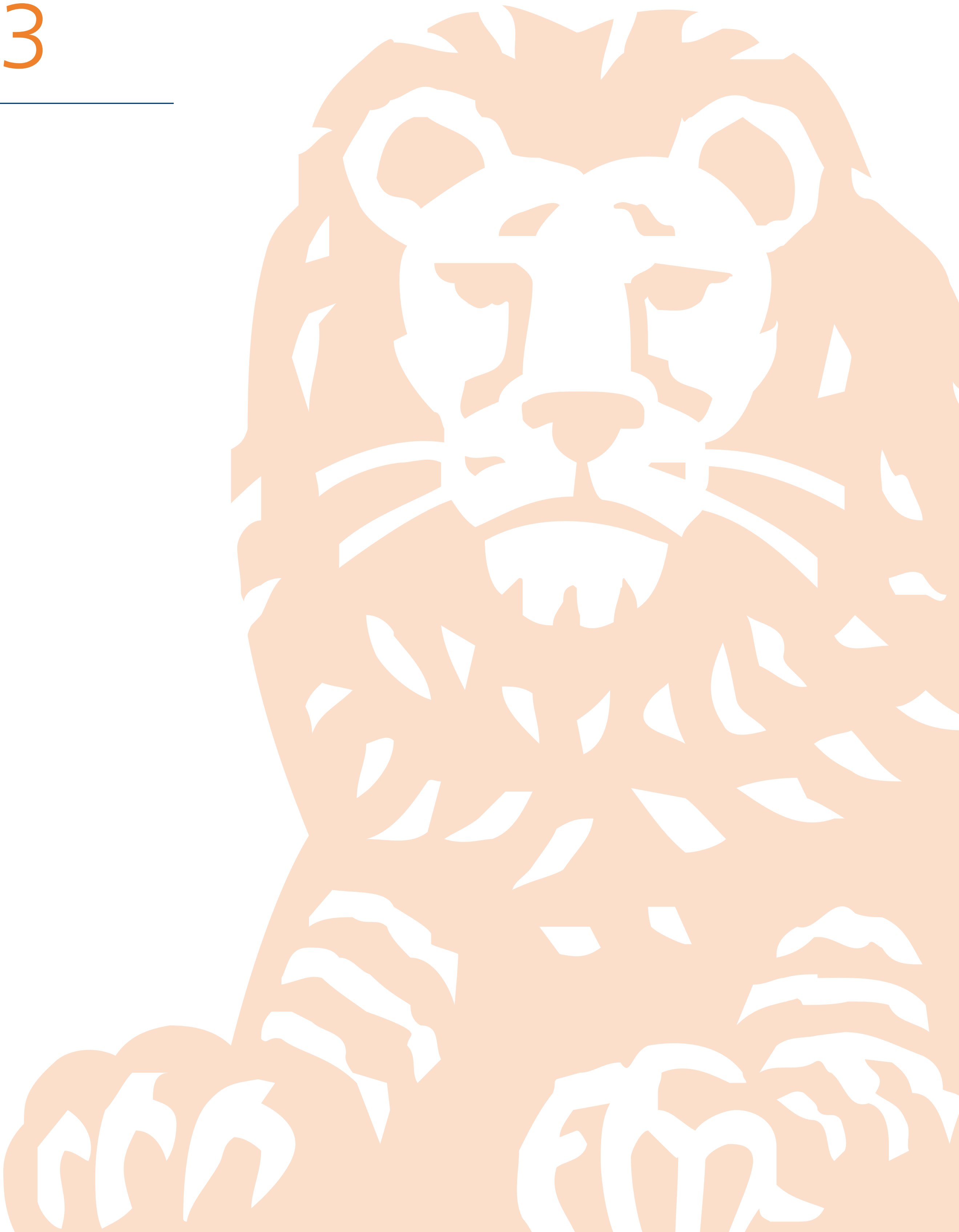
ING Bank
Annual Report
2013



ING

ING Bank N.V.
2013 Annual Report

Contents

Management

COMPOSITION OF THE BOARDS

ING Bank N.V. ('ING Bank') has a two-tier board system, consisting of a Supervisory Board and a Management Board Banking. The Supervisory Board supervises the policy of the Management Board Banking and the general course of events in the company and assists the Management Board Banking by providing advice. The Management Board Banking is responsible for the daily management of the company.

The composition of the Management Board Banking and the Supervisory Board of ING Bank was as follows:

MANAGEMENT BOARD BANKING
Composition on 31 December 2013

R.A.J.G. (Ralph) Hamers (47), chief executive officer
J.V. (Koos) Timmermans (53), vice-chairman
P.G. (Patrick) Flynn (53), chief financial officer
W.F. (Wilfred) Nagel (57), chief risk officer
W.L. (William) Connelly (55), CEO Commercial Banking
C.P.A.J. (Eli) Leenaars (52), CEO Retail Banking International
H. (Hans) van der Noordaa (52), CEO Retail Banking Benelux

SUPERVISORY BOARD
Composition on 31 December 2013

J. (Jeroen) van der Veer (66), chairman
P.A.F.W. (Peter) Elverding (65), vice-chairman
J.P. (Tineke) Bahlmann (63)
H.W. (Henk) Breukink (63)
I. (Isabel) Martín Castellá (66)
C.W. (Carin) Gorter (51)
J.H. (Jan) Holsboer (67)
H.J.M. (Hermann-Josef) Lamberti (57)
J.C.L. (Joost) Kuiper (66)
R.W.P. (Robert) Reibestein (57)
Y.C.M.T. (Yvonne) van Rooy (62)
L.A.C.P. (Luc) Vandewalle (69)

COMMITTEES OF THE SUPERVISORY BOARD(1)
Composition on 31 December 2013

Audit Committee
J.C.L. (Joost) Kuiper, chairman
J.P. (Tineke) Bahlmann
I. (Isabel) Martín Castellá
C.W. (Carin) Gorter
J.H. (Jan) Holsboer
R.W.P. (Robert) Reibestein
L.A.C.P. (Luc) Vandewalle

Risk Committee
R.W.P. (Robert) Reibestein, chairman
J.P. (Tineke) Bahlmann
J.H. (Jan) Holsboer
J.C.L. (Joost) Kuiper
H.J.M. (Hermann-Josef) Lamberti
L.A.C.P. (Luc) Vandewalle
J. (Jeroen) van der Veer

Remuneration Committee
P.A.F.W. (Peter) Elverding, chairman
H.W. (Henk) Breukink
Y.C.M.T. (Yvonne) van Rooy
J. (Jeroen) van der Veer

Nomination Committee
J. (Jeroen) van der Veer, chairman
H.W. (Henk) Breukink
P.A.F.W. (Peter) Elverding
Y.C.M.T. (Yvonne) van Rooy

Corporate Governance Committee
H.W. (Henk) Breukink, chairman
C.W. (Carin) Gorter
J. (Jeroen) van der Veer

(1) The current composition of the Supervisory Board Committees can be found on the website (www.ing.com).

ING at a Glance

ING BANK IS PART OF ING GROUP

ING GROUP
Our mission
To set the standard in helping our customers manage their financial future. ING aims to deliver financial products and services in the way our customers want them: with exemplary service, convenience and at competitive prices.

Our profile
ING is a global financial institution of Dutch origin, currently offering banking, investments, life insurance and retirement services. We draw on our experience and expertise, our commitment to excellent service and our global scale to meet the needs of a broad customer base, comprising individuals, families, small businesses, large corporations, institutions and governments.

The strength of the company is, among other things, based on its relatively high customer satisfaction levels, solid financial position, multi-channel distribution strategy and international network. Moreover, ING is a sustainability leader in its sector.

ING, currently serves more than 48 million customers in over 40 countries. ING has more than 75,000 employees.

Our focus
ING's focus is on increasing customer satisfaction, simplifying its organisation and product offering, strengthening its financial position and solidifying the sustainability of its business model.

Our stakeholders
ING conducts business on the basis of clearly defined business principles. In all our activities, we carefully weigh the interests of our various stakeholders such as customers, employees, supervisors, shareholders, civil society organisations and regulators.

As required by Dutch law since 2013, ING's Supervisory and Executive Boards, but also a broad group of directors committed to a set of behavioural principles, known as the "Banker's Oath".

Our strategy
ING has strategic priorities at the Group, Bank and Insurance levels. All are ultimately in line with our mission.

ING Group's strategic priorities up to 2013 have been: strengthening our financial position, restructuring, repaying the remaining state aid and building both stronger and sustainable banking and insurance/investment management (IM) businesses.

ING Bank's strategic aim is to be a strong, predominantly European bank for its customers. ING Bank wants to be a leading domestic full-service bank in attractive, stable home markets, as well as a leading commercial bank in the Benelux with a strong position in Central and Eastern Europe. A refined and sharpened Bank strategy for 2014 and onwards will be presented in the first half of 2014.

Our corporate responsibility
ING wants to build its future on sustainable profit based on sound business ethics and respect for its stakeholders. Our Business Principles prescribe the corporate values and the responsibilities we have towards society and the environment: we act with integrity, we are open and clear, we respect each other and we are socially and environmentally responsible. ING managed to further solidify the sustainability of its business model in 2013, by taking steps towards greater transparency and by growing our sustainable products offerings across all our business lines.

Our progress on restructuring
ING has substantially completed the separation of its banking and insurance operations. This is required by the European Commission (EC), but ING also thinks it is in the interests of all stakeholders, especially of our customers. The main reason is that it simplifies the organisation, which makes it easier to manage it. We made significant progress with our restructuring programme in 2013. As a result, we have now reached the final stage of this process.

During 2013, ING reached several milestones, for example:
- The unwinding of the illiquid assets back-up facility ("IABF") was agreed upon in 2013. It was completed early 2014.
- A successful initial public offering (IPO) of the US insurance business (ING U.S.).
- Completion of the divestment of ING Insurance/IM Asia.
- An agreement in November 2013 with the EC on revised timelines for the European and Japanese Insurance divestments, which together formed ING Insurance and were renamed NN Group on 1 March 2014.
- In 2013, ING Insurance revealed its future brand name: NN. The preparations for the base case IPO of NN Group are progressing well, which is expected to allow us to go to the market in 2014.

Our repayment to the Dutch State
ING is grateful for the support the Dutch State extended during the financial crisis years 2008 and 2009. Milestones in 2013 were:
- An agreement with the Dutch State on the unwinding of the IABF. The unwinding was completed early 2014 and resulted in a cash profit for the Dutch State of EUR 1.4 billion.
- ING received EUR 10 billion in state aid in November 2008. Including the latest repayment in November 2013, ING has so far repaid EUR 11.3 billion, including EUR 8.5 billion in principal and EUR 2.8 billion in interest and premiums. The final tranches are scheduled to be paid by March 2014 and by May 2015. The total annualised return for the Dutch State is expected to be 12.5%.

The total contribution to the Dutch State to date of EUR 4.9 billion includes premiums and interest on the repayment of core Tier 1 securities, the unwinding of the IABF, guarantee fees paid on the government guaranteed bonds issued in 2009 and bank levies.

ING at a glance continued

Our financial position
ING places great importance on strengthening its financial position in order to put itself in the best position to facilitate the economy. In 2013 we gained in financial strength. Our funding position improved, our capital and liquidity position remained strong and earnings remained resilient. However, risk costs went up slightly in a weak economic year in many of the markets in which we operate.

Our future
The ING of tomorrow will definitely be different from the ING of today. With a refined and sharpend strategy for ING Bank to be presented in the first half of 2014 and a scheduled IPO for the insurance business, 2014 is set to be an important year for ING and all our stakeholders.

Overview

Europe's weak economy and new financial regulations made it a difficult year for the banking industry, but ING Bank still produced a strong result in 2013. The Bank continued to be involved in ING Group's restructuring programme, worked hard to optimise its balance sheet, and announced more cost reductions in Retail Netherlands, ING Belgium and Commercial Banking at the beginning of 2013. Further progress was made on customer centricity, operational excellence and being a Top Employer.

FINANCIAL DEVELOPMENTS

ING Bank delivered a solid performance in 2013. The net result was EUR 3,063 million compared with EUR 3,281 million in 2012, which included substantial results from divestments and special items. In 2012, the sale of ING Direct USA and ING Direct Canada, and the loss taken prior to the sale of ING Direct UK, resulted in a total net gain of EUR 1,365 million, while the operating net result from the divested units was EUR –86 million. Special items after tax were EUR –595 million in 2012, mainly related to a settlement with authorities in the United States, various restructuring programs, including further restructuring in Retail Netherlands and Commercial Banking, and costs related to the separation of Bank and Insurance. These negative impacts were partly offset by a EUR 251 million provision release from the new Dutch employee pension scheme. In 2013, the net impact of the divested ING Direct UK activities was EUR –42 million, including an additional net transaction loss on the sale of EUR 6 million. Special items after tax were EUR –82 million. These items primarily reflect after-tax charges for the earlier announced restructuring programmes in Retail Netherlands and an additional provision release related to the new Dutch employee pension scheme announced in 2012.

Underlying net result increased by 22.7% to EUR 3,187 million, from EUR 2,597 million in 2012. Underlying net result is derived from total net result by excluding the impact from divestments and special items.

The underlying result before tax increased 16.4% to EUR 4,365 million in 2013 from EUR 3,751 million in 2012. This increase mainly reflects a strengthening of the interest margin, less volatility in credit and debt valuation adjustments (CVA/DVA) in Commercial Banking and the Corporate Line, and the absence of de-risking losses in 2013. This was partly offset by 7.9% higher risk costs, while expenses were almost flat despite higher pension costs and additional restructuring charges.

Total underlying income rose 5.7% to EUR 15,337 million in 2013, from EUR 14,510 million in 2012. The underlying interest result increased slightly by 0.3% to EUR 11,980 million driven by an improvement of the underlying interest margin to 1.44% from 1.36% in 2012, whereas the average balance sheet declined by 5.7%. The interest margin on lending and savings products improved, supported by repricing in the loan book and lowering of client savings rates. This more than offset the impact of lower lending volumes, partly caused by the transfer and sale of WestlandUtrecht Bank (WUB) assets to NN Group, and lower interest results in Bank Treasury following a lengthening of the Bank's funding profile.

Commission income rose 3.7% to EUR 2,239 million. Investment and other income strongly improved to EUR 1,117 million, from EUR 406 million in 2012. This improvement was mainly explained by the positive swing in CVA/DVA adjustments (which were EUR 74 million positive in 2013, compared with EUR 640 million of negative CVA/DVA impacts in 2012), while 2012 included EUR 478 million of selective de-risking losses in the European debt securities portfolio, against nil in 2013. Excluding both items, investment and other income was 31.6% lower, mainly due to lower gains on the sale of equity and debt securities.

Underlying operating expenses increased slightly by 0.5% to EUR 8,683 million, compared with EUR 8,638 million in 2012. The increase was mainly due to higher pension costs and additional restructuring charges taken in the second half of 2013, which were largely offset by the benefits from ongoing cost-saving initiatives, the partial transfer of WUB staff to NN Group and lower impairments on real estate development projects. The underlying cost/income ratio improved to 56.6%, from 59.5% in 2012.

The net addition to the provision for loan losses increased to EUR 2,288 million, from EUR 2,121 million in 2012, reflecting the continued weak economic environment. Risk costs were 83 basis points of average risk-weighted assets compared with 74 basis points in 2012.

The underlying return on average IFRS-EU equity was 9.1% in 2013, up from 7.4% in 2012.

BUSINESS DEVELOPMENTS

It was a year of continued challenges for ING Bank and for the banking industry as a whole. The external environment remained challenging, which was felt by the Bank in the form of continued high risk costs and weak demand for lending; however, net inflow of funds entrusted, mainly retail, remained solid. Towards the end of 2013 the European economy showed some signs of improvement but it remains vulnerable. Despite the difficult conditions, ING Bank produced a solid result in 2013.

International investor sentiment towards Europe improved in 2013, illustrated by growing interest in bank shares and more capital flows back into the eurozone. The banking sector became less dependent on finance provided by funding from the European Central Bank (ECB).

REGULATION AND SUPERVISION

New regulatory requirements imposed on Europe's banks have resulted in higher expenses and higher costs for capital and liquidity. An important development in 2013 was the agreement on the Single Supervisory Mechanism (SSM) for banks in the Eurozone, which will involve a transfer of prudential regulatory powers from national authorities to the ECB. About 130 of the Eurozone's largest banks, including ING Bank, will be directly supervised by the ECB by the end of 2014.

Overview continued

ING regards the SSM as an important first step in creating a European banking union. It will help eliminate uncoordinated national supervisory practices, which are restricting cross-border banking groups like ING from making internal funds transfers and financing the economy.

Another key regulatory milestone was the agreement on the Capital Requirements Regulation/Capital Requirements Directive (“CRR/ CRD IV”), the implementation of Basel III in the EU. An increase in the quality and quantity of capital is a central element of this new regulatory framework, as is the introduction of a harmonised liquidity framework. The rules came into force in January 2014, although important elements are subject to further consideration and calibration, such as the liquidity and leverage ratios.

Important steps were also taken by the European authorities in crisis management regulation, in particular on the “bail-in” proposals. The bail-in tool gives resolution authorities the power to write down the claims of unsecured creditors of a failing institution and to convert those claims into equity. This applies to unsecured liabilities with a number of exceptions, such as guaranteed deposits and secured liabilities (including covered bonds). Although it was originally foreseen that bail-in rules would apply from 2018, we anticipate they could be introduced as early as 2016.

RESTRUCTURING
ING Bank continued to be involved in preparations for the NN Group IPO as a base case. Relevant parts of WestlandUtrecht Bank (“WUB”) have been transferred to Nationale-Nederlanden Bank as part of amendments to the EC Restructuring Plan announced in November 2012, paving the way to divest these operations as part of the NN Group IPO. In May, ING Bank paid the Group a dividend of EUR 1.5 billion to facilitate the reduction of the Group double leverage. Early July, ING Bank paid a dividend of EUR 330 million to facilitate the capital injection into Nationale-Nederlanden Bank after the transfer of WUB. Continued strong capital generation furthermore facilitated the repayment of EUR 1.125 billion of core Tier 1 securities, including a EUR 375 million in premiums and interest, by ING Group to the Dutch State in November.

During the year ING took several more steps to unwind its support from the Dutch State. In 2013 ING Bank reduced the Dutch State guaranteed funding by EUR 3.6 billion to EUR 2.5 billion, mainly through a tender offer. The remaining bonds will mature in March 2014. In November 2013, ING announced that it had reached an agreement with the Dutch State on the unwinding of the Illiquid Assets Back-up Facility (“IABF”). In February 2014 ING and the Dutch State completed the unwinding of IABF.

BALANCE SHEET OPTIMISATION
ING Bank worked hard to optimise its capital structure and met most of the CRD IV requirements before they were implemented. In November ING Bank announced and also executed a number of liability management actions to optimise the capital structure in anticipation of the upcoming CRD IV implementation.

ING Bank’s balance sheet has also been reduced and strengthened. The balance sheet declined following the transfer and sale of EUR 8.3 billion of assets and EUR 3.7 billion of liabilities from WUB to Nationale-Nederlanden Bank, and the sale of EUR 2.2 billion of Dutch mortgages and EUR 1.0 billon of US Real Estate Finance (“REF”) Loans. The balance sheet was also impacted by the divestment of ING Direct UK in the first quarter of 2013 and the sale of EUR 0.8 billion mortgage portfolio in Australia in the second quarter of 2013.

ING Bank is on track to reach the target of EUR 54 billion balance sheet integration (excluding off-balance positions) by 2015. Balance sheet integration refers to the continuous efforts we put into trying to minimise balance sheet inefficiencies that may arise because of the fact that our client asset base and our client liability base do not always grow at the same pace over time and across countries. This also includes looking for synergies between different ING units that have different balance sheet structures (some are client deposit driven, others are client asset driven). Since 2011, we have completed EUR 48 billion of balance sheet integration to optimise local balance sheets, of which EUR 14 billion was realised in 2013.

ING Bank attracted a net inflow of funds entrusted (adjusted for WUB transfers, the divestment of ING Direct UK and currency impacts) of EUR 27.3 billion during the year. Retail Banking generated EUR 18.8 billion of net inflow, driven by continued growth outside of the Netherlands. Total net lending grew by EUR 5.5 billion (also adjusted for the sale of Dutch mortgages and US REF loans), despite muted demand and pricing discipline.

COST CONTAINMENT
In February 2013 a second phase of ING Bank’s Retail Netherlands’ cost reduction programme was announced on top of the programme announced in November 2011, followed by an extension of the existing cost-saving programme in the fourth quarter of 2013. Including this extension, total headcount reductions are 4,400 FTEs and will result in EUR 460 million annual cost savings by 2015. Since the start of the programme, there has been a reduction of about 2,900 FTEs and EUR 279 million has been saved.

The projects announced by ING Belgium at the beginning of 2013 to align its products and services with the new mobile banking environment are on course. ING Belgium’s cost-saving target by 2015 is EUR 160 million. By the end of 2013 cost savings of EUR 41 million have been achieved.
Commercial Banking’s restructuring programme is also on track and by the end of 2013 cost savings of EUR 138 million were realised. Commercial Banking continued with its global change programmes which aim to save EUR 260 million by 2015 and at the same time improve product delivery and enhance the One Bank client experience. An example is the integrated client coverage approach, focusing on unifying the sales force and harmonising client services.
The previously announced cost-saving initiatives are expected to reduce expenses at ING Bank by EUR 880 million by 2015, of which EUR 458 million has already been achieved since the start of the programmes.

Overview continued

CUSTOMER CENTRICITY
As a bank we play an important role in helping our retail and commercial customers make the right decisions by providing them with products and services that meet their needs. Our role is to support the economy; ING Bank can only achieve long-term business success if it contributes towards economic development, a healthy environment and a stable society.

We strive to meet growing demand from customers for products that not only generate good financial results, but also serve social and environmental objectives. We do this by integrating sustainability considerations into our business and by managing the socio-environmental risks of our transactions and engagements. We updated our Environmental and Social Risk Framework and embedded client screening as part of the client on-boarding process.

Some of our products help relieve social and environmental problems. For example, we offer retail customers in the Netherlands an ING Savings Account for UNICEF which supports UNICEF, the UN children's charity; and in India we offer farmers products to cover their credit needs before, during and after harvest time.

In our lending and saving activities, ING's Groenbank helps businesses make their activities more sustainable. ING Groenbank is the number two green bank in the Netherlands and was the lead arranger of a record EUR 100 million green loan to a Dutch energy company in 2013. ING has also created a Sustainable Lending team to identify and support sustainable business opportunities within commercial banking. The team has a global mandate, to identify and promote growth areas in the sustainability arena.

Microfinance can help under-banked communities gain access to financial services, contributing to poverty reduction. ING's microfinance portfolio, financed by ING Groenbank, is active in India, Africa and, since 2013, in Turkey. ING Turkey's microfinance activities are facilitated by an ING Groenbank loan of EUR 30 million which is part of the total microfinance portfolio of EUR 75 million.

We continue to innovate. In 2013 we launched "responsive" websites for example at ING Austria, ING Czech Republic and ING Italy. These are sites where no matter what device is being used (smartphone, tablet or PC), the site content will always fit in the screen.

ING Vysya Bank introduced an iPhone-based mobile app to extend its reach into remote cities and rural areas. ING Bank Slaski was the first bank in Poland, and one of the first in the world, to offer contactless ATM technology, increasing the number of contactless ATMs. Using best practices from around the ING world, ING Turkey introduced an innovative and award-winning branch concept to respond to changing customer demands. In these newly designed branches, customer centricity is brought to the fore, with ample room for customer interaction by means of, for example, self-service facilities. The bank also introduced an iPad mobile banking app which helps sales teams service customers across retail and commercial banking.

Customers in Belgium have been embracing new technologies faster than anticipated, leading to greater use of digital services and prompting further process automation. In the Netherlands, the number of mobile log-ons at ING exceeded online banking log-ons for the first time in the third quarter of 2013.

Addressing the problem of the subdued housing market in the Netherlands, ING Bank introduced an online "stress test" which helps homeowners see whether their financial planning can be improved. ING Netherlands also launched an online tool (*Afloswijzer*) to help customers decide whether to save or pay off their mortgage.

Customer-led change is at the heart of ING Bank. In Retail Banking, our full service franchises in the Netherlands and Belgium are evolving as online and mobile channels grow in importance. And in our direct franchises we are expanding our product range.

Commercial Banking is restructuring its organisation to provide a more consistent customer experience across sales, servicing and back office support.

We are becoming the primary bank for more customers. ING Spain, for instance, started 14 years ago only with savings; now it is well on the way to becoming the primary bank for many customers, and a multi-product bank.

In 2013 we enjoyed a number of key milestones and external recognition. ING-DiBa, for example, surpassed EUR 100 billion funds entrusted and ING Spain surpassed one million payments accounts.

Customers voted ING Direct Australia as the Best Bank in Australia and ING-DiBa was named Germany's most admired bank for the seventh year in a row. ING was named Bank of the Year 2013 in Western Europe by The Banker, the global financial magazine which is part of the Financial Times Group; *The Banker* also named ING Bank of the Year in Belgium, and Bank of the Year in the Netherlands for the third year in a row. Commercial Banking received several awards in recognition of ING's capabilities in trade finance and structured finance. High profile deals demonstrated Commercial Banking's skill in combining its expertise to create tailored solutions for clients across countries and industries sectors.

OPERATIONAL EXCELLENCE
Operational excellence is a key priority at ING Bank. We align our systems, structure and processes to deliver the best customer experience in a cost-effective way. The big transformations we have initiated in the Netherlands and Belgium, and in Commercial Banking, are laying the groundwork for a lower cost base.

ING in the Netherlands is improving its customer services by focusing on easy-to-use operational processes. To reach this goal, ING applied 10 simple principles for each operational process, such as "never ask the customer for information we already have".
In Belgium, customers can now request business loans online.

Overview continued

ING Turkey in 2013 became the first bank in the country to offer an electronic invoicing solution which reduces paper and other costs.
ING Romania launched Fast Track Light Automation, an application to handle loan applications for new Mid Corporate Business customers within 48 hours.

TOP EMPLOYER

Remaining a top employer is a key priority at ING Bank. Having motivated employees is essential for success because they build lasting relationships with customers.

Top Employer teams are organised in each business line, with responsibility for executing at a local level the bank-wide Top Employer action plan.

Across the banking businesses, best practices are shared in the three global priorities identified to bring more focus and consistency to the Top Employer programme: performance management, development, and efficient & effective collaboration.

ING France, ING Italy, ING Poland, ING Belgium and ING Spain received local Top Employer Awards. ING Luxembourg, Interhyp, ING-DiBa and ING Spain have also received European Great Place to Work Awards, placing them in the top-25 of Best Multinational Workplaces in Europe. ING is the only financial institution in this European ranking. This success strengthens our employer branding and demonstrates that we are on track with our Top Employer programme.

However, there are several challenges facing us as an employer. First, the general sentiment towards banks is still not positive. Second, we had to lower the headcount at ING Bank to reduce costs and keep our organisation flexible. These measures (also from previous years with an impact on 2013) resulted in a total reduction of internal staff at ING Bank by 2,022 FTEs in 2013 despite growth in Retail International. Third, we tightened up our remuneration policy in the Netherlands. Despite these challenges, the outcome of our annual employee engagement survey showed an increased confidence in the long-term future of the company which illustrates the resilience of our staff in a difficult environment.

CONCLUSIONS AND AMBITIONS

ING Bank made good progress during the year towards its Ambition 2015 targets, despite the difficult banking market and economic conditions. The underlying net profit of ING Bank improved to EUR 3.2 billion in 2013 This was due to a strengthening of the interest margin, good cost control, and supported by the absence of de-risking losses in 2013 and less volatility from CVA/DVA impacts. The funding profile of the bank improved, which enabled us to continue to support our customers, although demand for assets remained subdued.

We continued to deliver on our strategic priorities: sharpening our business focus; reducing costs; making capital, funding and liquidity more robust; and meeting customers' demand.

We include sustainability criteria in our business decision-making. We have witnessed a continued increase in the volume of sustainable portfolios across all our operations. For more details see the business chapter in ING's Sustainability Report.

We achieved what we set out to do on the balance sheet: increasing the leverage ratio, strengthening the funding profile and meeting our Basel III capital ratio target.

We kept a steady course, and serving customers' needs remained at the heart of our business. ING will continue to pursue technological innovation to support retail customers' needs, and we will use our expertise and international network as a leading commercial banking for our corporate clients, both inside and outside Europe.

Our main ambition is to finalise our disentanglement from the Dutch state. Our longer-term ambition is to develop a mature banking model in each country where we operate.

Above all, ING Bank aims to build on its leading position as a predominantly European bank with a strong international network focused on providing customers with consistently high-quality services.

Financial developments business lines

RETAIL BANKING

Retail Banking's underlying result before tax rose 32.6% to EUR 2,603 million in 2013 from EUR 1,963 million in 2012, mainly due to higher interest results following improved margins on lending and savings, and the absence of de-risking losses on the investment portfolio, which were prominent in 2012. This was in part offset by higher expenses and increased risk costs.

Underlying income rose 11.8% to EUR 10,162 million. The interest result was 6.3% higher, driven by improved margins on lending and savings, the latter following reductions in customer savings rates, which more than offset the impact of the transfer and sale of portfolios, mainly related to the partial transfer of WestlandUtrecht Bank (WUB) to Nationale-Nederlanden Bank. Adjusted for currency impacts and the aforementioned transfers and sales, net inflow in funds entrusted was EUR 18.8 billion, predominately in Germany and Rest of World. Net lending growth was EUR 5.8 billion, of which EUR 4.2 billion was in residential mortgages. Commission income rose 3.0%, due to higher fees from the securities business. Investment and other income improved to EUR 396 million from a loss of EUR 137 million in 2012, mainly due to the absence of losses from the selective sale of European debt securities, which dampened income by EUR 462 million in 2012, and higher dividend from Bank of Beijing.

Underlying operating expenses increased 3.0% to EUR 6,138 million, mainly due to higher pension costs and additional restructuring charges recorded in the Netherlands as part of the existing efficiency programmes. This was largely offset by the benefits from the ongoing cost-savings initiatives and the partial transfer of WUB staff to Nationale-Nederlanden Bank. The underlying cost/income ratio improved to 60.4%, from 65.6% in 2012.

The additions to the provision for loan losses increased by 21.9% to EUR 1,421 million, or 100 basis points of average risk-weighted assets compared with 82 basis points in 2012. The increase was mainly caused by higher risk costs in the Dutch mortgage and business lending portfolio, as well as in India and Turkey.

The underlying return on equity, based on a 10% core Tier 1 ratio, rose to 13.2% from 9.5% in 2012 due to higher results, while average risk-weighted assets remained stable. In 2013, however, total risk-weighted assets increased by EUR 9 billion to EUR 152 billion at year-end, mainly caused by adjusted parameters to reflect the ongoing weakness of the Dutch economy and its impact on the mortgage and business lending portfolio, and despite early signs of an improvement in the Dutch housing market in the last quarter.

RETAIL NETHERLANDS

The underlying result before tax of Retail Netherlands decreased 11.3% to EUR 872 million in 2013 compared with EUR 983 million in 2012, due to additional restructuring charges and an increase in risk costs.

Underlying income rose 4.7% to EUR 4,079 million in 2013, reflecting higher interest results on lending and savings due to an improvement in margins, supported by a reduction in client savings rates. These improvements were partly offset by lower volumes following the transfer and sale of EUR 8.3 billion of assets and EUR 3.7 billion of liabilities from WestlandUtrecht Bank (WUB) to NN Group together with the sale of another EUR 2.2 billion of mortgages. Excluding these sales and transfers, net production of mortgages was EUR –0.4 billion in 2013, while other lending, mainly business lending, decreased by EUR 2.2 billion. Net production in funds entrusted was nil, mainly caused by new legislation for local governments to place surplus cash at the National Treasury and an acceleration of redemptions on mortgages.

Operating expenses increased 3.6% to EUR 2,330 million in 2013, including EUR 97 million of additional restructuring charges taken in the second half of the year, which were part of an extension of the efficiency programmes currently running. Excluding the restructuring charges, expenses decreased 0.7% from 2012, despite higher pension costs, reflecting the benefits of the efficiency programmes and the transfer of WUB staff to NN Group as of mid-2013. Net additions to loan loss provisions rose to EUR 877 million from EUR 665 million in 2012, mainly due to higher risk costs on mortgages and to a lesser extent business lending, reflecting the continued weakness in the Dutch economy.

RETAIL BELGIUM

The underlying result before tax of Retail Belgium increased 10.3% compared with 2012 to EUR 663 million, due to higher income supported by volume growth.

Underlying income rose 5.8% to EUR 2,321 million, from EUR 2,194 million in 2012, mainly reflecting higher interest results driven by further growth in client balances, while margins on current accounts declined. In 2013, net production in funds entrusted was EUR 3.7 billion. The net mortgage production was EUR 1.0 billion, while other lending grew slightly by EUR 0.1 billion.

Operating expenses increased 3.6% compared with 2012 to EUR 1,476 million, mainly due to higher expenses for the deposit guarantee scheme and inflation-driven cost increases, which were partly offset by the benefits from the efficiency programmes. Risk costs were EUR 183 million, or 89 basis points of average risk-weighted assets. This is an increase of 8.9% on 2012, reflecting higher additions for business lending and mortgages, though the latter is still relatively low.

RETAIL GERMANY

Retail Germany's underlying result before tax rose 35.6% to EUR 598 million in 2013, compared with EUR 441 million in 2012, due to continued volume growth in most products and improved margins on savings.

Financial developments business lines continued

Underlying income increased by 16.3% to EUR 1,388 million in 2013 compared with EUR 1,193 million in 2012. The increase reflects higher interest results stemming from higher lending and savings balances and increased margins on savings supported by a reduction of the core savings rate in the beginning of 2013. Commission income rose by EUR 27 million from 2012, reflecting higher income from security brokerage. Investment and other income was slightly down, as the absence of de-risking losses in 2013 was offset by increased negative hedge ineffectiveness. Funds entrusted grew by EUR 9.2 billion in 2013. Lending growth was EUR 2.7 billion, of which EUR 2.2 billion was in mortgages.

Operating expenses increased 6.0% compared with 2012, due to higher personnel expenses reflecting an increase in headcount and increased expenses for the deposit guarantee scheme, in line with the growth of the business. The cost/income ratio improved to 51.1% from 56.1% in 2012. The additions to the provision for loan losses slightly declined to EUR 82 million, or 37 basis points of average risk-weighted assets, from EUR 83 million (or 38 basis points) in 2012.

RETAIL REST OF WORLD

The underlying result before tax of Retail Rest of World rose to EUR 471 million, compared with a loss of EUR 62 million in 2012, when results were impacted by EUR 441 million of losses related to selective de-risking of the investment portfolio.

Underlying income increased to EUR 2,374 million from EUR 1,807 million last year. Excluding de-risking losses, income rose 5.6% mainly due to improved commercial results in most countries, and a higher dividend from the Bank of Beijing. The interest result increased 2.2% due to higher margins, partly offset by currency impacts. Excluding currency effects and the sale of a mortgage portfolio in Australia, net production in mortgages was EUR 1.4 billion, while other lending grew by EUR 3.2 billion. Funds entrusted reported a net inflow of EUR 5.8 billion.

Operating expenses increased slightly by 0.3% to EUR 1,623 million in 2013, as higher expenses due to business growth were largely offset by favourable currency impacts. Risk costs rose to EUR 280 million, or 64 basis points of average risk-weighted assets, compared with EUR 250 million, or 50 basis points, in 2012. The increase in risk costs is mainly in India and Turkey reflecting the economic turmoil, partly offset by lower additions in Romania and the UK legacy portfolio.

COMMERCIAL BANKING

Commercial Banking's underlying result before tax rose 11.1% to EUR 1,817 million from EUR 1,635 million in 2012. Credit and debt valuation adjustments (CVA/DVA), fully recorded in Financial Markets, were EUR 173 million positive in 2013 versus EUR 457 million of negative adjustments in 2012. Excluding CVA/DVA, underlying result of Commercial Banking was 21.4% lower than in 2012, mainly caused by lower income in Bank Treasury, Real Estate & Other, partly offset by good cost control and lower risk costs.

Industry Lending posted an underlying result before tax of EUR 934 million in 2013, up from EUR 848 million in 2012, primarily due to higher income in Structured Finance and Corporate Investments combined with lower risk costs, which more than offset lower results on Real Estate Finance due to a downsizing of the portfolio in line with ING Bank's strategy. The underlying result before tax of General Lending & Transaction Services decreased to EUR 518 million from EUR 632 million in 2012. The decline was mainly attributable to lower interest results reflecting lower volumes in General Lending and margin pressure in Payments & Cash Management, while expenses were up due to investments in IT to enhance product capabilities. This was partly offset by lower risk costs. Financial Markets' underlying result increased to EUR 618 million from EUR 20 million last year, reflecting the aforementioned positive swing in CVA/DVA impacts. Underlying result of Bank Treasury, Real Estate & Other dropped to EUR –253 million in 2013, from EUR 135 million in 2012, mainly due to lower income from Bank Treasury activities following the lengthening of the Bank's funding profile and the further wind-down of the Lease run-off business. This was partly offset by lower impairments on real estate development projects.

Commercial Banking's total underlying income rose 0.6% to EUR 4,994 million compared with EUR 4,963 million in 2012. Excluding CVA/DVA, income declined 11.1% on 2012, due to lower interest results, especially in Bank Treasury and Financial Markets, but also in General Lending. Adjusted for currency impacts and the sale of a US Real Estate Finance portfolio, net lending declined slightly by EUR 0.2 billion in 2013, as lower volumes in Real Estate Finance, General Lending and the Lease run-off portfolio was offset by growth in Structured Finance and Trade Finance Services. Net funds entrusted grew by EUR 8.5 billion. Underlying operating expenses decreased 2.6% to EUR 2,310 million, due to good cost control and lower impairments on real estate development projects. The underlying cost/income ratio improved to 46.3%, from 47.8% in 2012.

Risk costs decreased to EUR 867 million, or 68 basis points of average risk-weighted assets, from EUR 955 million, or 72 basis points, in 2012. The decrease was mainly visible in Industry Lending, although risk costs in Real Estate Finance slightly increased. In General Lending risk costs were also lower.

The underlying return on equity, based on a 10% core Tier 1 ratio, increased to 11.0% from 9.0% in 2012 due to higher results and lower average risk-weighted assets. At year-end 2013, however, risk-weighted assets were 2.8% higher than a year ago, mainly due to lower foreclosure values of real estate assets partly offset by lower volumes and currency impacts.

Corporate governance

CORPORATE GOVERNANCE STATEMENT

This chapter is our Corporate Governance Statement, required pursuant to the Decree with respect to the contents of the annual report *(Besluit tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag van banken)* [(1)].

[(1)] Dutch Bulletin of Acts (Staatsblad) 2010, 215.

FINANCIAL REPORTING PROCESS

As ING Bank N.V. is a consolidated subsidiary of ING Groep N.V. ('ING Group') its policies and procedures for establishing and maintaining adequate internal control over financial reporting are the same as those applied by ING Group for its consolidated financial statements with respect to ING Bank N.V. and the entities included in the latter's own consolidated financial statements.

Our internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorisations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As ING Group is subject to the US Sarbanes-Oxley Act, its Executive Board assessed the effectiveness of its internal control over financial reporting as of 31 December 2013, which was audited by ING Group's external auditor. For more information, please refer to the 2013 Annual Report of ING Group which is available on its website (www.ing.com).

On 17 December 2013, ING Group announced that it had completed the agreement with the Dutch State on the unwinding of the Illiquid Assets Back-up Facility (‘IABF’) as announced on 1 November 2013. ING Group and the Dutch State formed the IABF on 26 January 2009 and ING Bank N.V. issued various series of debt instruments during 2009 under the 2008 Credit Guarantee Scheme of the Dutch State, for the first time on 30 January 2009. The terms of the agreement to unwind the IABF have been approved by the European Commission. The IABF is further described in note 33 to the consolidated annual accounts.

BOARD COMPOSITION

ING Group aims to have an adequate and balanced composition of the Management Board of ING Bank N.V. and ING Groep N.V. Thereto, annually, the Supervisory Board assesses the composition of the Boards. In the context of such assessment, ING Group aims to have a gender balance by having at least 30% men and at least 30% women amongst the members of the Management Board and the Supervisory Board. However, because of the fact that ING Group needs to balance several relevant selection criteria when composing the Boards, the composition of the Boards did not meet the above-mentioned gender balance in 2013. ING Group will continue to strive for an adequate and balanced composition of the Boards in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance of large stock-listed companies and experience in the political and social environment

SUPERVISORY BOARD:

ING Group needs to balance several relevant selection criteria when composing its Supervisory Board but strives for an adequate and balanced composition thereof, by taking into account all relevant selection criteria including but not limited to experience in retail and wholesale banking, insurance, gender balance, executive experience, experience in corporate governance and experience in the political and social environment. Annually, the Nomination Committee assesses the composition of the Supervisory Board. In the context of such assessment, ING Group aims to have a gender balance by having at least 30% men and at least 30% women amongst its Supervisory Board members. In 2013, the composition of the Supervisory Board met the above-mentioned gender balance (33.3% women).

Corporate governance continued

EXTERNAL AUDITOR

At the annual General Meeting held on 14 May 2012, Ernst & Young Accountants LLP (EY) was appointed to audit the financial statements of ING Group, including but not limited to ING Bank N.V., for the financial years 2012 and 2013, to report on the outcome of these audits to the Executive Board and the Supervisory Board and to provide an audit opinion on the financial statements of ING Group. In the 2013 annual General Meeting, the appointment of EY as auditor of ING Group was extended by two more years, i.e. for the financial years 2014 and 2015. ING Group started a project with the objective of changing its external audit firm as of the financial year 2016.

DUTCH BANKING CODE

The Dutch Banking Code ('Banking Code') is applicable to ING Bank N.V. and not to ING Group. The Banking Code can be downloaded from the website of the Dutch Banking Association (www.nvb.nl). The principles of the Banking Code as a whole are considered as a reference by ING Bank N.V. and their application is described in the publication 'Application of the Dutch Banking Code by ING Bank N.V.', available on the website of ING Group (www.ing.com). ING Group voluntarily applies the principles of the Banking Code regarding remuneration with respect to the members of its Executive Board and considers these principles as a reference for its own corporate governance. ING Group's remuneration policy for the Executive Board and senior management is compliant with these principles.

AMSTERDAM, 17 MARCH 2014
THE MANAGEMENT BOARD BANKING

Conformity statement

The Management Board Banking is required to prepare the Annual Accounts and the Annual Report of ING Bank N.V. for each financial year in accordance with applicable Dutch law and those International Financial Reporting Standards (IFRS) that were endorsed by the European Union.

Conformity statement pursuant to section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act (Wet op het financieel toezicht).
The Management Board Banking is responsible for maintaining proper accounting records, for safeguarding assets and for taking reasonable steps to prevent and detect fraud and other irregularities. It is responsible for selecting suitable accounting policies and applying them on a consistent basis, making judgements and estimates that are prudent and reasonable.
It is also responsible for establishing and maintaining internal procedures which ensure that all major financial information is known to the Management Board Banking, so that the timeliness, completeness and correctness of the external financial reporting are assured.

As required by section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act, each of the signatories hereby confirms that to the best of his or her knowledge:

- the ING Bank N.V. 2013 Annual Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of ING Bank N.V. and the enterprises included in the consolidation taken as a whole;
- the ING Bank N.V. 2013 Annual Report gives a true and fair view of the position at the balance sheet date, the development and performance of the business during the financial year 2013 of ING Bank N.V. and the enterprises included in the consolidation taken as a whole, together with a description of the principal risks ING Bank N.V. is being confronted with.

AMSTERDAM, 17 MARCH 2014
THE MANAGEMENT BOARD BANKING

R.A.J.G. (RALPH) HAMERS
CEO AND CHAIRMAN

J.V. (KOOS) TIMMERMANS
VICE-CHAIRMAN

P.G. (PATRICK) FLYNN
CFO

W.F. (WILFRED) NAGEL
CRO

W.L. (WILLIAM) CONNELLY
CEO COMMERCIAL BANKING

C.P.A.J. (ELI) LEENAARS
CEO RETAIL BANKING INTERNATIONAL

H. (HANS) VAN DER NOORDAA
CEO RETAIL BANKING BENELUX

Report of the Supervisory Board

GENERAL

MEETINGS

The Supervisory Board met ten times in 2013 of which eight meetings were regular meetings. On average, 96% of the Supervisory Board members were present at the scheduled meetings. For the two ad hoc meetings the average presence was 91%. Apart from closely monitoring the financial results in 2013, the Supervisory Board also monitored the progress in executing the Restructuring Plan of the European Commission (EC), including the repayment of the outstanding core Tier 1 securities to the Dutch State and the intended unwinding of the Illiquid Asset Back-up Facility.

In 2013 the Audit Committee met five times with no absentees to discuss the quarterly results, the Annual Report, the Form 20-F and the reports from the external auditor.

The Audit Committee regularly discussed financial reporting, internal controls over financial reporting, capital management and regulatory matters.

The Risk Committee met four times in 2013 with no absentees. At each Risk Committee meeting the financial risk and the non- financial risk reports for banking were discussed in detail. In May the Risk Committee discussed the ING Bank Recovery Report and was updated on the draft resolution plan for banking. In May and September the IT issues (DDoS attacks) and issues with the payment infrastructure were discussed in detail. Various stress test scenarios for ING Bank were discussed in August and a presentation on the risk costs of the business lending portfolio was given followed by a presentation on the smaller businesses and the SME segment in November. The annual risk appetite statements for Bank were supported. In November a risk management function review for the Bank was presented to the Risk Committee. As part of the 2013 permanent education programme, the Risk Committee was informed in depth on new risks in the financial sector. Each meeting ended with a general discussion on possible future risks.

The Nomination Committee met six times in 2013 with no absentees, to discuss succession matters for the Executive Board, specifically the CEO succession and the Management Board. A specific committee for the CEO succession reported to the Nomination Committee and the Supervisory Board in January and February 2013. The Nomination Committee advised to nominate Ralph Hamers as a member of the Executive Board, Management Board Banking as per the AGM of 13 May 2013 and CEO of ING Bank, as per 1 October 2013.

The Nomination Committee also advised on the re-appointment of various Supervisory Board members, the nomination of three Supervisory Board candidates as well as on the future composition of the Supervisory Board

In 2013, the Remuneration Committee met seven times with one absentee at one meeting. Throughout the year the Remuneration Committee approved Identified Staff related remuneration matters, based upon the governance framework. The functioning of the Executive Board and the Management Board was discussed regularly. The proposed 2013 performance objectives for the Board were reviewed and positively advised in January.

In February, the Remuneration Committee approved the thresholds over which the pool for variable remuneration becomes available. It discussed the variable remuneration pool and reviewed the performance assessment and variable remuneration proposal for the Executive Board and Management Board. The proposed hurdles for the 2013 capital test were discussed. The remuneration proposals for Identified Staff were reviewed in February and March, including potential cases for holdback of deferred compensation by way of malus. In February and April the remuneration package for the future CEO was discussed.

The annual review of the remuneration framework for ING Bank, took place as well as the annual risk analyses of the remuneration policy. The Identified staff selection criteria and the list of Identified staff for ING Bank were reviewed and approved.

In August an adjusted governance mandate for the Remuneration Committee was positively advised. The regulatory developments, including the proposed legislation regarding a 20% bonus constraint in the Netherlands and the possible implications for ING were discussed several times as well.

COMPOSITION OF THE EXECUTIVE AND THE MANAGEMENT BOARD

At the General Meeting of Shareholders in May 2013, Ralph Hamers became a member of the Executive Board and Management Board Banking as per AGM of 13 May 2013 and CEO of ING Bank, as per 1 October 2013. Jan Hommen remained as CEO until 1 October 2013. Patrick Flynn was appointed as a member of the Executive Board for a consecutive period of four years. On 1 October 2013, Ralph Hamers succeeded Jan Hommen as CEO.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD

Jeroen van der Veer was reappointed to the Supervisory Board for a consecutive period of four years. Tineke Bahlmann, the state- nominated Supervisory Board member, was reappointed to the Supervisory Board for a consecutive period of four years, concluding after the annual General Meeting in 2017.

Isabel Martín Castellá, Carin Gorter and Hermann-Josef Lamberti were appointed to the Supervisory Board on 13 May 2013 by the annual General Meeting. Following the annual General Meeting, Carin Gorter and Isabel Martín Castellá joined the Audit Committee. Carin Gorter also joined the Corporate Governance Committee.

Hermann-Josef Lamberti joined the Risk Committee. Henk Breukink and Yvonne van Rooy stepped down from the Audit Committee and joined the Remuneration and the Nomination committees. Please see page 3 for the composition of the Supervisory Board Committees at year-end 2013.

Luc Vandewalle will resign from the Supervisory Board at the annual General Shareholders Meeting in May 2014, having reached the statutory age of 70 years.

As a result of the unwinding of the IABF agreement, the governance restrictions as part of the IABF agreement will no longer be applicable, including the right of the Dutch State to nominate two members for appointment to the Supervisory Board and the special approval rights of the state-nominees regarding certain decisions of the Supervisory Board.

The Nomination Committee and the Supervisory Board will continue to strive for an adequate and balanced composition of the Supervisory Board when selecting and nominating new members for appointment.

Currently, only one Supervisory Board member, Luc Vandewalle qualifies as “non-independent“ as defined in best practice provision III.2.2 of the Dutch Corporate Governance Code. Luc Vandewalle is considered to be not independent because of his previous position at ING Bank Belgium.

ANNUAL ACCOUNTS AND DIVIDEND

The Annual Accounts have been prepared by the Management Board Banking and have been discussed by the Supervisory Board. They are presented to you for adoption. In 2013, from Retained Earnings, a dividend was paid to ING Groep N.V. amounting to EUR 1,500 million and an interim dividend was paid to ING Groep N.V. amounting to EUR 1,455 million.

APPRECIATION FOR THE MANAGEMENT BOARD AND ING EMPLOYEES

The Supervisory Board would like to express its gratitude to the members of the Executive Board and the Management Board Banking for their work in 2013. During 2013, decisive steps were once more taken in executing the European Commission restructuring agreement. The Supervisory Board would also like to thank all employees of ING who continue to serve the interests of customers, shareholders and other stakeholders of ING and have shown continued commitment in the past year.

AMSTERDAM, 17 MARCH 2014
THE SUPERVISORY BOARD

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Consolidated balance sheet of ING Bank

as at 31 December

amounts in millions of euros	2013	2012	2011
ASSETS			
Cash and balances with central banks 2	**11,920**	15,447	28,112
Amounts due from banks 3	**43,012**	39,053	45,323
Financial assets at fair value through profit and loss 4			
– trading assets	**113,537**	114,320	123,176
– non-trading derivatives	**5,731**	9,075	10,076
– designated as at fair value through profit and loss	**2,308**	2,768	2,838
Investments 5			
– available-for-sale	**76,883**	74,279	74,935
– held-to-maturity	**3,098**	6,545	8,868
Loans and advances to customers 6	**508,338**	541,546	577,569
Investments in associates 7	**707**	841	827
Real estate investments 8	**108**	207	435
Property and equipment 9	**2,282**	2,336	2,417
Intangible assets 10	**1,606**	1,778	1,743
Assets held for sale 11		6,781	62,483
Other assets 12	**18,114**	19,457	22,801
Total assets	**787,644**	834,433	961,603
EQUITY 13			
Shareholder's equity (parent)	**32,805**	34,964	34,805
Minority interests	**955**	843	693
Total equity	**33,760**	35,807	35,498
LIABILITIES			
Subordinated loans 14	**14,776**	16,407	18,408
Debt securities in issue 15	**122,299**	134,689	130,926
Amounts due to banks 16	**27,257**	38,704	72,233
Customer deposits and other funds on deposit 17	**474,783**	460,363	479,364
Financial liabilities at fair value through profit and loss 18			
– trading liabilities	**73,491**	83,652	107,682
– non-trading derivatives	**9,676**	15,919	18,161
– designated as at fair value through profit and loss	**13,855**	13,399	13,021
Liabilities held for sale 11		14,244	64,265
Other liabilities 19	**17,747**	21,249	22,045
Total liabilities	**753,884**	798,626	926,105
Total equity and liabilities	**787,644**	834,433	961,603

Amounts for 2012 and 2011 have been restated to reflect the changes in accounting policies for defined benefit pension schemes as disclosed in the section 'Changes in accounting policies in 2013' on page 24.

References relate to the notes starting on page 24. These form an integral part of the consolidated annual accounts.

Consolidated profit and loss account of ING Bank

for the years ended 31 December

amounts in millions of euros	2013	2013	2012	2012	2011	2011
Interest income	**51,574**		60,271		65,204	
Interest expense	**–39,610**		–48,023		–51,620	
Interest result 20		**11,964**		12,248		13,584
Investment income 21		**305**		595		–544
Result on disposals of group companies 22		**26**		1,605		813
Gross commission income	**3,345**		3,109		3,471	
Commission expense	**–1,105**		–976		–976	
Commission income 23		**2,240**		2,133		2,495
Valuation results on non-trading derivatives 24		**281**		–950		156
Net trading income 25		**485**		1,101		311
Share of profit from associates 7		**22**		22		32
Other income 26		**4**		–456		348
Total income		**15,327**		16,298		17,195
Addition to loan loss provisions 6		**2,289**		2,125		1,670
Intangible amortisation and other impairments 27		**136**		211		321
Staff expenses 28		**4,914**		4,708		5,519
Other operating expenses 29		**3,755**		4,711		4,399
Total expenses		**11,094**		11,755		11,909
Result before tax		**4,233**		4,543		5,286
Taxation 36		**1,080**		1,171		1,215
Net result (before minority interests)		**3,153**		3,372		4,071
Attributable to:						
Shareholder of the parent		**3,063**		3,281		3,993
Minority interests		**90**		91		78
		3,153		3,372		4,071

	2013	2012	2011
Dividend per ordinary share (in euros)	**6.35**	4.57	6.45
Total amount of dividend paid (in millions of euros)	**2,955**	2,125	3,000

Amounts for 2012 and 2011 have been restated to reflect the changes in accounting policies for defined benefit pension schemes as disclosed in the section ‘Changes in accounting policies in 2013’ on page 24.

References relate to the notes starting on page 24. These form an integral part of the consolidated annual accounts.

Consolidated statement of comprehensive income of ING Bank

for the years ended 31 December

amounts in millions of euros	2013	2012	2011
Net result	**3,153**	3,372	4,071
Items that will not be reclassified to the profit and loss account:			
Remeasurement of the net defined benefit asset/liability 35	**–811**	–2,309	1,189
Unrealised revaluations property in own use	**–7**	–9	–14
Items that may be reclassified subsequently to the profit and loss account:			
Unrealised revaluations available-for-sale investments and other	**–363**	1,972	–931
Realised gains/losses transferred to the profit and loss account	**–145**	–473	406
Changes in cash flow hedge reserve	**–25**	79	–182
Share of other comprehensive income of associates	**–35**	24	313
Exchange rate differences and other	**–1,038**	–313	–803
Total comprehensive income	**729**	2,343	4,049
Comprehensive income attributable to:			
Shareholder of the parent	**738**	2,178	3,973
Minority interests	**–9**	165	76
	729	2,343	4,049

Amounts for 2012 and 2011 have been restated to reflect the changes in accounting policies for defined benefit pension schemes as disclosed in the section ‘Changes in accounting policies in 2013’ on page 24.

Reference is made to Note 36 ‘Taxation’ for the disclosure on the income tax effects on each component of the other comprehensive income, except for the component Net result which is disclosed in the Consolidated profit and loss account.

Consolidated statement of cash flows of ING Bank

for the years ended 31 December

amounts in millions of euros		2013	2012	2011
Result before tax		**4,233**	4,543	5,286
Adjusted for	– depreciation	**624**	606	1,338
	– addition to loan loss provisions	**2,289**	2,125	1,670
	– other	**734**	1,641	1,240
Taxation paid		**–1,487**	–1,091	–1,067
Changes in	– amounts due from banks, not available on demand	**–9,400**	5,272	7,188
	– trading assets	**783**	7,448	1,662
	– non-trading derivatives	**–1,421**	–2,191	1,407
	– other financial assets at fair value through profit and loss	**–225**	–104	432
	– loans and advances to customers	**8,514**	1,130	–26,392
	– other assets	**1,362**	–1,323	–2,095
	– amounts due to banks, not payable on demand	**–10,266**	–26,459	–6,731
	– customer deposits and other funds on deposit	**24,387**	21,334	30,569
	– trading liabilities	**–10,172**	–24,031	–369
	– other financial liabilities at fair value through profit and loss	**646**	214	75
	– other liabilities	**–6,817**	–637	–310
Net cash flow from operating activities		**3,784**	–11,523	13,903
Investments and advances	– associates	**–20**	–20	–35
	– available-for-sale investments	**–78,654**	–71,323	–155,004
	– real estate investments		–4	–9
	– property and equipment	**–353**	–363	–422
	– assets subject to operating leases	**–82**		–1,188
	– loans		–1,117	
	– other investments	**–271**	–284	–263
Disposals and redemptions	– group companies	**–7,163**	–7,868	1,384
	– associates	**139**	29	263
	– available-for-sale investments	**72,221**	73,441	155,826
	– held-to-maturity investments	**3,439**	2,308	2,370
	– real estate investments	**36**	219	83
	– property and equipment	**58**	53	52
	– assets subject to operating leases			43
	– loans	**8,810**	7,268	927
	– other investments	**–1**	2	
Net cash flow from investing activities 30		**–1,841**	2,341	4,027
Proceeds from issuance of subordinated loans		**4,212**	1,318	2,363
Repayments of subordinated loans		**–4,936**	–2,919	–5,381
Proceeds from borrowed funds and debt securities		**138,883**	298,557	382,664
Repayments of borrowed funds and debt securities		**–144,958**	–296,419	–380,424
Dividends paid		**–2,955**	–2,125	–3,000
Net cash flow from financing activities		**–9,754**	–1,588	–3,778
Net cash flow 31		**–7,811**	–10,770	14,152
Cash and cash equivalents at beginning of year		**20,612**	31,197	17,188
Effect of exchange rate changes on cash and cash equivalents		**708**	185	–143
Cash and cash equivalents at end of year 32		**13,509**	20,612	31,197

Amounts for 2012 and 2011 have been restated to reflect the changes in accounting policies for defined benefit pension schemes as disclosed in the section ‘Changes in accounting policies in 2013’ on page 24.

As at 31 December 2013 Cash and cash equivalents includes Cash and balances with central banks of EUR 11,920 million (2012: EUR 15,447 million; 2011: EUR 28,112 million). Reference is made to Note 32 ‘Cash and cash equivalents’.

References relate to the notes starting on page 24. These form an integral part of the consolidated annual accounts.

Consolidated statement of changes in equity of ING Bank

amounts in millions of euros	Share capital	Share premium	Reserves	Total share-holder's equity (parent)	Minority interests	Total equity
Balance as at 1 January 2011 (before change in accounting policy)	525	16,542	17,385	34,452	617	35,069
Effect of change in accounting policy			–739	–739		–739
Balance at 1 January 2011 (after change in accounting policy)	525	16,542	16,646	33,713	617	34,330
Remeasurement of the net defined benefit asset/liability			1,189	1,189		1,189
Unrealised revaluations property in own use			–14	–14		–14
Unrealised revaluations available-for-sale investments and other			–931	–931		–931
Realised gains/losses transferred to the profit and loss account			406	406		406
Changes in cash flow hedge reserve			–182	–182		–182
Share of other comprehensive income of associates			313	313		313
Exchange rate differences and other			–801	–801	–2	–803
Total amount recognised directly in equity (other comprehensive income)			–20	–20	–2	–22
Net result			3,993	3,993	78	4,071
Total comprehensive income			3,973	3,973	76	4,049
Employee stock options and share plans			119	119		119
Changes in de composition of the group and other						
Dividends			–3,000	–3,000		–3,000
Balance as at 31 December 2011	525	16,542	17,738	34,805	693	35,498
Remeasurement of the net defined benefit asset/liability 35			–2,309	–2,309		–2,309
Unrealised revaluations property in own use			–9	–9		–9
Unrealised revaluations available-for-sale investments and other			1,972	1,972		1,972
Realised gains/losses transferred to the profit and loss account			–473	–473		–473
Changes in cash flow hedge reserve			60	60	19	79
Share of other comprehensive income of associates			24	24		24
Exchange rate differences and other			–368	–368	55	–313
Total amount recognised directly in equity (other comprehensive income)			–1,103	–1,103	74	–1,029
Net result			3,281	3,281	91	3,372
Total comprehensive income			2,178	2,178	165	2,343
Employee stock options and share plans			106	106	1	107
Changes in de composition of the group and other					–10	–10
Dividends			–2,125	–2,125	–6	–2,131
Balance as at 31 December 2012	525	16,542	17,897	34,964	843	35,807

Amounts for 2012 and 2011 have been restated to reflect the changes in accounting policies for defined benefit pension schemes as disclosed in the section 'Changes in accounting policies in 2013' on page 24.

Consolidated statement of changes in equity of ING Bank continued

amounts in millions of euros	Share capital	Share premium	Reserves	Total share-holder's equity (parent)	Minority interests	Total equity
Balance as at 1 January 2013	525	16,542	17,897	34,964	843	35,807
Remeasurement of the net defined benefit asset/liability 35			–811	–811		–811
Unrealised revaluations property in own use			–7	–7		–7
Unrealised revaluations available-for-sale investments and other			–333	–333	–30	–363
Realised gains/losses transferred to the profit and loss account			–145	–145		–145
Changes in cash flow hedge reserve			–15	–15	–10	–25
Share of other comprehensive income of associates			–35	–35		–35
Exchange rate differences and other			–979	–979	–59	–1,038
Total amount recognised directly in equity (other comprehensive income)			–2,325	–2,325	–99	–2,424
Net result			3,063	3,063	90	3,153
Total comprehensive income			738	738	–9	729
Employee stock options and share plans			58	58		58
Changes in the composition of the group and other					128	128
Dividends			–2,955	–2,955	–7	–2,962
Balance as at 31 December 2013	525	16,542	15,738	32,805	955	33,760

Changes in individual components are presented in Note 13 'Equity'.

Notes to the consolidated annual accounts of ING Bank

amounts in millions of euros, unless stated otherwise

NOTES TO THE ACCOUNTING POLICIES

AUTHORISATION OF ANNUAL ACCOUNTS

The consolidated annual accounts of ING Bank N.V. for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Management Board on 17 March 2014. The Management Board may decide to amend the annual accounts as long as these are not adopted by the General Meeting of Shareholders. The General Meeting of Shareholders may decide not to adopt the annual accounts, but may not amend these. ING Bank N.V. is incorporated and domiciled in Amsterdam, the Netherlands.
The principal activities of ING Bank are described in 'ING at a glance' in section 1.

1 ACCOUNTING POLICIES

ING Bank applies International Financial Reporting Standards as adopted by the European Union 'IFRS-EU'. In the annual accounts the term 'IFRS-EU' is used to refer to International Financial Reporting Standards as adopted by the EU, including the decisions ING Bank made with regard to the options available under IFRS-EU.

IFRS-EU provides several options in accounting policies. The key areas in which IFRS-EU allows accounting policy choices, and the related ING accounting policy, are summarised as follows:

- As explained in the section 'Principles of valuation and determination of results' and in Note 38 'Derivatives and hedge accounting' ING Bank applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU;
- ING's accounting policy for Real estate investments is fair value, with changes in fair value reflected immediately in the profit and loss account;
- ING's accounting policy for Property for own use is fair value, with changes in fair value reflected in the revaluation reserve in equity ('Other comprehensive income'). A net negative revaluation on individual properties is reflected immediately in the profit and loss account; and
- ING's accounting policy for joint ventures is proportionate consolidation.

ING's Bank accounting policies under IFRS-EU and its decision on the options available are included in the section 'Principles of valuation and determination of results' below. Except for the options included above, the principles in section 'Principles of valuation and determination of results' are IFRS-EU and do not include other significant accounting policy choices made by ING. The accounting policies that are most significant to ING are included in section 'Critical accounting policies'.

CHANGES IN ACCOUNTING POLICIES IN 2013

The following new and/or amended IFRS-EU standards were implemented by ING Bank in 2013:

- Amendments to IAS 19 'Employee Benefits';
- Amendments to IAS 1 'Presentation of Financial Statements';
- Amendments to IFRS 7 'Financial instruments: Disclosures'; and
- IFRS 13 'Fair Value Measurement'.

Amendments to IAS 19 'Employee Benefits'

The most significant change of the revised IAS 19 'Employee Benefits' relates to the accounting for defined benefit pension obligations and the corresponding plan assets. The amendments require immediate recognition in Other comprehensive income (i.e. in equity) of changes in the defined benefit obligation and in the fair value of plan assets due to actuarial gains and losses. The deferral of actuarial gains and losses through the 'corridor approach', which was applied under the previous version of IAS 19 until the end of 2012, is no longer allowed. As a related consequence, deferred actuarial gains and losses are no longer released to the profit and loss account upon curtailment. Furthermore, the amendments require the return on plan assets for the purpose of calculating the pension expense to be determined using a high-quality corporate bond rate, equal to the discount rate of the defined benefit obligation; until 2012 management's best estimate was applied. The amendments also introduce a number of other changes and extended disclosure requirements. The implementation of the amendments to IAS 19 resulted in the recognition of accumulated actuarial gains and losses in equity as at 1 January 2013, more information is provided in Note 35 'Pension and other Post employment benefits'. As a result, Shareholders' equity decreased with EUR 1.7 billion after tax (EUR 2.3 billion before tax) at 1 January 2013. The recognition of actuarial gains and losses in equity will create volatility in equity going forward. The changes in IAS 19 are implemented retrospectively; as a result, comparative figures for previous years have been restated and are presented as if the new requirements were always applied.

Notes to the consolidated annual accounts of ING Bank continued

The impact of changes in IAS 19 on previous reporting years is as follows:

Impact on Shareholders' equity	31 December 2012	31 December 2011	1 January 2011
Shareholders' equity (before change in accounting policy)	36,669	34,367	34,452
Change in Other assets - net defined benefit asset	–2,227	537	–979
Change in Other liabilities - net defined benefit liability	–70		
Change in net defined benefit asset/liability before tax	–2,297	537	–979
Tax effect	592	–99	240
Shareholders' equity (after change in accounting policy)	34,964	34,805	33,713

Impact on Net result	2012	2011
Net result from continuing operations (before change in accounting policy)	3,206	4,083
Impact on staff expenses - Pension and other staff-related benefit costs	213	–12
Tax effect	–47	
Net result (after change in accounting policy)	3,372	4,071

Impact on Other comprehensive income	2012	2011
Total amount recognised directly in equity (before change in accounting policy)	1,280	–1,211
Remeasurement of the net defined benefit asset/liability	–3,047	1,528
Tax effect	738	–339
Total amount recognised directly in equity (after change in accounting policy)	–1,029	–22

The change in accounting policy affects the balance sheet lines Other assets, Shareholders' equity (parent) and Other liabilities. Reference is made to Note 12 ‘Other assets’, Note 19 ‘Other liabilities’, Note 35 ‘Pensions and other post-employment benefits and Note 36 ‘Taxation’ for the financial impact as at 1 January 2012

The impact of changes in IAS 19 on 2013 is mainly related to the recognition of the Net defined benefit asset/liability remeasurement in Equity. As disclosed in Note 13 ‘Equity’ the amount of the Net defined benefit asset/liability remeasurement reserve was EUR –2,671 million at 31 December 2013 (31 December 2012: EUR –1,860 million). Without the changes in IAS 19, this negative reserve would not have been deducted from Equity.

Amendments to IAS 1 ‘Presentation of Financial Statements’
The amendments to IAS 1 ‘Presentation of Financial Statements’ resulted in changes to the presentation in the Consolidated Statement of Other Comprehensive income, including a split of Other comprehensive income into items that may be recognised in the profit and loss account in future periods and items that will never be recognised in the profit and loss account. There is no impact on Shareholders’ equity, Net result and/or Other comprehensive income.

Amendments to IFRS 7 ‘Financial instruments: Disclosures’
The amendments to IFRS 7 ‘Financial instruments: Disclosures’ introduced additional disclosures on offsetting (netting) of financial instruments in the balance sheet and on the potential effect of netting arrangements. There is no impact on Shareholders’ equity, Net result and/or Other comprehensive income. Reference is made to Note 43 'Offsetting financial assets and liabilities'.

IFRS 13 ‘Fair Value Measurement’
IFRS 13 ‘Fair Value Measurement’ brings together in one standard all guidance on how to determine fair value. It does not change the scope of assets/liabilities that are measured at fair value. ING Bank’s interpretation of fair value measurement was not significantly different from the guidance in IFRS 13. Therefore, the implementation of IFRS 13 ‘Fair Value Measurement’ at 1 January 2013 did not have a significant impact on Shareholders’ equity, Net result and/or Other comprehensive income. In addition, IFRS 13 introduces an extended scope for the disclosure of the fair value hierarchy by level of fair value for non-financial assets and liabilities. Reference is made to Note 37 'Fair value of assets and liabilities'.

As a result of the retrospective change in accounting policies set out above, the Consolidated balance sheet of ING Bank includes an additional balance sheet as at 31 December 2011.

OTHER SIGNIFICANT CHANGES IN 2013

The comparison of balance sheet items between 31 December 2013 and 31 December 2012 is impacted by the disposal of companies as disclosed in Note 46 ‘Companies and businesses acquired and divested’ and by the held for sale classification as disclosed in Note 11 ‘Assets and liabilities held for sale’. Changes in assets and liabilities as a result of classification as held for sale are included in the notes in the line ‘Changes in the composition of the group and other changes’.

The presentation of, and certain terms used in, the consolidated balance sheet, the consolidated profit and loss account, consolidated statement of cash flows, consolidated statement of changes in equity and certain notes has been changed to provide additional and more relevant information or (for changes in comparative information) to better align with the current period presentation. The impact of these changes is explained in the respective notes when significant.

UPCOMING CHANGES IN IFRS-EU AFTER 2013

The following new or revised standards and interpretations will become effective for ING Bank from 1 January 2014 (unless otherwise indicated), if and when endorsed by the EU:

- IFRS 10 ‘Consolidated Financial Statements’;
- IFRS 11 ‘Joint Arrangements’ and amendments to IAS 28 ‘Investments in Associates and Joint Ventures’;
- IFRS 12 ‘Disclosure of Interests in Other Entities’;
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27);
- Amendments to IAS 32 ‘Presentation - Offsetting Financial Assets and Financial Liabilities’;
- Amendments to IAS 39 ‘Novation of Derivatives and Continuation of Hedge Accounting’;
- IFRIC 21 'Levies'; and
- Amendments to IAS 36 'Recoverable amount disclosures for non-financial assets.

The significant upcoming changes in IFRS-EU after 2013 are explained below.

IFRS 10 ‘Consolidated Financial Statements’

IFRS 10 ‘Consolidated Financial Statements’ introduces amendments to the criteria for consolidation. Similar to the requirements that were applicable until the end of 2013, all entities controlled by ING Bank are included in the consolidated annual accounts. However, IFRS 10 redefines control as being exposed to variable returns and having the ability to affect those returns through power over the investee. The requirements in IFRS 10 are generally similar to the policies and interpretations that ING Bank applied and, therefore, the impact of implementing IFRS 10 is not significant.

The implementation of IFRS 10 as at 1 January 2014 will not have significant impact on Shareholders’ equity, Net result and/or Other comprehensive income.

IFRS 11 ‘Joint Arrangements’ and amendments to IAS 28 ‘Investments in Associates and Joint Ventures’

IFRS 11 ‘Joint Arrangements’ and the related amendments to IAS 28 ‘Investments in Associates and Joint Ventures’ eliminate the proportionate consolidation method for joint ventures that was applied by ING. Under the new requirements, all joint ventures will be reported using the equity method of accounting (similar to the accounting that is already applied for Investments in associates). The implementation of IFRS 11 as at 1 January 2014 will not have a significant impact on Shareholders’ equity, Net result and/or Other comprehensive income. The impact of IFRS 11 is included in the table below.

IFRS 12 ‘Disclosure of Interests in Other Entities’

IFRS 12 ‘Disclosure of Interests in Other Entities’ introduces extended disclosure requirements for subsidiaries, associates, joint ventures and structured entities. There is no impact on Shareholders’ equity, Net result and/or Other comprehensive income.

Notes to the consolidated annual accounts of ING Bank continued

Summary of impact as at 1 January 2014
The above mentioned impact of changes in IFRS requirements that are implemented as of 1 January 2014 is summarised as follows:

Upcoming changes in IFRS-EU in 2014	IFRS 11 'Joint Arrange-ments'
Assets held for sale	
Assets – other	78
Impact on Total assets	78
Liabilities held for sale	
Liabilities – other	78
Impact on Total liabilities	78
Impact on Total equity	0

IFRS 9 'Financial Instruments' was originally issued in November 2009, reissued in October 2010, and then amended in November 2013. Further amendments are expected to be finalised in 2014. The current version of IFRS 9 does not include a mandatory effective date. An effective date will be added when all phases of the project are complete and a final version of IFRS 9 is issued. The mandatory effective date of IFRS 9 is expected to be 2018. IFRS 9 is also not yet endorsed by the EU. Implementation of IFRS 9, if and when finalised and endorsed by the EU, may have a significant impact on Shareholders' equity, Net result and/or Other comprehensive income.

CRITICAL ACCOUNTING POLICIES
ING Bank has identified the accounting policies that are most critical to its business operations and to the understanding of its results. These critical accounting policies are those which involve the most complex or subjective decisions or assessments, and relate to loan loss provisions, the determination of the fair values of real estate and financial assets and liabilities, impairments and employee benefits. In each case, the determination of these items is fundamental to the financial condition and results of operations, and requires management to make complex judgements based on information and financial data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgements as to future events and are subject to change, as the use of different assumptions or data could produce significantly different results. For a further discussion of the application of these accounting policies, reference is made to the applicable notes to the consolidated financial statements and the information below under 'Principles of valuation and determination of results'.

LOAN LOSS PROVISIONS
Loan loss provisions are recognised based on an incurred loss model. Considerable judgement is exercised in determining the extent of the loan loss provision (impairment) and is based on the management's evaluation of the risk in the portfolio, current economic conditions, loss experience in recent years and credit, industry, geographical and concentration trends. Changes in such judgements and analyses may lead to changes in the loan loss provisions over time.

The identification of impairment and the determination of the recoverable amount are an inherently uncertain processes involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

Future cash flows in a portfolio of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Current observable data may include changes in unemployment rates, property prices and commodity prices. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

FAIR VALUES OF REAL ESTATE
Real estate investments are recognised at fair value. The fair value of real estate investments is based on regular appraisals by independent qualified valuers. The fair values are established using valuation methods such as: comparable market transactions, capitalisation of income methods or discounted cash flow calculations. The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. The discounted cash flow analyses and capitalisation of income method are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values for new leases when leases expire and incentives like rental free periods. The cash flows are discounted using market based interest rates that reflect appropriately the risk characteristics of real estate.

Market conditions in recent years have led to a reduced level of real estate transactions. Transaction values were significantly impacted by low volumes of actual transactions. As a result comparable market transactions have been used less in valuing ING's real estate investments by independent qualified valuers. More emphasis has been placed on discounted cash flow analysis and capitalisation of income method.

Reference is made to Note 37 'Fair value of assets and liabilities' for more disclosure on fair values of real estate investments.

The valuation of real estate involves various assumptions and techniques. The use of different assumptions and techniques could produce significantly different valuations. Consequently, the fair values presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of future fair values. To illustrate the uncertainty of our real estate investments valuation, a sensitivity analysis on the changes in fair value of real estate is provided in the 'Risk management' section.

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES
Fair values of financial assets and liabilities are based on unadjusted quoted market prices, where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments, where an exchange price is not available market prices may be obtained from independent market vendors, brokers or market makers. In general, positions are valued taking the bid price for a long position and the offer price for a short position. In some cases where positions are marked at mid-market prices, a fair value adjustment is calculated.

When markets are less liquid there may be a range of prices for the same security from different price sources, selecting the most appropriate price requires judgement and could result in different estimates of fair value.

For certain financial assets and liabilities, quoted market prices are not available. For these financial assets and liabilities fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour are taken into account. All valuation techniques used are subject to internal review and approval. Most data used in these valuation techniques are validated on a daily basis.

To include credit risk in the fair valuation, ING applies both credit and debit valuation adjustments (CVA, DVA). Own issued debt and structured notes that are valued at fair value are adjusted for credit risk by means of a DVA. Additionally, derivatives valued at fair value are adjusted for credit risk by a CVA. The CVA is of a bilateral nature as 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 also applies CVA for pricing credit risk into new external trades with counterparties.

Valuation techniques are subjective in nature and significant judgement is involved in establishing fair values for certain financial assets and liabilities. Valuation techniques involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value.

Price testing is performed to assess whether the process of valuation has led to an appropriate fair value of the position and to an appropriate reflection of these valuations in the profit and loss account. Price testing is performed to minimise the potential risks for economic losses due to incorrect or misused models.

Reference is made to Note 37 'Fair value of assets and liabilities' and the 'Risk management' section for the basis of the determination of the fair values of the financial instruments and related sensitivities.

Notes to the consolidated annual accounts of ING Bank continued

IMPAIRMENTS
Impairments evaluation is a complex process that inherently involves significant judgements and uncertainties that may have a significant impact on ING Bank's consolidated financial statements. Impairments are especially relevant in two areas: Available-for-sale debt and equity securities and Goodwill/Intangible assets.

All debt and equity securities (other than those carried at fair value through profit and loss) are subject to impairment testing every reporting period. The carrying value is reviewed in order to determine whether an impairment loss has been incurred. Evaluation for impairment includes both quantitative and qualitative considerations. For debt securities, such considerations include actual and estimated incurred credit losses indicated by payment default, market data on (estimated) incurred losses and other current evidence that the issuer may be unlikely to pay amounts when due. Equity securities are impaired when management believes that, based on a significant or prolonged decline, of the fair value below the acquisition price, there is sufficient reason to believe that the acquisition cost may not be recovered. 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities. Generally 25% and 6 months are used as triggers. Upon impairment, the full difference between the (acquisition) cost and fair value is removed from equity and recognised in net result. Impairments on debt securities may be reversed if there is a decrease in the amount of the impairment which can be objectively related to an observable event. Impairments on equity securities cannot be reversed.

Impairments on other debt instruments (Loans and held-to-maturity investments) are part of the loan loss provision as described above.

Impairment reviews with respect to goodwill and intangible assets are performed at least annually and more frequently if events indicate that impairments may have occurred. Goodwill is tested for impairment by comparing the carrying value (including goodwill) of the reporting unit to the best estimate of the recoverable amount of that reporting unit. The carrying value is determined as the IFRS-EU net asset value including goodwill. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount. A reporting unit is the lowest level at which goodwill is monitored. Intangible assets are tested for impairment by comparing the carrying value with the best estimate of the recoverable amount.

The identification of impairment is an inherently uncertain process involving various assumptions and factors, including financial condition of the counterparty, expected future cash flows, statistical loss data, discount rates, observable market prices, etc. Estimates and assumptions are based on management's judgement and other information available prior to the issuance of the financial statements. Significantly different results can occur as circumstances change and additional information becomes known.

EMPLOYEE BENEFITS
Group companies operate various defined benefit retirement plans covering a significant number of ING Bank's employees.

The net defined benefit asset/liability recognised in the balance sheet in respect of the defined benefit pension plans is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date.

The determination of the defined benefit obligation is based on internal and external actuarial models and calculations. The defined benefit obligation is calculated using the projected unit credit method. Inherent in these actuarial models are assumptions including discount rates (in particular based on market yields on high quality corporate bonds), rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs and consumer price index and are updated on a quarterly basis.

The actuarial assumptions may differ significantly from the actual results due to changes in market conditions, economic and mortality trends, and other assumptions. Any changes in these assumptions could have a significant impact on the net defined benefit asset/liabilities and future pension costs. Reference is made to Note 35 'Pension and other post-employment benefits' for the weighted averages of basic actuarial assumptions in connection with pension and other post-employment benefits.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULTS
CONSOLIDATION
ING Bank ('the Bank') comprises ING Bank N.V. and all subsidiaries. The consolidated financial statements of ING Bank comprise the accounts of ING Bank N.V. and all entities in which it either owns, directly or indirectly, more than half of the voting power or over which it has control of their operating and financial policies, through situations including, but not limited to:
- Ability to appoint or remove the majority of the board of directors;
- Power to govern such policies under statute or agreement; and
- Power over more than half of the voting rights through an agreement with other investors.

A list of principal subsidiaries is included in Note 47 'Principal subsidiaries'.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether ING Bank controls another entity. For interests in investment vehicles, the existence of control is determined taking into account both ING Bank's financial interests for own risk and its role as investment manager.

The results of the operations and the net assets of subsidiaries are included in the profit and loss account and the balance sheet from the date control is obtained until the date control is lost. On disposal, the difference between the sales proceeds, net of directly attributable transaction costs, and the net assets is included in net result.

A subsidiary which ING Bank has agreed to sell but is still legally owned by ING Bank may still be controlled by ING Bank at the balance sheet date and, therefore, still be included in the consolidation. Such a subsidiary may be presented as a held for sale disposal group if certain conditions are met.

All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Bank companies are eliminated. Where necessary, the accounting policies used by subsidiaries are changed to ensure consistency with ING Bank's policies. In general, the reporting dates of subsidiaries are the same as the reporting date of ING Bank N.V. ING Bank N.V. and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital and reserves required by law. Additionally, certain Bank companies are subject to restrictions on the amount of funds they may transfer in the form of dividends, or otherwise, to the parent company.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries.

ING Bank's interests in jointly controlled entities are accounted for using proportionate consolidation. ING Bank proportionately consolidates its share of the joint ventures' individual income and expenses, assets and liabilities, and cash flows on a line-by-line basis with similar items in ING Bank's financial statements. ING Bank recognises the portion of gains or losses on the sale of assets to the joint venture that is attributable to the other venturers. ING Bank does not recognise its share of profits or losses from the joint venture that results from the purchase of assets by ING Bank from the joint venture until it resells the assets to a third party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

Disposal groups held for sale
Disposal groups (and groups of non-current assets) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is only the case when the sale is highly probable and the disposal group (or group of assets) is available for immediate sale in its present condition; management must be committed to the sale, which is expected to occur within one year from the date of classification as held for sale.

Upon classification as held for sale, the carrying amount of the disposal group (or group of assets) is compared to their fair value less cost to sell. If the fair value less cost to sell is lower than the carrying value, this expected loss is recognised through a reduction of the carrying value of any goodwill related to the disposal group or the carrying value of certain other non-current non-financial assets to the extent that the carrying value of those assets exceeds their fair value. Any excess of the expected loss over the reduction of the carrying amount of these relevant assets is not recognised upon classification as held for sale, but is recognised as part of the result on disposal if and when a divestment transaction occurs.

Classification into or out of held for sale does not result in restating comparative amounts in the balance sheet.

USE OF ESTIMATES AND ASSUMPTIONS
The preparation of the consolidated financial statements necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities at the balance sheet date, as well as reported income and expenses for the year. The actual outcome may differ from these estimates.

The process of setting assumptions is subject to internal control procedures and approvals, and takes into account internal and external studies, industry statistics, environmental factors and trends, and regulatory requirements.

SEGMENT REPORTING
A segment is a distinguishable component of ING Bank, engaged in providing products or services, subject to risks and returns that are different from those of other segments. A geographical area is a distinguishable component of ING Bank engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. The geographical analyses are based on the location of the office from which the transactions are originated.

Notes to the consolidated annual accounts of ING Bank continued

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of ING Bank's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is the Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Exchange rate differences resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as part of qualifying cash flow hedges or qualifying net investment hedges.

Exchange rate differences on non-monetary items, measured at fair value through profit and loss, are reported as part of the fair value gain or loss. Non-monetary items are retranslated at the date the fair value is determined. Exchange rate differences on non-monetary items measured at fair value through the revaluation reserve are included in the revaluation reserve in equity.

Exchange rate differences in the profit and loss account are generally included in Net trading income. Reference is made to Note 25 'Net trading income', which discloses the amounts included in the profit and loss account. Exchange rate differences relating to the disposal of available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in Investment income. As mentioned below in Group companies, relating to the disposals of group Companies, any exchange rate difference deferred in equity is recognised in the profit and loss account in Result on disposals of group companies. Reference is made to Note 13 'Equity', which discloses the amounts included in the profit and loss account.

Group companies

The results and financial positions of all group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities included in each balance sheet are translated at the closing rate at the date of that balance sheet;
- Income and expenses included in each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange rate differences are recognised in a separate component of equity.

On consolidation exchange rate differences arising from the translation of a monetary item that forms part of the net investment in a foreign operation, and of borrowings and other instruments designated as hedges of such investments, are taken to shareholder's equity. When a foreign operation is sold, the corresponding exchange rate differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the balance sheet date.

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments are based on quoted market prices at the balance sheet date where available. The quoted market price used for financial assets held by ING Bank is the current bid price; the quoted market price used for financial liabilities is the current ask price.

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques. ING Bank uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Reference is made to Note 37 'Fair values of assets and liabilities' for the basis of the determination of the fair values of financial instruments.

RECOGNITION AND DERECOGNITION OF FINANCIAL INSTRUMENTS

Recognition of financial assets

All purchases and sales of financial assets classified as fair value through profit and loss, held-to-maturity and available-for-sale and trading that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date on which ING Bank commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date on which the bank receives or delivers the asset.

Derecognition of financial assets
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where ING Bank has transferred substantially all risks and rewards of ownership. If ING Bank neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset.

Financial liabilities
Debt securities in issue are recognised and derecognised at trade date.

Realised gains and losses on investments
Realised gains and losses on investments are determined as the difference between the sale proceeds and (amortised) cost. For equity securities the cost is determined using a weighted average per portfolio. For debt securities, the cost is determined by specific identification.

CLASSIFICATION OF FINANCIAL INSTRUMENTS
Financial assets at fair value through profit and loss
Financial assets at fair value through profit and loss include equity securities, debt securities, derivatives, loans and receivables and other and comprise the following sub-categories: trading assets, non-trading derivatives and financial assets designated as at fair value through profit and loss by management.

A financial asset is classified as at fair value through profit and loss if acquired principally for the purpose of selling in the short term or if designated by management as such. Management will make this designation only if this eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis. Transaction costs on initial recognition are expensed as incurred. See also Non-trading derivatives that do not qualify for hedge accounting.

Interest income from debt securities and loans and receivables classified as at fair value through profit and loss is recognised in Interest income in the profit and loss account, using the effective interest method. Dividend income from equity instruments classified as at fair value through profit and loss is generally recognised in Investment income in the profit and loss account, when dividend has been declared. For derivatives, reference is made to the 'Derivatives and hedge accounting'-section. For all other financial assets classified as at fair value through profit and loss changes in fair value are recognised in Net trading income.

Investments
Investments (including loans quoted in active markets) are classified either as held-to-maturity or available-for-sale and are initially recognised at fair value plus transaction costs. Investment debt securities and loans quoted in active markets with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities and actively traded loans intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale.

Available-for-sale financial assets
Available-for-sale financial assets include available-for-sale debt securities and available-for-sale equity securities. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. For available-for-sale debt securities, the difference between cost and redemption value is amortised. Interest income is recognised using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available-for-sale is recognised in Interest income in the profit and loss account. Dividend income from equity instruments classified as available-for-sale is generally recognised in Investment income in the profit and loss account when the dividend has been declared. Unrealised gains and losses arising from changes in the fair value are recognised in equity. When the securities are disposed of, the related accumulated fair value adjustments are included in the profit and loss account as Investment income. For impairments of available-for-sale financial assets reference is made to the section 'Impairment of other financial assets'. Investments in prepayment sensitive securities such as Interest-Only and Principal-Only strips are generally classified as available-for-sale.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity which ING Bank has the positive intent and ability to hold to maturity and which are designated by management as held-to-maturity assets are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from debt securities classified as held-to-maturity is recognised in Interest income in the profit and loss account using the effective interest method. Held-to-maturity investments include only debt securities.

Notes to the consolidated annual accounts of ING Bank continued

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Loans and receivables include Cash and balances with central banks, Amounts due from banks, Loans and advances to customers and Other assets and are reflected in these balance sheet lines. Interest income from loans and receivables is recognised in Interest income in the profit and loss account using the effective interest method.

Credit risk management classification
Credit risk management disclosures are provided in the section 'Risk management'. The relationship between credit risk classifications in that section and the consolidated balance sheet classifications above is explained below:

- Lending risk arises when ING Bank grants a loan to a customer, or issues guarantees on behalf of a customer and mainly relates to the balance sheet classification Loans and advances to customers and off balance sheet items e.g. obligations under financial guarantees and letters of credit;
- Investment risk comprises the credit default and migration risk that is associated with ING Bank's investment portfolio and among others relates to the balance sheet classifications Investments (available-for-sale and held-to-maturity) and Loans and advances to customers;
- Money market risk arises when ING Bank places short term deposits with a counterparty in order to manage excess liquidity and mainly relates to the balance sheet classification Amounts due from banks;
- 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 classification mainly relates to the balance sheet classification Financial assets at fair value through profit and loss (trading assets and non-trading derivatives) and to security financing; and
- Settlement risk arises when there is an exchange of value (funds, instruments or commodities) for the same or different value dates and receipt is not verified or expected until ING Bank has paid or delivered its side of the trade. Settlement risk mainly relates to the risk arising on disposal of financial instruments that are classified in the balance sheet as Financial assets at fair value through profit and loss (trading assets and non-trading derivatives) and Investments (available-for-sale and held-to-maturity).

Maximum credit risk exposure
The maximum credit risk exposure for items on the balance sheet is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 44 'Contingent liabilities and commitments' of these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure.

The manner in which ING Bank manages credit risk and determines credit risk exposures for that purpose is explained in the 'Risk management' section.

DERIVATIVES AND HEDGE ACCOUNTING
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets including recent market transactions and valuation techniques such as discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair values are negative.

Some credit protection contracts that take the legal form of a derivative, such as certain credit default swaps, are accounted for as financial guarantees.

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit and loss, and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account. An assessment is carried out when ING Bank first becomes party to the contract. A reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. ING Bank designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedges), or hedges of a net investment of a foreign operation. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction ING Bank documents the relationship between hedging instruments and hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. ING Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

ING Bank applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve-out' macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket.

ING Bank applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve-out' to its retail operations. The net exposures of retail funding (savings and current accounts) and retail lending (mortgages) are hedged. The hedging activities are designated under a portfolio fair value hedge on the mortgages. Changes in the fair value of the derivatives are recognised in the profit and loss account, together with the fair value adjustment on the mortgages (hedged items) insofar as attributable to interest rate risk (the hedged risk).

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the profit and loss account, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortised through the profit and loss account over the remaining term of the original hedge or recognised directly when the hedged item is derecognised. For non-interest bearing instruments, the cumulative adjustment of the hedged item is recognised in the profit and loss account only when the hedged item is derecognised.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Amounts accumulated in equity are recycled to the profit and loss account in the periods in which the hedged item affects net result. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is transferred immediately to the profit and loss account.

Net investment hedges
Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Gains and losses accumulated in equity are included in the profit and loss account when the foreign operation is disposed.

Non-trading derivatives that do not qualify for hedge accounting
Derivative instruments that are used by ING Bank as part of its risk management strategies but which do not qualify for hedge accounting under ING Bank's accounting policies are presented as non-trading derivatives. Non-trading derivatives are stated at fair value with changes in the fair value taken to the profit and loss account.

OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES
Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet when ING Bank has a current legally enforceable right to set off the recognised amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Offsetting is applied to certain interest rate swaps for which the services of a central clearing house are used. Furthermore, offsetting is also applied to certain current accounts for which the product features and internal procedures allow net presentation under IFRS.

REPURCHASE TRANSACTIONS AND REVERSE REPURCHASE TRANSACTIONS
Securities sold subject to repurchase agreements ('repos') are retained in the consolidated balance sheet. The counterparty liability is included in Amounts due to banks, Customer deposits and other funds on deposit or Trading as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recognised as Loans and advances to customers, Amounts due from banks or Financial assets at fair value through profit and loss - Trading assets, as appropriate. The difference between the sale and repurchase price is treated as interest and amortised over the life of the agreement using the effective interest method.

Notes to the consolidated annual accounts of ING Bank continued

IMPAIRMENTS OF LOANS AND ADVANCES TO CUSTOMERS (LOAN LOSS PROVISIONS)
ING Bank assesses periodically and at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, but before the balance sheet date, (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The following circumstances, among others, are considered objective evidence that a financial asset or group of assets is impaired:

- The borrower has sought or has been placed in bankruptcy or similar protection and this leads to the avoidance of or delays in repayment of the financial asset;
- The borrower has failed in the repayment of principal, interest or fees and the payment failure has remained unsolved for a certain period;
- The borrower has demonstrated significant financial difficulty, to the extent that it will have a negative impact on the expected future cash flows of the financial asset;
- The credit obligation has been restructured for non-commercial reasons. ING Bank has granted concessions, for economic or legal reasons relating to the borrower's financial difficulty, the effect of which is a reduction in the expected future cash flows of the financial asset; and
- Historical experience, updated for current events where necessary, provides evidence that a proportion of a group of assets is impaired although the related events that represent impairment triggers are not yet captured by ING Bank's credit risk systems.

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

ING Bank does not consider events that may be expected to occur in the future as objective evidence and, consequently, they are not used as a basis for concluding that a financial asset or group of assets is impaired.

In determining the impairment, expected future cash flows are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Losses expected as a result of future events, no matter how likely, are not recognised.

ING Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and then individually or collectively for financial assets that are not individually significant. If ING Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on an asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account ('Loan loss provision') and the amount of the loss is recognised in the profit and loss account under 'Addition to loan loss provision'. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The collective evaluation of impairment includes the application of a 'loss confirmation period' to default probabilities. The loss confirmation period is a concept which recognises that there is a period of time between the emergence of impairment triggers and the point in time at which those events are captured by ING Bank's credit risk systems. Accordingly, the application of the loss confirmation period ensures that impairments that are incurred but not yet identified are adequately reflected in ING Bank's loan loss provision. Although the loss confirmation periods are inherently uncertain, ING Bank applies estimates to sub-portfolios (e.g. large corporations, small and medium size enterprises and retail portfolios) that reflect factors such as the frequency with which customers in the sub-portfolio disclose credit risk sensitive information and the frequency with which they are subject to review by ING Bank's account managers.

Generally, the frequency increases in relation to the size of the borrower. Loss confirmation periods are based on historical experience and are validated, and revised where necessary, through regular back-testing to ensure that they reflect recent experience and current events.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the provision. The amount of the reversal is recognised in the profit and loss account.

When a loan is uncollectable, it is written off against the related loan loss provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the profit and loss account.

In most Retail portfolios, ING Bank has a write-off policy that requires 100% provision for all retail exposure after 2 years (3 years for mortgages) following the last default date.

IMPAIRMENT OF OTHER FINANCIAL ASSETS
At each balance sheet date, ING Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. (In the specific case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired). 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities; generally 25% and six months are used as triggers. If any objective evidence exists for available-for-sale debt and equity investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the net result – is removed from equity and recognised in the profit and loss account. Impairment losses on equity instruments can never be reversed. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

INVESTMENTS IN ASSOCIATES
Associates are all entities over which ING Bank has significant influence but not control. Significant influence generally results from a shareholding of between 20% and 50% of the voting rights, but also is the ability to participate in the financial and operating policies through situations including, but not limited to one or more of the following:
- Representation on the board of directors;
- Participation in the policymaking process; and
- Interchange of managerial personnel.

Investments in associates are initially recognised at cost and subsequently accounted for using the equity method of accounting.

ING Bank's investment in associates (net of any accumulated impairment loss) includes goodwill identified on acquisition. ING Bank's share of its associates' post-acquisition profits and losses is recognised in the profit and loss account, and its share of post-acquisition changes in reserves is recognised in equity. The cumulative post-acquisition changes are adjusted against the carrying amount of the investment. When ING Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, ING Bank does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between ING Bank and its associates are eliminated to the extent of ING Bank's interest in the associates. Unrealised losses are also eliminated unless they provide evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by ING Bank. The reporting dates of all significant associates are consistent with the reporting date of ING Bank.

For interests in investment vehicles the existence of significant influence is determined taking into account both ING Bank's financial interests for own risk and its role as investment manager.

REAL ESTATE INVESTMENTS
Real estate investments are recognised at fair value at the balance sheet date. Changes in the carrying amount resulting from revaluations are recognised in the profit and loss account. On disposal the difference between the sale proceeds and carrying value is recognised in the profit and loss account.

Notes to the consolidated annual accounts of ING Bank continued

The fair value of real estate investments is based on regular appraisals by independent qualified valuers. For each reporting period every property is valued either by an independent valuer or internally. Indexation is used when a property is valued internally. The index is based on the results of the independent valuations carried out in that period. Market transactions and disposals made by ING Bank are monitored as part of the validation procedures to test the indexation methodology. Valuations performed earlier in the year are updated if necessary to reflect the situation at the year-end. All properties are valued independently at least every five years and more frequently if necessary.

The fair values represent the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and willing seller in an at-arm's-length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. Fair values are based on appraisals using valuation methods such as: comparable market transactions, capitalisation of income methods or discounted cash flow calculations. The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. The discounted cash flow analyses and capitalisation of income method are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values for new leases when leases expire and incentives like rent free periods. The cash flows are discounted using market based interest rates that reflect appropriately the risk characteristics of real estate.

ING Bank owns a real estate portfolio, diversified by region, by investment segment (Office, Retail and Residential) and by investment type. The valuation of different investments is performed using different discount rates ('yields'), dependent on specific characteristics of each property, including occupancy, quality of rent payments and specific local market circumstances.

The valuation of real estate investments takes (expected) vacancies into account. Occupancy rates differ significantly from investment to investment.

For real estate investments held through (minority shares in) real estate investment funds, the valuations are performed under the responsibility of the funds' asset manager.

Subsequent expenditures are recognised as part of the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to ING Bank and the cost can be measured reliably. All other repairs and maintenance costs are recognised in the profit and loss account.

PROPERTY AND EQUIPMENT

Property in own use

Land and buildings held for own use are stated at fair value at the balance sheet date. Increases in the carrying amount arising on revaluation of land and buildings held for own use are credited to the revaluation reserve in shareholder's equity. Decreases in the carrying amount that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the profit and loss account. Increases that reverse a revaluation decrease on the same asset previously recognised in net result are recognised in the profit and loss account. Depreciation is recognised based on the fair value and the estimated useful life (in general 20-50 years). Depreciation is calculated on a straight-line basis. On disposal the related revaluation reserve is transferred to retained earnings.

The fair value of land and buildings is based on regular appraisals by independent qualified valuers or internally, similar to appraisals of Real estate investments. Subsequent expenditure is included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to ING Bank and the cost of the item can be measured reliably.

Property obtained from foreclosures

Property obtained from foreclosures is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Property obtained from foreclosures is included in Other assets – Property development and obtained from foreclosures.

Property development

Property developed and under development for which ING Bank has the intention to sell the property after its completion is included in Other assets – Property development and obtained from foreclosures.

Property development and under development for which ING Bank has the intention to sell the property under development after its completion and where there is not yet a specifically negotiated contract is measured at direct construction cost incurred up to the balance sheet date, including borrowing costs incurred during construction and ING Bank's own directly attributable development and supervision expenses less any impairment losses. Profit is recognised using the completed contract method (on sale date of the property). Impairment is recognised if the estimated selling price in the ordinary course of business, less applicable variable selling expenses is lower than carrying value.

Notes to the consolidated annual accounts of ING Bank continued

Property under development for which ING Bank has the intention to sell the property under development after its completion and where there is a specifically negotiated contract is valued using the percentage of completion method (pro rata profit recognition). The stage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs for each contract.

Property under development is stated at fair value (with changes in fair value recognised in profit and loss) if ING Bank has the intention to recognise the property under development after completion as real estate investments.

Equipment
Equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight-line basis over their estimated useful lives, which are generally as follows: for data processing equipment two to five years and four to ten years for fixtures and fittings. Expenditure incurred on maintenance and repairs is recognised in the profit and loss account as incurred. Expenditure incurred on major improvements is capitalised and depreciated.

Assets under operating leases
Assets leased out under operating leases in which ING Bank is the lessor are stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight-line basis over the lease term.

Disposals
The difference between the proceeds on disposal and net carrying value is recognised in the profit and loss account under Other income.

Borrowing costs
Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Borrowing costs are determined at the weighted average cost of capital of the project.

LEASES
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date.

ING Bank as the lessee
The leases entered into by ING Bank are primarily operating leases. The total payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any penalty payment required to be made to the lessor is recognised as an expense in the period in which termination takes place.

ING Bank as the lessor
When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable under Loans and advances to customers or Amounts due from banks. The difference between the gross receivable and the present value of the receivable is unearned lease finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. When assets are held subject to an operating lease, the assets are included under Assets under operating leases.

ACQUISITIONS, GOODWILL AND OTHER INTANGIBLE ASSETS
Acquisitions and goodwill
ING Bank's acquisitions are accounted for using the acquisition method of accounting. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. Goodwill, being the difference between the cost of the acquisition (including assumed debt) and ING Bank's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. The results of the operations of the acquired companies are included in the profit and loss account from the date control is obtained.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs, taking into account the initial accounting period below. Changes in the fair value of the contingent consideration classified as equity are not recognised.

Notes to the consolidated annual accounts of ING Bank continued

Where a business combination is achieved in stages, ING Bank's previously held interests in the assets and liabilities of the acquired entity are remeasured to fair value at the acquisition date (i.e. the date ING Bank obtains control) and the resulting gain or loss, if any, is recognised in the profit and loss account. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the profit and loss account, where such treatment would be appropriate if that interest were disposed of. Acquisition-related costs are recognised in the profit and loss account as incurred and presented in the profit and loss account as Other operating expenses.

Until 2009, before IFRS 3 'Business Combinations' was revised, the accounting of previously held interests in the assets and liabilities of the acquired entity were not remeasured at the acquisition date and the acquisition-related costs were considered to be part of the total consideration.

The initial accounting for the fair value of the net assets of the companies acquired during the year may be determined only provisionally as the determination of the fair value can be complex and the time between the acquisition and the preparation of the Annual Accounts can be limited. The initial accounting shall be completed within a year after acquisition.

Goodwill is only capitalised on acquisitions after the implementation date of IFRS-EU (1 January 2004). Accounting for acquisitions before that date has not been restated; goodwill and internally generated intangibles on these acquisitions were recognised directly in shareholder's equity. Goodwill is allocated to reporting units for the purpose of impairment testing. These reporting units represent the lowest level at which goodwill is monitored for internal management purposes. This test is performed annually or more frequently if there are indicators of impairment. Under the impairment tests, the carrying value of the reporting units (including goodwill) is compared to its recoverable amount which is the higher of its fair value less costs to sell and its value in use.

Adjustments to the fair value as at the date of acquisition of acquired assets and liabilities that are identified within one year after acquisition are recognised as an adjustment to goodwill; any subsequent adjustment is recognised as income or expense. On disposal of ING Bank companies, the difference between the sale proceeds and carrying value (including goodwill) and the unrealised results (including the currency translation reserve in equity) is included in the profit and loss account.

Computer software
Computer software that has been purchased or generated internally for own use is stated at cost less amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over its useful life. This period will generally not exceed three years. Amortisation is included in Other operating expenses.

Other intangible assets
Other intangible assets are capitalised and amortised over their expected economic life which is generally between three and ten years. Intangible assets with an indefinite life are not amortised.

TAXATION
Income tax on result for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account but it is recognised directly in equity if the tax relates to items that are recognised directly in equity.

Deferred income tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by ING Bank and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are recognised directly in equity, is also recognised directly in equity and is subsequently recognised in the profit and loss account together with the deferred gain or loss.

FINANCIAL LIABILITIES
Financial liabilities at amortised cost
Financial liabilities at amortised cost include the following sub-categories: Preference shares, other borrowed funds, debt securities in issue, subordinated loans, amounts due to banks and customer deposits and other funds on deposit.

Preference shares, which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities. The dividends on these preference shares are recognised in the profit and loss account as Interest expense using the effective interest method.

Borrowings are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

If ING Bank purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in the profit and loss account.

Financial liabilities at fair value through profit and loss
Financial liabilities at fair value through profit and loss comprise the following sub-categories: trading liabilities, non-trading derivatives and other financial liabilities designated as at fair value through profit and loss by management. Trading liabilities include equity securities, debt securities, funds on deposit and derivatives. Designation by management will take place only if it eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis. ING Bank has designated an insignificant part of the issued debt, relating to market-making activities, at fair value through profit and loss. This issued debt consists mainly of own bonds. The designation as fair value through profit and loss eliminates the inconsistency in the timing of the recognition of gains and losses. All other financial liabilities are measured at amortised cost.

Financial guarantee contracts
Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are initially recognised at fair value and are subsequently measured at the higher of the discounted best estimate of the obligation under the guarantee and the amount initially recognised less, cumulative amortisation to reflect revenue recognition principles.

OTHER LIABILITIES
Defined benefit plans
The net defined benefit asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date.

Plan assets are measured at fair value at the balance sheet date. For determining the pension expense, the return on plan assets is determined using a high quality corporate bond rate identical to the discount rate used in determining the defined benefit obligation.

Changes in plan assets that effect Shareholders' equity and/or Net result, include mainly:
- return on plan assets using a high quality corporate bond rate at the start of the reporting period which are recognised as staff costs in the profit and loss account; and
- remeasurements which are recognised in Other comprehensive income (equity).

The defined benefit obligation is calculated by internal and external actuaries through actuarial models and calculations using the projected unit credit method. This method considers expected future payments required to settle the obligation resulting from employee service in the current and prior periods, discounted using a high quality corporate bond rate. Inherent in these actuarial models are assumptions including discount rates, rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs, consumer price index and the expected level of indexation. The assumptions are based on available market data as well as management expectations and are updated regularly. The actuarial assumptions may differ significantly from the actual results due to changes in market conditions, economic and mortality trends, and other assumptions. Any changes in these assumptions could have a significant impact on the defined benefit plan obligation and future pension costs.

Changes in the defined benefit obligation that effects Shareholders' equity and/or Net result, include mainly:
- service cost which are recognised as staff costs in the profit and loss account;
- interest expenses using a high quality corporate bond rate at the start of the period which are recognised as staff costs in the profit and loss account; and
- remeasurements which are recognised in Other comprehensive income (equity).

Remeasurements recognised in other comprehensive income are not recycled to profit and loss. Any past service cost relating to a plan amendment is recognised in profit or loss in the period of the plan amendment. Gains and losses on curtailments and settlements are recognised in the profit and loss account when the curtailment or settlement occurs.

The recognition of a net defined benefit asset in the consolidated balance sheet is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Notes to the consolidated annual accounts of ING Bank continued

Defined contribution plans
For defined contribution plans, the Bank pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses in the profit and loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment obligations
Some ING Bank companies provide post-employment healthcare benefits to certain employees and former employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

Other provisions
A provision involves a present obligation arising from past events, the settlement of which is expected to result in an outflow from the company of resources embodying economic benefits, however the timing or the amount is uncertain. Provisions are discounted when the effect of the time value of money is significant using a before tax discount rate. The determination of provisions is an inherently uncertain process involving estimates regarding amounts and timing of cash flows.

Reorganisation provisions include employee termination benefits when ING Bank is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

INCOME RECOGNITION

Interest
Interest income and expense are recognised in the profit and loss account using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, ING Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of impairment, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

All interest income and expenses from trading positions and non-trading derivatives are classified as interest income and interest expenses in the profit and loss account. Changes in the ‘clean fair value’ are included in Net trading income and Valuation results on non-trading derivatives.

Fees and commissions
Fees and commissions are generally recognised as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as income when the syndication has been completed and ING Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third-party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds are recognised on a pro-rata basis over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Fees received and paid between banks for payment services are classified as commission income and expenses.

Lease income
The proceeds from leasing out assets under operating leases are recognised on a straight-line basis over the life of the lease agreement. Lease payments received in respect of finance leases when ING Bank is the lessor are divided into an interest component (recognised as interest income) and a repayment component.

EXPENSE RECOGNITION

Expenses are recognised in the profit and loss account as incurred or when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Share-based payments

Share-based payment expenses are recognised as a staff expense over the vesting period. A corresponding increase in equity is recognised for equity-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions is measured at the grant date. Rights granted will remain valid until the expiry date, even if the share based payment scheme is discontinued. The rights are subject to certain conditions, including a pre-determined continuous period of service.

GOVERNMENT GRANTS

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, the grant is recognised over the period necessary to match the grant on a systematic basis to the expense that it is intended to compensate. In such case, the grant is deducted from the related expense in the profit and loss account.

FIDUCIARY ACTIVITIES

ING Bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of ING Bank.

STATEMENT OF CASH FLOWS

The statement of cash flows is prepared in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. In the net cash flow from operating activities, the result before tax is adjusted for those items in the profit and loss account, and changes in balance sheet items, which do not result in actual cash flows during the year.

For the purposes of the statement of cash flows, Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, amounts due from other banks and amounts due to banks. Investments qualify as a cash equivalent if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash flows arising from foreign currency transactions are translated into the functional currency using the exchange rates at the date of the cash flows.

The net cash flow shown in respect of Loans and advances to customers relates only to transactions involving actual payments or receipts. The Addition to loan loss provisions which is deducted from the item Loans and advances to customers in the balance sheet has been adjusted accordingly from the result before tax and is shown separately in the statement of cash flows.

The difference between the net cash flow in accordance with the statement of cash flows and the change in Cash and cash equivalents in the balance sheet is due to exchange rate differences and is accounted separately for as part of the reconciliation of the net cash flow and the balance sheet change in Cash and cash equivalents.

Notes to the consolidated annual accounts of ING Bank continued

NOTES TO THE CONSOLIDATED BALANCE SHEET

ASSETS
2 CASH AND BALANCES WITH CENTRAL BANKS

Cash and balances with central banks	2013	2012
Amounts held at central banks	**10,270**	13,846
Cash and bank balances	**1,650**	1,601
	11,920	15,447

Amounts held at central banks reflect the demand balances.

3 AMOUNTS DUE FROM BANKS

Amounts due from banks		Netherlands		International		Total
	2013	2012	2013	2012	2013	2012
Loans and advances to banks	**10,911**	14,527	**30,011**	22,775	**40,922**	37,302
Cash advances, overdrafts and other balances	**1,634**	1,227	**475**	552	**2,109**	1,779
	12,545	15,754	**30,486**	23,327	**43,031**	39,081
Loan loss provision			**–19**	–28	**–19**	–28
	12,545	15,754	**30,467**	23,299	**43,012**	39,053

Loans and advances to banks includes balances (mainly short-term deposits) with central banks amounting to EUR 5,393 million (2012: EUR 1,057 million).

As at 31 December 2013, Amounts due from banks includes receivables with regard to securities, which have been acquired in reverse repurchase transactions amounting to EUR 5,137 million (2012: EUR 1,109 million), and receivables related to finance lease contracts amounting to EUR 73 million (2012: EUR 133 million).

Reference is made to Note 42 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

As at 31 December 2013, the non-subordinated receivables amounts to EUR 43,011 million (2012: EUR 39,050 million) and the subordinated receivables amounts to EUR 1 million (2012: EUR 3 million).

No individual amount due from banks has terms and conditions that significantly impact the amount, timing or certainty of the consolidated cash flows of ING Bank. For details on significant concentrations see 'Risk management' section.

4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial assets at fair value through profit and loss	2013	2012
Trading assets	**113,537**	114,320
Non-trading derivatives	**5,731**	9,075
Designated as at fair value through profit and loss	**2,308**	2,768
	121,576	126,163

Reference is made to Note 42 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Trading assets

Trading assets by type	2013	2012
Equity securities	**12,921**	4,741
Debt securities	**18,878**	17,462
Derivatives	**31,433**	55,166
Loans and receivables	**50,305**	36,951
	113,537	114,320

Notes to the consolidated annual accounts of ING Bank continued

Trading equity securities increased significantly in 2013 due to increased client facilitation. Most securities hedge accompanying swap transactions.

As at 31 December 2013, Trading assets includes receivables of EUR 48,690 million (2012: EUR 35,575 million) with regard to reverse repurchase transactions.

Trading assets and trading liabilities include assets and liabilities that are classified under IFRS as 'Trading' but are closely related to servicing the needs of the clients of ING Bank. ING Bank offers institutional and corporate clients and governments products that are traded on the financial markets. A significant part of the derivatives in the trading portfolio are related to servicing corporate clients in their risk management to hedge for example currency or interest rate exposures. In addition, ING Bank provides its customers access to equity and debt markets for issuing their own equity or debt securities ('Securities underwriting'). Although these are presented as 'Trading' under IFRS, these are directly related to services to ING's customers. Loans and receivables in the trading portfolio mainly relate to (reverse) repurchase agreements, which are comparable to collateralised borrowing (lending). These products are used by ING Bank as part of its own regular treasury activities, but also relate to the role that ING Bank plays as intermediary between different professional customers. Trading assets and liabilities held for ING's own risk are very limited. From a risk prospective, the gross amount of trading assets must be considered together with the gross amount of trading liabilities, which are presented separately on the balance sheet. However, IFRS does not allow netting of these positions in the balance sheet. Reference is made to Note 18 'Financial liabilities at fair value through profit and loss' for information on trading liabilities.

Non-trading derivatives

Non-trading derivatives by type

	2013	2012
Derivatives used in		
– fair value hedges	991	2,556
– cash flow hedges	3,090	4,914
– hedges of net investments in foreign operations	138	47
Other non-trading derivatives	1,512	1,558
	5,731	9,075

Other non-trading derivatives mainly includes interest rate swaps for which no hedge accounting is applied.

Designated as at fair value through profit and loss

Designated as at fair value through profit and loss by type

	2013	2012
Equity securities	10	13
Debt securities	1,246	1,586
Loans and receivables	1,052	1,169
	2,308	2,768

Included in the Financial assets designated as at fair value through profit and loss is a portfolio of loans and receivables which is economically hedged by credit derivatives. The hedges do not meet the criteria for hedge accounting and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans and receivables included in Financial assets designated as at fair value through profit and loss approximates its carrying value. The cumulative change in fair value of the loans attributable to changes in credit risk is not significant.

The notional value of the related credit derivatives is EUR 111 million (2012: EUR 61 million). The change in fair value of the credit derivatives attributable to changes in credit risk since the loans were first designated amounts to EUR –4 million (2012: EUR –6 million) and the change for the current year is EUR 2 million (2012: EUR –3 million).

The changes in fair value of the (designated) loans attributable to changes in credit risk have been calculated by determining the changes in credit spread implicit in the fair value of bonds issued by entities with similar credit characteristics.

Notes to the consolidated annual accounts of ING Bank continued

5 INVESTMENTS

Investments by type	2013	2012
Available-for-sale		
– equity securities	**1,645**	2,634
– debt securities	**75,238**	71,645
	76,883	74,279
Held-to-maturity		
– debt securities	**3,098**	6,545
	3,098	6,545
	79,981	80,824

Equity securities in 2013 include EUR 194 million shares in third party managed investment funds.

Exposure to debt securities
ING Bank's exposure to debt securities is included in the following balance sheet lines:

Debt securities	2013	2012
Available-for-sale investments	**75,238**	71,645
Held-to-maturity investments	**3,098**	6,545
Loans and advances to customers	**15,435**	20,622
Amounts due from banks	**3,059**	3,386
Available-for-sale investments and Assets at amortised cost	**96,830**	102,198
Trading assets	**18,878**	17,462
Designated as at fair value through profit and loss	**1,246**	1,586
Financial assets at fair value through profit and loss	**20,124**	19,048
	116,954	121,246

ING Bank's total exposure to debt securities included in available-for-sale investments and assets at amortised cost of EUR 96,830 million (2012: EUR 102,198 million) is specified as follows by type of exposure:

Debt securities by type and balance sheet lines Available-for-sale investments and Assets at amortised cost (total)	Available-for-sale investments		Held-to-maturity investments		Loans and advances to customers		Amounts due from banks		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Government bonds	**52,629**	48,007	**50**	330	**3,654**	7,641			**56,333**	55,978
Covered bonds	**8,216**	7,363	**2,563**	5,558	**4,559**	5,408	**3,059**	3,249	**18,397**	21,578
Corporate bonds	**1,576**	900			**805**	438			**2,381**	1,338
Financial institution bonds	**11,855**	14,094	**130**	301	**81**	91		137	**12,066**	14,623
Bond portfolio (excluding ABS)	**74,276**	70,364	**2,743**	6,189	**9,099**	13,578	**3,059**	3,386	**89,177**	93,517
US agency RMBS	**334**	426							**334**	426
US prime RMBS	**12**	12							**12**	12
US Alt-A RMBS	**84**	156							**84**	156
US subprime RMBS	**13**	23							**13**	23
Non-US RMBS	**185**	286			**4,493**	4,970			**4,678**	5,256
CDO/CLO	**20**	162							**20**	162
Other ABS	**296**	107	**355**	356	**1,739**	1,789			**2,390**	2,252
CMBS	**18**	109			**104**	285			**122**	394
ABS portfolio	**962**	1,281	**355**	356	**6,336**	7,044			**7,653**	8,681
	75,238	71,645	**3,098**	6,545	**15,435**	20,622	**3,059**	3,386	**96,830**	102,198

Approximately 90% of the exposure in the ABS portfolio is externally rated AAA, AA or A.

Notes to the consolidated annual accounts of ING Bank continued

In connection with the divestment of ING Direct USA, ING completed in 2012 the restructuring of the agreement with the Dutch State concerning the Illiquid Assets Back-Up Facility (IABF). As a result of the restructuring, EUR 7.3 billion (USD 9.5 billion) of the loan due from the Dutch State was converted into Dutch Government Debt Securities. These debt securities are classified as Loans and advances to customers. The balance as at 31 December 2013 amounts to EUR 2.5 billion (USD 3.4 billion). Reference is made to Note 46 'Companies and businesses acquired and divested' and Note 49 'Related parties'.

Debt securities – Exposure to certain Asset backed securities
The table below shows certain ABS (US Subprime RMBS, Alt-A RMBS, CMBS and CDO/CLOs). It includes exposures in all relevant balance sheet lines, including not only loans and advances and available-for-sale investments as disclosed above, but also financial assets designated as at fair value through profit and loss.

Exposures, revaluations and losses on certain ABS bonds

	31 December 2013		Change in 2013			31 December 2012	
	Balance Sheet Value [1]	**Before tax revaluation reserve**	**Changes through equity (before tax)**	**Changes through profit and loss (before tax)**	**Other changes**	Balance Sheet Value [1]	Pre-tax revaluation reserve
US Subprime RMBS	**13**		**3**		**–13**	23	–3
US Alt-A RMBS	**91**		**–9**		**–73**	173	9
CDO/CLOs	**140**	**–6**	**–34**		**–210**	384	28
CMBS	**122**	**2**	**2**		**–274**	394	
Total	**366**	**–4**	**–38**		**–570**	974	34

[1] For assets classified as loans and advances to customers: amortised cost; otherwise: fair value.

Reference is made to Note 37 'Fair value of assets and liabilities' for disclosure by fair value hierarchy and Note 21 'Investment income' for impairments on available-for-sale debt securities.

Debt securities - Exposure to Government bonds and Unsecured Financial institutions' bonds on Greece, Italy, Ireland, Portugal, Spain and Cyprus
2013
Since 2010 concerns arose regarding the creditworthiness of certain European countries. As a result of these concerns the value of sovereign debt decreased and exposures in those countries are being monitored closely. With regard to the sovereign debt crisis, ING Bank's main focus is on Greece, Italy, Ireland, Portugal, Spain and Cyprus as these countries have either applied for support from the European Financial Stability Facility ('EFSF') or receive support from the European Central Bank ('ECB') via government bond purchases in the secondary market. For these countries, ING Bank's main focus is on exposure to Government bonds and Unsecured Financial institutions' bonds.

Notes to the consolidated annual accounts of ING Bank continued

As at 31 December 2013, ING Bank's balance sheet value of 'Government bonds' and 'Unsecured Financial institutions' bonds to Greece, Italy, Ireland, Portugal, Spain and Cyprus and the related revaluation reserve (before tax) in equity is as follows:

Greece, Italy, Ireland, Portugal, Spain and Cyprus– Government bonds and Unsecured Financial institutions' bonds [1]

2013	Balance Sheet value	Before tax revaluation reserve	Before tax impairments	Amortised cost value	Fair value for investments held-to-maturity
Greece					
Government bonds available-for-sale					
Italy					
Government bonds available-for-sale	1,259	5		1,254	
Government bonds at amortised costs (loans)	102			102	
Financial institutions available-for-sale	178	–2		180	
Financial institutions at amortised costs (held-to-maturity)	30			30	30
Ireland					
Financial institutions available-for-sale	15			15	
Financial institutions at amortised costs (held-to-maturity)					
Portugal					
Government bonds available-for-sale	493	4		489	
Financial institutions available-for-sale	8			8	
Spain					
Government bonds available-for-sale	311	–51		362	
Government bonds at amortised costs (held-to-maturity)	50			50	51
Financial institutions available-for-sale	3			3	
Cyprus					
Government bonds available-for-sale	10			10	
Total	2,459	–44		2,503	81

[1] Exposures are included based on the country of residence.

The revaluation reserve on debt securities includes EUR 1,074 million (before tax) related to Government bonds. This amount comprises EUR –42 million revaluation reserve for Government bonds from Greece, Italy, Ireland, Portugal, Spain and Cyprus, which is more than offset by EUR 1,116 million positive revaluation reserves for Government bonds from other countries.

2012

As at 31 December 2012, ING Bank's balance sheet value of 'Government bonds and 'Unsecured Financial institutions' bonds to Greece, Italy, Ireland, Portugal, Spain and Cyprus and the related pre-tax revaluation reserve (before tax) in equity was as follows:

Greece, Italy, Ireland, Portugal, Spain and Cyprus– Government bonds and Unsecured Financial institutions' bonds [(1)]

2012	Balance Sheet value	Before tax revaluation reserve	Before tax impairments	Amortised cost value	Fair value for investments held-to-maturity
Greece					
Government bonds available-for-sale					
Italy					
Government bonds available-for-sale	960	–95		1,055	
Government bonds at amortised costs (loans)	104	–1		104	
Financial institutions available-for-sale	447	–6		453	
Financial institutions at amortised costs (held-to-maturity)	30			30	31
Ireland					
Financial institutions available-for-sale	15			15	
Financial institutions at amortised costs (held-to-maturity)	34			34	34
Portugal					
Government bonds available-for-sale	620	–14		634	
Financial institutions available-for-sale	37	–1		38	
Spain					
Government bonds available-for-sale	279	–104		383	
Government bonds at amortised costs (held-to-maturity)	50			50	52
Financial institutions available-for-sale	3	2		1	
Cyprus					
Government bonds available-for-sale	13	–5		18	
Total	2,592	–224		2,815	117

(1) Exposures are included based on the country of residence.

The revaluation reserve on debt securities included EUR 1,688 million (before tax) related to Government bonds. This amount comprised EUR –219 million revaluation reserve for Government bonds from Greece, Italy, Ireland, Portugal, Spain and Cyprus, which was more than offset by EUR 1,907 million positive revaluation reserves for Government bonds from other countries.

On 21 July 2011, a Private Sector Involvement ('PSI') to support Greece was announced. This initiative involved a voluntary exchange of existing Greek government bonds together with a Buyback Facility. In 2012, the agreement under the PSI to exchange Greek Government bonds into new instruments was executed. Under this exchange, ING Bank received new listed Greek Government bonds (for a notional amount of 31.5% of the notional of the exchanged bonds, maturities between 2023 and 2042), listed European Financial Stability Facility ('EFSF') notes (for a notional amount of 15% of the notional of the exchanged bonds, maturities of one to two years) and listed short-term EFSF notes (maturity of 6 months, in discharge of all unpaid interest accrued on the exchanged bonds). These new securities were recognised as available-for-sale instruments. Furthermore, ING Bank received listed GDP-linked securities issued by Greece (notional equal to notional of the new Greek Government bonds, maturity 2042). The exchange was executed on 12 March 2012. The exchanged bonds were derecognised and the new instruments were recognised at fair value on the exchange date. The exchange resulted in a gain of EUR 22 million in 2012, being the difference between amortised cost (net of cumulative impairments) of the exchanged bonds and fair value of the new instruments at the date of exchange. This result was included in 'Investment income'. In July 2012 ING Bank sold all its Greek government bonds to NN Group. This resulted in a loss on the sale of bonds of EUR 74 million and is included in 'Other income – Other'.

Reference is made to Note 37 'Fair value of assets and liabilities' for disclosure by fair value hierarchy and Note 21 'Investment income' for impairments on available-for-sale debt securities.

Further information on ING Bank's risk exposure with regard to Greece, Italy, Ireland, Portugal, Spain and Cyprus is provided in the 'Risk management' section.

Notes to the consolidated annual accounts of ING Bank continued

Changes in available-for-sale and held-to-maturity investments

Changes in available-for-sale and held-to-maturity investments

	Available-for-sale equity securities		Available-for-sale debt securities		Held-to-maturity		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Opening balance	**2,634**	2,466	**71,645**	72,469	**6,545**	8,868	**80,824**	83,803
Additions	**46**	2,089	**78,663**	70,546			**78,709**	72,635
Amortisation			**–69**	–67	**–6**	–15	**–75**	–82
Transfers and reclassifications			**–282**				**–282**	
Changes in unrealised revaluations	**–235**	607	**–1,265**	3,414	**–1**		**–1,501**	4,021
Impairments	**–3**	–22	**–1**	–16			**–4**	–38
Reversal of impairments			**2**				**2**	
Disposals and redemptions	**–781**	–2,513	**–71,440**	–70,928	**–3,439**	–2,308	**–75,660**	–75,749
Exchange rate differences	**–12**	–1	**–2,001**	342			**–2,013**	341
Changes in the composition of the group and other changes	**–4**	8	**–14**	–4,115	**–1**		**–19**	–4,107
Closing balance	**1,645**	2,634	**75,238**	71,645	**3,098**	6,545	**79,981**	80,824

In 2012, Changes in the composition of the group and other changes relates mainly to the disposal of ING Direct Canada. Reference is made to Note 46 ‘Companies and businesses acquired and divested’.

Reference is made to Note 21 ‘Investment income’ for details on impairments.

The decrease in Held-to-maturity debt securities is mainly due to redemptions.

Transfers and reclassifications of available-for-sale and held-to-maturity investments

Transfers and reclassifications of available-for-sale and held-to-maturity investments

	Available-for-sale equity securities		Available-for-sale debt securities		Held-to-maturity		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
To/from loans and advances to customers / amounts due from banks			**–282**				**–282**	
			–282				**–282**	

In 2013, To/from loans and advances to customers/amounts due from banks in relation to Available-for-sale debt securities relates to a debt security that was reclassified to Loans and advances to customers because there is no active market.

Reclassifications to Loans and advances to customers and Amounts due from banks (2009 and 2008)
Reclassifications out of available-for-sale investments to loans and receivables are allowed under IFRS-EU as of the third quarter of 2008. In the first quarter of 2009 and in the fourth quarter of 2008 ING Bank reclassified certain financial assets from Investments available-for-sale to Loans and advances to customers and Amounts due from banks. ING Bank identified assets eligible for reclassification, for which at the reclassification date it had the intention to hold for the foreseeable future. The table below provides information on the two reclassifications made in the first quarter of 2009 and in the fourth quarter of 2008. Information is provided for both reclassifications (see columns) as at the date of reclassification and as at the end of the subsequent reporting periods (see rows). This information is disclosed under IFRS-EU as long as the reclassified assets continue to be recognised in the balance sheet.

In 2012 the decrease in the carrying value of the reclassified Loans and advances compared to 2011 was mainly due to disposals.

Notes to the consolidated annual accounts of ING Bank continued

Reclassifications to Loans and advances to customers and Amounts due from banks		
	Q1 2009	Q4 2008
As per reclassification date		
Fair value	22,828	1,594
Range of effective interest rates (weighted average)	2.1% - 11.7%	4.1% - 21.0%
Expected recoverable cash flows	24,052	1,646
Unrealised fair value losses in shareholder's equity (before tax)	–1,224	–69
Recognised fair value gains (losses) in shareholder's equity (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	nil	–79
Recognised fair value gains (losses) in shareholder's equity (before tax) in the year prior to reclassification	–192	–20
Recognised impairment (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	nil	nil
Recognised impairment (before tax) in the year prior to reclassification	nil	nil
Impact on the financial years after reclassification:		
2013		
Carrying value as at 31 December	**7,461**	**366**
Fair value as at 31 December	**7,215**	**422**
Unrealised fair value losses recognised in shareholder's equity (before tax) as at 31 December	**–137**	**0**
Effect on shareholder's equity (before tax) as at 31 December if reclassification had not been made	**–246**	**56**
Effect on result (before tax) if reclassification had not been made	**nil**	**nil**
Effect on result (before tax) for the year (interest income and sales results)	**188**	**20**
Recognised impairments (before tax)	**nil**	**nil**
Recognised provision for credit losses (before tax)	**nil**	**nil**
2012		
Carrying value as at 31 December	8,707	443
Fair value as at 31 December	8,379	512
Unrealised fair value losses recognised in shareholder's equity (before tax) as at 31 December	–221	–2
Effect on shareholder's equity (before tax) as at 31 December if reclassification had not been made	–328	69
Effect on result (before tax) if reclassification had not been made	nil	nil
Effect on result (before tax) for the year (interest income and sales results)	–164	22
Recognised impairments (before tax)	nil	nil
Recognised provision for credit losses (before tax)	nil	nil
2011		
Carrying value as at 31 December	14,419	633
Fair value as at 31 December	13,250	648
Unrealised fair value losses recognised in shareholder's equity (before tax) as at 31 December	–446	–8
Effect on shareholder's equity (before tax) as at 31 December if reclassification had not been made	–1,169	15
Effect on result (before tax) if reclassification had not been made	nil	nil
Effect on result (before tax) for the year (mainly interest income)	390	28
Recognised impairments (before tax)	nil	nil
Recognised provision for credit losses (before tax)	nil	nil
2010		
Carrying value as at 31 December	16,906	857
Fair value as at 31 December	16,099	889
Unrealised fair value losses recognised in shareholder's equity (before tax) as at 31 December	–633	–65
Effect on shareholder's equity (before tax) as at 31 December if reclassification had not been made	–807	32
Effect on result (before tax) if reclassification had not been made	nil	nil
Effect on result (before tax) for the year (mainly interest income)	467	34
Recognised impairments (before tax)	nil	nil
Recognised provision for credit losses (before tax)	nil	nil

Notes to the consolidated annual accounts of ING Bank continued

Reclassifications to Loans and advances to customers and Amounts due from banks (continued)	Q1 2009	Q4 2008
2009		
Carrying value as at 31 December	20,551	1,189
Fair value as at 31 December	20,175	1,184
Unrealised fair value losses in shareholder's equity (before tax) as at 31 December	–902	–67
Effect on shareholder's equity (before tax) as at 31 December if reclassification had not been made	–376	–5
Effect on result (before tax) if reclassification had not been made	nil	nil
Effect on result (before tax) after the reclassification until 31 December (mainly interest income)	629	n/a
Effect on result (before tax) for the year (mainly interest income)	n/a	47
Recognised impairments (before tax)	nil	nil
Recognised provision for credit losses (before tax)	nil	nil
2008		
Carrying value as at 31 December		1,592
Fair value as at 31 December		1,565
Unrealised fair value losses recognised in shareholder's equity (before tax) as at 31 December		–79
Effect on shareholder's equity (before tax) as at 31 December if reclassification had not been made		–28
Effect on result (before tax) if reclassification had not been made		nil
Effect on result (before tax) after the reclassification until 31 December (mainly interest income)		9
Recognised impairments (before tax)		nil
Recognised provision for credit losses (before tax)		nil

Available-for-sale equity securities – listed and unlisted	2013	2012
Listed	**1,134**	1,944
Unlisted	**511**	690
	1,645	2,634

Reference is made to Note 42 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Borrowed debt securities are not recognised in the balance sheet and amount to nil (2012: nil).

6 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers analysed by type	Netherlands		International		Total	
	2013	2012	2013	2012	2013	2012
Loans to, or guaranteed by, public authorities	**29,132**	35,857	**15,119**	14,917	**44,251**	50,774
Loans secured by mortgages	**144,161**	160,098	**147,764**	152,369	**291,925**	312,467
Loans guaranteed by credit institutions	**776**	114	**3,367**	6,049	**4,143**	6,163
Personal lending	**4,857**	5,048	**21,904**	19,550	**26,761**	24,598
Asset backed securities			**6,336**	7,044	**6,336**	7,044
Corporate loans	**41,192**	41,333	**99,865**	104,644	**141,057**	145,977
	220,118	242,450	**294,355**	304,573	**514,473**	547,023
Loan loss provisions	**–2,970**	–2,445	**–3,165**	–3,032	**–6,135**	–5,477
	217,148	240,005	**291,190**	301,541	**508,338**	541,546

The decrease in Loans secured by mortgages partly reflects the transfer of WestlandUtrecht Bank mortgage portfolio as disclosed in Note 46 'Companies and businesses acquired and divested'.

The further decrease in Loans and advances to customers is a result of the repayments by the Dutch State on the IABF loan amounting to EUR 5.1 billion.

Notes to the consolidated annual accounts of ING Bank continued

Loans and advances to customers analysed by subordination		
	2013	2012
Non-subordinated	**507,842**	541,336
Subordinated	**496**	210
	508,338	541,546

Reference is made to Note 42 ‘Transfer of financial assets’ for information on securities lending as well as sale and repurchase transactions.

As at 31 December 2013, Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 810 million (2012: EUR 320 million).

No individual loan or advance has terms and conditions that significantly affect the amount, timing or certainty of the consolidated cash flows of ING Bank. For details on significant concentrations see ‘Risk management’ section.

Loans and advances to customers and Amounts due from banks include finance lease receivables, are detailed as follows:

Finance lease receivables		
	2013	2012
Maturities of gross investment in finance lease receivables		
– within 1 year	**3,924**	4,969
– more than 1 year but less than 5 years	**7,239**	8,926
– more than 5 years	**4,949**	5,497
	16,112	19,392
Unearned future finance income on finance leases	**–2,364**	–2,996
Net investment in finance leases	**13,748**	16,396
Maturities of net investment in finance lease receivables		
– within 1 year	**3,424**	4,310
– more than 1 year but less than 5 years	**6,283**	7,673
– more than 5 years	**4,041**	4,413
	13,748	16,396
Included in		
– Amounts due from banks	**73**	133
– Loans and advances to customers	**13,675**	16,263
	13,748	16,396

The allowance for uncollectable finance lease receivables included in the loan loss provisions amounted to EUR 344 million as at 31 December 2013 (2012: EUR 322 million).

No individual finance lease receivable has terms and conditions that significantly affect the amount, timing or certainty of consolidated cash flows of ING Bank.

Notes to the consolidated annual accounts of ING Bank continued

Loan loss provisions analysed by type	Netherlands		International		Total	
	2013	2012	**2013**	2012	**2013**	2012
Loans to, or guaranteed by, public authorities			**2**	2	**2**	2
Loans secured by mortgages	**1,265**	878	**631**	710	**1,896**	1,588
Loans guaranteed by credit institutions			**21**	30	**21**	30
Personal lending	**139**	144	**672**	650	**811**	794
Asset backed securities			**142**	76	**142**	76
Corporate loans	**1,566**	1,423	**1,716**	1,592	**3,282**	3,015
	2,970	2,445	**3,184**	3,060	**6,154**	5,505
Included in						
– Amounts due from banks			**19**	28	**19**	28
– Loans and advances to customers	**2,970**	2,445	**3,165**	3,032	**6,135**	5,477
	2,970	2,445	**3,184**	3,060	**6,154**	5,505

Changes in the loan loss provisions		
	2013	2012
Opening balance	**5,505**	4,950
Write-offs	**–1,609**	–1,682
Recoveries	**116**	142
Increase in loan loss provisions	**2,289**	2,125
Exchange rate differences	**–109**	20
Changes in the composition of the group and other changes	**–38**	–50
Closing balance	**6,154**	5,505

The ‘Increase in the loan loss provisions’ is presented under Addition to loan loss provisions on the face of the profit and loss account. Reference is made to the section ‘Risk management’.

7 INVESTMENTS IN ASSOCIATES

Investments in associates 2013	Interest held (%)	Fair value of listed invest-ment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	25	501	458	16,397	15,068	464	358
ING Real Estate Asia Value Fund LP	24		34	242	96	18	
ING Nationale-Nederlanden PTE	20		33	172	5	89	30
Appia Group Ltd	29		32	544	432		
Real Estate Italian Retail Fund	32		24	294	219	–1	1
Other investments in associates			126				
			707				

TMB Public Company Limited (‘TMB’), is a public listed retail bank in Thailand. The other associates are mainly real estate investments funds or vehicles operating predominately in Europe.

Other investments in associates represents a large number of associates with an individual balance sheet value of less than EUR 25 million.

Accumulated impairments of EUR 25 million (2012: EUR 39 million) have been recognised.

The values presented in the table above could differ from the values presented in the individual annual accounts of the associates, due to the fact that the individual values have been brought in line with ING Bank’s accounting principles.

In general the reporting dates of all significant associates are consistent with the reporting date of ING Bank. However, the reporting dates of certain associates can differ from the reporting date of ING Bank, but no more than three months.

Where the listed fair value is lower than the balance sheet value, an impairment review and an evaluation of the going concern basis has been performed.

Notes to the consolidated annual accounts of ING Bank continued

The associates of ING are subject to legal and regulatory restrictions regarding the amount of dividends it can pay to ING. These restrictions are for example dependant on the laws in the country of incorporation for declaring dividends or as a result of minimum capital requirements that are imposed by industry regulators in the countries in which the associates operate. In addition, the associates also consider other factors in determining the appropriate levels of equity needed. These factors and limitations include, but are not limited to, rating agency and regulatory views, which can change over time.

Investments in associates

2012	Interest held (%)	Fair value of listed invest-ment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	25	506	499	16,474	15,118	433	339
ING Real Estate Asia Retail Fund Ltd	26		107	475	50	62	1
ING European Infrastructure Fund	29		33	649	521	202	195
ING Real Estate Asia Value Fund LP	23		31	271	134	10	
ING Nationale-Nederlanden PTE	20		28	148	7	87	33
Other investments in associates			143				
			841				

Changes in investments in associates

	2013	2012
Opening balance	**841**	827
Additions	**20**	20
Revaluations	**46**	22
Share of results	**22**	23
Dividends received	**–17**	–30
Disposals	**–139**	–29
Impairments		–1
Exchange rate differences	**–69**	14
Changes in the composition of the group and other changes	**3**	–5
Closing balance	**707**	841

Revaluations
In 2013, Revaluations includes EUR –2 million (2012: nil) relating to TMB and the remainder to individually not significant associates.

Share of results
In 2013, Share of results of EUR 22 million (2012: EUR 23 million) and Impairments of nil (2012: EUR 1 million) are presented in the profit and loss account in Share of results from associates for EUR 22 million (2012: EUR 22 million).

In 2013, Share of results includes EUR 24 million (2012: EUR 16 million) relating to TMB and the remainder to individually not significant associates.

Exchange rate differences
In 2013, Exchange rate differences includes EUR –54 million (2012: EUR 7 million) relating to TMB and the remainder to individually not significant associates.

Notes to the consolidated annual accounts of ING Bank continued

8 REAL ESTATE INVESTMENTS

Changes in real estate investments

	2013	2012
Opening balance	207	435
Additions		4
Transfers to and from Other assets	–61	
Fair value gains/(losses)		–12
Disposals	–36	–219
Exchange rate differences	–2	–1
Closing balance	108	207

The total amount of rental income recognised in profit and loss for the year ended 31 December 2013 is EUR 74 million (2012: EUR 91 million). The total amount of contingent rent recognised in the profit and loss account for the year ended 31 December 2013 is nil (2012: nil).

The total amount of direct operating expenses (including repairs and maintenance) in relation to Real Estate investments that generated rental income for the year ended 31 December 2013 is EUR 45 million (2012: EUR 63 million). The total amount of direct operating expenses (including repairs and maintenance) incurred on real estate investments that did not generate rental income for the year ended 31 December 2013 is EUR 7 million (2012: EUR 12 million).

Real estate investments by year of most recent appraisal by independent qualified valuers

in percentages	2013	2012
Most recent appraisal in the current year	100	94
Most recent appraisal one year ago		6
	100	100

ING Bank's exposure to real estate is included in the following balance sheet lines:

Real estate exposure

	2013	2012
Real estate investments	108	207
Investments in associates	110	227
Other assets – property development and obtained from foreclosures	942	1,148
Property and equipment – property in own use	1,143	1,203
Investments – available-for-sale	137	237
	2,440	3,022

Furthermore, the exposure is impacted by third party interests, leverage in funds and off-balance commitments, resulting in an overall exposure of EUR 2.6 billion (2012: EUR 3.3 billion). Reference is made to the section 'Risk management'.

9 PROPERTY AND EQUIPMENT

Property and equipment by type

	2013	2012
Property in own use	1,143	1,203
Equipment	1,070	1,128
Assets under operating leases	69	5
	2,282	2,336

Notes to the consolidated annual accounts of ING Bank continued

Changes in property in own use

	2013	2012
Opening balance	1,203	1,244
Additions	34	30
Transfers to and from Other assets	–2	–2
Depreciation	–22	–22
Revaluations	11	2
Impairments	–30	–24
Reversal of impairments	6	7
Disposals	–33	–38
Exchange rate differences	–24	6
Closing balance	1,143	1,203
Gross carrying amount as at 31 December	1,996	2,021
Accumulated depreciation as at 31 December	–667	–650
Accumulated impairments as at 31 December	–186	–168
Net carrying value	1,143	1,203
Revaluation surplus		
Opening balance	443	454
Revaluation in year	–3	–11
Closing balance	440	443

The cost or the purchase price amounted to EUR 1,556 million (2012: EUR 1,578 million). Cost or the purchase price less accumulated depreciation and impairments would have been EUR 703 million (2012: EUR 760 million) had property in own use been valued at cost instead of at fair value.

Property in own use by year of most recent appraisal by independent qualified valuers

in percentages	2013	2012
Most recent appraisal in the current year	59	59
Most recent appraisal one year ago	18	13
Most recent appraisal two years ago	12	13
Most recent appraisal three years ago	4	9
Most recent appraisal four years ago	7	6
	100	100

Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2013	2012	2013	2012	2013	2012
Opening balance	287	298	841	869	1,128	1,167
Additions	159	148	160	184	319	332
Disposals	–17	–6	–8	–9	–25	–15
Depreciation	–135	–145	–188	–195	–323	–340
Impairments		–1				–1
Exchange rate differences	–9	4	–12	6	–21	10
Changes in the composition of the group and other changes	4	–11	–12	–14	–8	–25
Closing balance	289	287	781	841	1,070	1,128
Gross carrying amount as at 31 December	1,262	1,425	2,321	2,314	3,583	3,739
Accumulated depreciation as at 31 December	–972	–1,137	–1,540	–1,473	–2,512	–2,610
Accumulated impairments as at 31 December	–1	–1			–1	–1
Net carrying value as at 31 December	289	287	781	841	1,070	1,128

Notes to the consolidated annual accounts of ING Bank continued

10 INTANGIBLE ASSETS

Changes in intangible assets

	Goodwill		Software		Other		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Opening balance	**1,188**	1,179	**526**	476	**64**	88	**1,778**	1,743
Capitalised expenses			**144**	143			**144**	143
Additions			**127**	141			**127**	141
Disposals				–2				–2
Amortisation			**–234**	–214	**–27**	–29	**–261**	–243
Impairments			**–7**	–2		–2	**–7**	–4
Changes in the composition of the group and other changes		–16	**–14**	–20		5	**–14**	–31
Exchange rate differences	**–153**	25	**–4**	4	**–4**	2	**–161**	31
Closing balance	**1,035**	1,188	**538**	526	**33**	64	**1,606**	1,778
Gross carrying amount as at 31 December	**1,035**	1,188	**1,425**	1,362	**188**	193	**2,648**	2,743
Accumulated amortisation as at 31 December			**–874**	–830	**–153**	–127	**–1,027**	–957
Accumulated impairments as at 31 December			**–13**	–6	**–2**	–2	**–15**	–8
Net carrying value as at 31 December	**1,035**	1,188	**538**	526	**33**	64	**1,606**	1,778

Amortisation of software and other intangible assets is included in the profit and loss account in Other operating expenses and Intangible amortisation and other impairments.

Goodwill
Changes in Goodwill
No goodwill impairment is recognised in 2013 (2012: nil).

Changes in 2013 are mainly due to changes in currency exchange rate.

2012 – Changes in composition of the group and other changes
In 2012, ‘Changes in composition of the group and other changes’ represented the reclassification of goodwill to ‘Assets held for sale’. This included all goodwill that related to businesses that were classified as held for sale. For 2012, this related to ING Direct UK (EUR 16 million). As ING Direct UK was classified as held for sale, the related goodwill is no longer evaluated at the level of the reporting unit to which it is allocated in the regular goodwill impairment test. Instead, it is reviewed as part of the valuation of the disposal unit that was presented as held for sale. Reference is made to Note 11 ‘Assets and liabilities held for sale’.

Allocation of Goodwill to reporting units
After the above changes, the remaining goodwill is allocated to reporting units as follows:

Goodwill allocation to reporting units

	2013	2012
Retail Banking Netherlands	**1**	1
Retail Banking Belgium	**50**	50
Retail Banking Germany	**349**	349
Retail Banking Central Europe	**611**	764
Commercial Banking	**24**	24
	1,035	1,188

The changes in reportable segments as disclosed in Note 33 ‘Segments’ resulted in the above reporting units but did not impact the outcome of the impairment test.

Goodwill impairment testing
Goodwill is tested for impairment at the lowest level at which it is monitored for internal management purposes. This level is defined as the so called 'reporting units' as set out above. Goodwill is tested for impairment by comparing the carrying value of the reporting unit to the best estimate of the recoverable amount of that reporting unit. The carrying value is determined as the IFRS-EU net asset value including goodwill. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount.

As a first step of the impairment test, the best estimate of the recoverable amount of reporting units to which goodwill is allocated is determined separately for each relevant reporting unit based on Price to Earnings, Price to Book, and Price to Assets under management ratios. The main assumptions in this valuation are the multiples for Price to Earnings, Price to Book and Price to Assets under management; these are developed internally but are either derived from or corroborated against market information that is related to observable transactions in the market for comparable businesses. Earnings and carrying values are equal to or derived from the relevant measure under IFRS-EU. Where available the test includes the use of market prices for listed business units.

If the outcome of this first step indicates that the difference between recoverable amount and carrying value may not be sufficient to support the amount of goodwill allocated to the reporting unit, an additional analysis is performed in order to determine a recoverable amount in a manner that better addresses the specific characteristics of the relevant reporting unit.

Such additional analyses were performed for the goodwill that was concluded to be impaired as set out above. For other reporting units, the goodwill allocated to these reporting units was fully supported in the first step. For Retail Banking Central Europe, a second analysis was necessary in 2011. Although in 2012 the goodwill allocated to Retail Banking Central Europe was fully supported in the first step, the second test was performed in 2012 and confirmed the continued recognition of the related goodwill.

11 ASSETS AND LIABILITIES HELD FOR SALE
Assets and liabilities held for sale includes disposal groups whose carrying amount will be recovered principally through a sale transaction rather than through continuing operations. This relates to businesses for which a sale is agreed upon but for which the transaction has not yet closed or a sale is highly probable at the balance sheet date but for which no sale has yet been agreed. As at 31 December 2013 there are no businesses that are classified as held for sale. As at 31 December 2012 this related to ING Direct UK.

During 2013, the divestment of ING Direct UK closed. Reference is made to Note 46 'Companies and businesses acquired and divested'.

Assets held for sale	2013	2012
Cash and balances with central banks		14
Amounts due from banks		123
Loans and advances to customers		6,621
Property and equipment		23
		6,781

Liabilities held for sale	2013	2012
Customer deposits and other funds on deposit		14,207
Financial liabilities at fair value through profit and loss		8
Other liabilities		29
		14,244

Included in Shareholders' equity is cumulative other comprehensive income of nil (2012: EUR 372 million) related to Assets and liabilities held for sale.

Goodwill
Intangible assets under Assets held for sale includes goodwill that relates to businesses that are classified as held for sale (2013: nil; 2012: EUR 16 million). In 2012, EUR 16 million goodwill was reclassified to Assets held for sale which related to ING Direct UK.

For businesses classified as held for sale, the related goodwill is no longer evaluated at the level of the reporting unit to which it was allocated in the regular goodwill impairment test. Instead, it is reviewed as part of the valuation of the disposal unit that is presented as held for sale in 2013. In 2012, goodwill of EUR 16 million in ING Direct UK was written off, as the related business was expected to be sold below carrying value. The related charge was included in the profit and loss account in Result on disposals of group companies.

Notes to the consolidated annual accounts of ING Bank continued

12 OTHER ASSETS

Other assets by type	2013	2012	2011
Net defined benefit assets	**624**	919	3,048
Deferred tax assets	**1,305**	2,139	2,338
Property development and obtained from foreclosures	**942**	1,148	1,512
Income tax receivable	**459**	514	459
Accrued interest and rents	**8,054**	9,665	11,183
Other accrued assets	**687**	502	530
Other	**6,043**	4,570	3,731
	18,114	19,457	22,801

Disclosures in respect of Net defined benefit assets are provided in Note 35 ‘Pension and other post-employment benefits’ and deferred tax assets are provided in Note 36 'Taxation'.

Property development and obtained from foreclosures

Property development and obtained from foreclosures	2013	2012
Property under development	**14**	163
Property developed	**857**	927
Property obtained from foreclosures	**71**	58
	942	1,148
Gross carrying amount as at 31 December	**1,797**	2,225
Accumulated impairments as at 31 December	**–855**	–1,077
Net carrying value	**942**	1,148

The total amount of borrowing costs relating to Property development and obtained from foreclosures, capitalised in 2013 is nil (2012: EUR 2 million).

Accrued interest and rents

Accrued interest and rents includes EUR 3,269 million (2012: EUR 3,543 million) accrued interest on assets measured at amortised cost under the IAS 39 classification Loans and receivables.

Other

Other includes EUR 3,400 million (2012: EUR 2,630 million) related to transactions still to be settled at balance sheet date.

EQUITY
13 EQUITY

Total equity

	2013	2012	2011
Share capital	**525**	525	525
Share premium	**16,542**	16,542	16,542
Revaluation reserve	**1,414**	2,216	550
Currency translation reserve	**–989**	–263	209
Net defined benefit asset/liability remeasurement reserve	**–2,671**	–1,860	449
Other reserves	**17,984**	17,804	16,530
Shareholder's equity (parent)	**32,805**	34,964	34,805
Minority interest	**955**	843	693
Total equity	**33,760**	35,807	35,498

The following equity components cannot be freely distributed: Revaluation reserve, Share of associates reserve (included in Other reserves), Currency translation reserve and the part of the Other reserves that relate to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN.

As at 31 December 2013, an amount of EUR 987 million (2012: EUR 911 million; 2011: EUR 836 million) related to the former Stichting Regio Bank and former Stichting Vakbondsspaarbank SPN is included.

Share capital

	Preference shares (par value EUR 1.13)				Ordinary shares (par value EUR 1.13)			
	Number x1		Amount in euros		Number x1,000		Amounts in millions of euros	
	2013	2012	2013	2012	2013	2012	2013	2012
Authorised share capital	**50**	50	**57**	57	**1,600,000**	1,600,000	**1,808**	1,808
Unissued share capital	**43**	43	**49**	49	**1,134,965**	1,134,965	**1,283**	1,283
Issued share capital	**7**	7	**8**	8	**465,035**	465,035	**525**	525

No changes occurred in the issued share capital and share premium in 2013, 2012 and 2011.

Preference shares are presented in the balance sheet under liabilities. Reference is made to Note 19 'Other liabilities'.

Ordinary shares
All shares are in registered form. No share certificates have been issued. Shares may be transferred by means of a deed of transfer, subject to the approval of the Management Board of ING Bank. The par value of ordinary shares is EUR 1.13.

The authorised ordinary share capital of ING Bank N.V. consists of 1,600 million shares of which as at 31 December 2013 465 million shares have been issued and fully paid.

Dividend restrictions
ING Bank N.V. and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital, and reserves required by law. Additionally, certain Bank companies are subject to restrictions on the amount of funds they may transfer in the form of dividends or otherwise to the parent company.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries.

Notes to the consolidated annual accounts of ING Bank continued

Revaluation reserve

Changes in revaluation reserve

2013	Property in own use reserve	Available-for-sale reserve and other	Cash flow hedge reserve	Total
Opening balance	327	2,650	–761	2,216
Unrealised revaluations	–7	–635		–642
Realised gains/losses transferred to profit and loss		–145		–145
Changes in cash flow hedge reserve			–15	–15
Closing balance	320	1,870	–776	1,414

Changes in revaluation reserve

2012	Property in own use reserve	Available-for-sale reserve and other	Cash flow hedge reserve	Total
Opening balance	336	1,035	–821	550
Unrealised revaluations	–9	2,088		2,079
Realised gains/losses transferred to profit and loss		–473		–473
Changes in cash flow hedge reserve			60	60
Closing balance	327	2,650	–761	2,216

Changes in revaluation reserve

2011	Property in own use reserve	Available-for-sale reserve and other	Cash flow hedge reserve	Total
Opening balance	350	1,746	–639	1,457
Unrealised revaluations	–14	–1,117		–1,131
Realised gains/losses transferred to profit and loss		406		406
Changes in cash flow hedge reserve			–182	–182
Closing balance	336	1,035	–821	550

Currency translation reserve

Changes in currency translation reserve

	2013	2012	2011
Opening balance	–263	209	500
Unrealised revaluations	302	–116	186
Exchange rate differences	–1,028	–356	–477
Closing balance	–989	–263	209

Unrealised revaluations relate to changes in the value of hedging instruments that are designated as net investment hedges.

Net defined benefit asset/liability remeasurement reserve

Reference is made to Note 35 ‘Pension and other post-employment benefits’ for information on the amounts recognised directly in equity (other comprehensive income) related to the net defined benefit asset/liability remeasurement.

Other reserves

Changes in other reserves

2013	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	16,288	363		1,153	17,804
Result for the year	2,987			76	3,063
Dividend	–2,955				–2,955
Employee stock options and share plans	58				58
Changes in the composition of the group and other changes	38	–35		11	14
Closing balance	16,416	328		1,240	17,984

Notes to the consolidated annual accounts of ING Bank continued

Changes in other reserves

2012	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	15,135	339		1,056	16,530
Result for the year	3,206			75	3,281
Dividend	–2,125				–2,125
Employee stock options and share plans	106				106
Changes in the composition of the group and other changes	–35	24		22	11
Closing balance	16,287	363		1,153	17,803

Changes in other reserves

2011	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	14,661	26		741	15,428
Result for the year	3,906			87	3,993
Dividend	–3,000				–3,000
Employee stock options and share plans	119				119
Changes in the composition of the group and other changes	–551	313		228	–10
Closing balance	15,135	339		1,056	16,530

Notes to the consolidated annual accounts of ING Bank continued

LIABILITIES

14 SUBORDINATED LOANS

Subordinated loans relate to subordinated capital debentures and private loans which may be included in the calculation of the capital ratio.

Subordinated liabilities include EUR 5,123 million (2012: EUR 6,774 million) of loans that qualify as Tier 1 capital. These loans have been placed with ING Bank N.V. by ING Group.

The average interest rate on the subordinated loans is 4.7% (2012: 5.0%). The interest expense during the year 2013 was EUR 707 million (2012: EUR 742 million).

2013 – Issuance of new CRD-IV eligible Tier 2 securities

In September 2013, ING Bank issued USD 2 billion 5.8% CRD-IV Tier 2 securities with a maturity of ten years.

2013 – Exchange of certain subordinated loans into CRD-IV eligible Tier 2 securities

On 6 November 2013, ING Bank announced the launch of seven separate exchange offers, offering bondholders an opportunity to exchange seven series of subordinated debt into CRD-IV eligible Tier 2 securities. All exchange offers were successfully completed with an average participation of 55% resulting in a total capital gain after tax of approximately EUR 20 million, including related hedge results and estimated transaction costs. This gain is recognised in 2013 as part of Other income – Other. Through these exchange offers, ING Bank issued EUR 2.6 billion of new CRD-IV eligible Tier 2 subordinated debt securities.

2013 – Call of perpetual subordinated loans

In December 2013, ING Group called the USD 2 billion 8.5% Tier 1 hybrid loan.

2011 – Exchange offers

On 12 December 2011 ING announced the launch of three separate exchange offers in Europe and tender offers in the United States of America, on a total of seven series of outstanding subordinated securities of ING entities with a total nominal value of approximately EUR 5.8 billion. All tender and exchange offers announced on 12 December 2011 were successfully completed on 23 December 2011 with an average participation of approximately 60%. As part of this initiative, EUR 1.8 billion intercompany debt from ING Bank N.V. to ING Groep N.V. was repaid. In addition ING Bank issued two new senior bonds with a nominal value of GBP 0.4 billion and EUR 0.4 billion respectively. The overall transaction resulted in a total gain of EUR 93 million (EUR 71 million after tax) for ING Bank N.V., including related hedge results and transaction costs. This gain was recognised in Other income in 2011.

15 DEBT SECURITIES IN ISSUE

Debt securities in issue relate to debentures and other issued debt securities with either fixed interest rates or interest rates based on interest rate levels, such as certificates of deposit and accepted bills issued by ING Bank, except for subordinated items. Debt securities carried at fair value through profit and loss are separately included in financial liabilities at fair value through profit and loss. ING Bank does not have debt securities that are issued on terms other than those available in the normal course of business. The maturities of the debt securities are as follows:

Debt securities in issue – maturities

	2013	2012
Fixed rate debt securities		
Within 1 year	**37,249**	38,373
More than 1 year but less than 2 years	**9,668**	10,681
More than 2 years but less than 3 years	**8,727**	10,543
More than 3 years but less than 4 years	**5,411**	8,207
More than 4 years but less than 5 years	**7,836**	5,444
More than 5 years	**23,781**	27,963
Total fixed rate debt securities	**92,672**	101,211
Floating rate debt securities		
Within 1 year	**12,642**	18,958
More than 1 year but less than 2 years	**4,038**	5,766
More than 2 years but less than 3 years	**1,867**	1,845
More than 3 years but less than 4 years	**1,591**	376
More than 4 years but less than 5 years	**338**	1,548
More than 5 years	**9,151**	4,985
Total floating rate debt securities	**29,627**	33,478
Total debt securities	**122,299**	134,689

Notes to the consolidated annual accounts of ING Bank continued

The decrease in 2013 in Debt securities in issue is largely due to the repurchases of certain government guaranteed debt.

As at 31 December 2013, ING Bank had unused lines of credit available including the payment of commercial paper borrowings relating to debt securities in issue of EUR 8,081 million (2012: EUR 11,992 million).

Dutch government guaranteed notes
The following bonds are all issued under the Credit Guarantee Scheme of the State of the Netherlands. ING pays a fee of 84 basis points over the issued bonds to the Dutch State to participate in the Credit Guarantee Scheme:
- ING Bank issued a 5 year EUR 4 billion fixed rate government guaranteed senior unsecured bond in February 2009. The issue was priced at a fixed rate of 3.375%, 75 basis points over mid-swaps. After the repurchase in 2013 (see below) there is a remaining amount of approximately EUR 2.72 billion outstanding on these bonds;
- ING Bank issued a 5 year USD 2.25 billion fixed rate government guaranteed senior unsecured bond in March 2009. The issue was priced at a fixed coupon of 3.90%, 145 basis points over USD mid-swaps. After the repurchase in 2013 (see below) there is a remaining amount of approximately USD 1.26 billion outstanding on these bonds; and
- ING Bank issued a 5 year USD 0.4 billion privately placed government guarantee senior unsecured bond in March 2009 with a floating rate of 3 months USD LIBOR + 145 basis points. This issue has a due date on 27 March 2014.

2013 – Repurchase of certain Dutch Government guaranteed notes
In 2013, ING Bank repurchased certain EUR and USD denominated Dutch Government guaranteed notes. One offer was for the EUR-denominated notes with a total principal amount of EUR 4.0 billion (3.375% fixed rate notes due on 3 March 2014). The aggregate principal amount of the notes repurchased was approximately EUR 1.28 billion or 32%, leaving a remaining amount outstanding of approximately EUR 2.72 billion. ING Bank paid a purchase price of EUR 1,022.19 per EUR 1,000 principal amount for the EUR denominated notes. In 2013, a charge of EUR 14 million (EUR 11 million after tax) is recognised in ‘Other income-Other’ on the EUR-denominated notes. The second offer was for the USD-denominated notes with a principal amount of USD 2.25 billion (3.90% fixed rate notes due on 19 March 2014). The aggregate principal amount of the notes repurchased was approximately USD 990 million or 44%, leaving a remaining amount outstanding of approximately USD 1.26 billion. ING Bank paid a purchase price of USD 1,026.66 per USD 1,000 principal amount for the USD denominated notes. In 2013, a charge of EUR 11 million (EUR 8 million after tax) is recognised in ‘Other income-Other’ on the USD-denominated notes. These transactions were settled on 3 July 2013.

Furthermore in 2013, ING Bank repurchased an additional EUR 1.1 billion and USD 500 million of Dutch government guaranteed notes. These repurchases resulted in an additional charge of EUR 11 million (EUR 8 million after tax) and is recognised in ‘Other income – Other’.

16 AMOUNTS DUE TO BANKS
Amounts due to banks includes non-subordinated debt due to banks, other than amounts in the form of debt securities.

Amounts due to banks by type

	Netherlands		International		Total	
	2013	2012	**2013**	2012	**2013**	2012
Non-interest bearing	**1,536**	1,777	**620**	423	**2,156**	2,200
Interest bearing	**5,807**	11,967	**19,294**	24,537	**25,101**	36,504
	7,343	13,744	**19,914**	24,960	**27,257**	38,704

In 2013 excess cash was used to redeem short-term professional funding.

Reference is made to Note 42 ‘Transfer of financial assets’ for information on securities lending as well as sale and repurchase transactions.

17 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

Customer deposits and other funds on deposit

	2013	2012
Savings accounts	**284,069**	277,766
Credit balances on customer accounts	**130,066**	121,643
Corporate deposits	**59,767**	59,693
Other	**881**	1,261
	474,783	460,363

Notes to the consolidated annual accounts of ING Bank continued

Customer deposits and other funds on deposit by type						
		Netherlands		International		Total
	2013	2012	**2013**	2012	**2013**	2012
Non-interest bearing	**12,277**	12,938	**9,589**	8,888	**21,866**	21,826
Interest bearing	**150,866**	147,433	**302,051**	291,104	**452,917**	438,537
	163,143	160,371	**311,640**	299,992	**474,783**	460,363

No funds have been entrusted to ING Bank by customers on terms other than those prevailing in the normal course of business.

Reference is made to Note 42 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Savings accounts relate to the balances on savings accounts, savings books, savings deposits and time deposits of personal customers. The interest payable on savings accounts, which is contractually added to the accounts, is also included.

18 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial liabilities at fair value through profit and loss		
	2013	2012
Trading liabilities	**73,491**	83,652
Non-trading derivatives	**9,676**	15,919
Designated as at fair value through profit and loss	**13,855**	13,399
	97,022	112,970

The decrease in Financial liabilities at fair value through profit and loss mainly relates to a decrease in the fair value of derivatives due to an increase in long term interest rates and to the optimisation of the trading derivatives portfolio. These were partly offset by an increase in repurchase funding.

Trading liabilities by type		
	2013	2012
Equity securities	**3,713**	3,262
Debt securities	**7,396**	7,594
Funds on deposit	**32,880**	20,661
Derivatives	**29,502**	52,135
	73,491	83,652

Reference is made to Note 4 'Financial assets at fair value through profit and loss' for information on trading assets.

Reference is made to Note 42 'Transfer of financial assets' for information on securities lending as well as sale and repurchase transactions.

Non-trading derivatives by type		
	2013	2012
Derivatives used in		
– fair value hedges	**4,063**	8,523
– cash flow hedges	**4,091**	6,066
– hedges of net investments in foreign operations	**43**	71
Other non-trading derivatives	**1,479**	1,259
	9,676	15,919

Other non-trading derivatives mainly includes interest rate swaps for which no hedge accounting is applied.

Designated as at fair value through profit and loss by type		
	2013	2012
Debt securities	**12,415**	11,826
Funds entrusted	**536**	513
Subordinated liabilities	**904**	1,060
	13,855	13,399

Notes to the consolidated annual accounts of ING Bank continued

In 2013, the change in the fair value of financial liabilities designated as at fair value through profit and loss attributable to changes in credit risk is EUR –129 million (2012: EUR –633 million) and EUR –167 million (2012: EUR –38 million) on a cumulative basis. This change has been determined as the amount of change in fair value of the financial liability that is not attributable to changes in market conditions that gave rise to market risk (i.e. mainly interest rate risk based on yield curves).

The amount that ING Bank is contractually required to pay at maturity to the holders of financial liabilities designated as at fair value through profit and loss is EUR 13,427 million (2012: EUR 12,987 million).

19 OTHER LIABILITIES

Other liabilities by type	2013	2012	2011
Deferred tax liabilities	**340**	1,571	1,735
Income tax payable	**342**	809	806
Net defined benefit liability	**285**	133	23
Other post-employment benefits	**96**	143	181
Other staff-related liabilities	**411**	396	609
Other taxation and social security contributions	**657**	817	750
Accrued interest	**7,055**	9,616	10,550
Costs payable	**1,421**	1,458	1,322
Reorganisation provisions	**420**	644	521
Other provisions	**299**	538	500
Prepayments received under property under development		21	83
Amounts to be settled	**3,493**	2,145	1,568
Other	**2,928**	2,958	3,397
	17,747	21,249	22,045

Disclosures in respect of Net defined benefit liabilities are provided in Note 35 ‘Pension and other post-employment benefits’ and Deferred tax liabilities are provided in Note 36 ‘Taxation’.

Other staff-related liabilities
Other staff-related liabilities include vacation leave provisions, variable compensation provisions, jubilee provisions and disability/illness provisions.

Reorganisation provisions

Changes in reorganisation provision	2013	2012
Opening balance	**644**	521
Additions	**252**	473
Interest	**1**	
Releases	**–30**	–16
Charges	**–438**	–337
Exchange rate differences	**–4**	2
Changes in the composition of the group and other changes	**–5**	1
Closing balance	**420**	644

In general, Reorganisation provisions are of a short-term nature.

Additions to the reorganisation provision are mainly related to the restructurings for Retail banking in the Netherlands and Commercial banking.

In 2013, a reorganisation provision of EUR 167 million is recognised in the segment Retail Netherlands and Commercial Banking as a result of further measures that have been taken to accelerate the cost savings program. These measures are expected to result in a further reduction of the workforce of around 300 FTEs.

In addition, in 2013, a reorganisation provision of EUR 61 million is recognised in ING Belgium related to an expected reduction of the workforce of around 1,100 FTEs over a period of two years.

Notes to the consolidated annual accounts of ING Bank continued

In 2012 a reorganisation provision of EUR 233 million was recognised in the segment Retail Netherlands mainly as a result of entering the second phase of the transformation program. The transformation program aims to streamline IT systems as well as the further development and integration of ING's mobile banking services. These measures are expected to result in a further reduction of the workforce of around 1,400 FTEs (of which 400 external FTEs) over a period of three years.

In 2012 a reorganisation provision of EUR 191 million was recognised in the segment Commercial Banking following a strategic review of the business portfolio through right-sizing of the equities business, run-off of certain leasing units and further operational improvements in several businesses. These measures are expected to result in a reduction of the workforce of around 1,000 FTE's over a period of three years.

Each of these initiatives will be implemented over a period of several years and the estimate of the reorganisation provisions is inherently uncertain. The provisions at balance sheet date represent the best estimate of the expected redundancy costs and are expected to be sufficient to cover these costs.

Other provisions

Changes in other provisions

	Litigation		Other		Total	
	2013	2012	**2013**	2012	**2013**	2012
Opening balance	**198**	255	**340**	245	**538**	500
Additions	**20**		**13**	234	**33**	234
Releases	**–40**	–13	**–23**	–6	**-63**	–19
Charges	**–2**	–37	**–224**	–19	**–226**	–56
Exchange rate differences	**–5**	1	**–12**	–5	**–17**	–4
Changes in the composition of the group and other changes	**4**	–8	**30**	–109	**34**	–117
Closing balance	**175**	198	**124**	340	**299**	538

In general, Other provisions are of a short-term nature.

The amounts included in Other provisions are based on best estimates with regard to amounts and timing of cash flows required to settle the obligation.

Other
Other mainly relates to year-end accruals in the normal course of business.

NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

20 INTEREST RESULT

Interest result	2013	2012	2011
Interest income on loans	**21,534**	24,752	26,373
Interest income on impaired loans	**15**	41	61
Total interest income on loans	**21,549**	24,793	26,434
Interest income on available-for-sale securities	**2,071**	2,507	3,463
Interest income on held-to-maturity securities	**158**	297	400
Interest income on trading portfolio	**19,882**	24,616	27,480
Interest income on non-trading derivatives (no hedge accounting)	**1,175**	1,578	1,536
Interest income on non-trading derivatives (hedge accounting)	**6,675**	6,297	5,652
Other interest income	**64**	183	239
Total interest income	**51,574**	60,271	65,204
Interest expense on deposits by banks	**440**	623	902
Interest expense on customer deposits and other funds on deposit	**6,618**	9,140	9,383
Interest expense on debt securities	**3,009**	3,576	3,230
Interest expense on subordinated loans	**707**	742	867
Interest expense on trading liabilities	**19,368**	24,047	27,209
Interest expense on non-trading derivatives (no hedge accounting)	**1,205**	1,528	1,658
Interest expense on non-trading derivatives (hedge accounting)	**7,874**	7,905	7,513
Other interest expense	**389**	462	858
Total interest expense	**39,610**	48,023	51,620
Interest result	**11,964**	12,248	13,584

Interest margin			
in percentages	**2013**	2012	2011
Interest margin	**1.44**	1.34	1.42

In 2013, the decrease in total average assets, partly attributable to the disposal of ING Direct Canada and ING Direct UK, and the sale and transfer of assets of WestlandUtrecht Bank to NN Group, led to a decrease of EUR 1,103 million in the interest result. In addition, an improvement of the interest margin of 10 basis points led to an increase of EUR 819 million in the interest result.

In 2012, the decrease in total assets, partly attributable to the disposal of ING Direct USA and ING Direct Canada, led to a decrease of EUR 571 million in the interest result. In addition a decrease of 8 basis points of the interest margin led to a decrease in the interest result of EUR 765 million.

In 2011, the growth in average total assets led to an increase of the interest result of EUR 135 million and the decrease of the interest margin by 2 basis points led to a decrease of the interest result with EUR 139 million.

In 2013, total interest income and total interest expense for items not valued at fair value through profit and loss were EUR 30,438 million and EUR 18,726 million respectively (2012: EUR 33,919 million and EUR 22,082 million; 2011: EUR 35,992 million and EUR 22,296 million).

Notes to the consolidated annual accounts of ING Bank continued

21 INVESTMENT INCOME

Investment income	2013	2012	2011
Income from real estate investments	23	16	24
Dividend income	94	64	49
	117	80	73
Realised gains/losses on disposal of debt securities	129	198	91
Impairments of available-for-sale debt securities	–1	–16	–734
Reversal of impairments of available-for-sale debt securities	2		74
Realised gains/losses and impairments on debt securities	130	182	–569
Realised gains/losses on disposal of equity securities	61	367	39
Impairments of available-for-sale equity securities	–3	–22	–65
Realised gains/losses and impairments on equity securities	58	345	–26
Change in fair value of real estate investments		–12	–22
Investment income	305	595	–544

In 2012, ING sold all of its shares in Capital One Financial Corporation. The transaction resulted in a gain of EUR 323 million (before and after tax), and was recognised in Realised gains/losses on disposal of equity securities. Reference is made to Note 46 'Companies and businesses acquired and divested'.

In 2011, an impairment of EUR 588 million was recognised on Greek government bonds which is included in Impairments of available-for-sale debt securities. Reference is made to the 'Risk management' section for further information on impairments.

Impairment and reversal of impairment on investments are presented within Investment income, which is part of Total income. This can be specified for each segment as follows:

Impairments /reversals of impairments on investments per segment			Impairments			Reversal of impairments
	2013	2012	2011	2013	2012	2011
Retail Belgium		–1	–22			
Retail Germany			–135			
Retail Rest of World			–328			30
Commercial Banking	–3	–26	–301	2		44
Corporate Line Banking	–1	–11	–13			
	–4	–38	–799	2		74

22 RESULT ON DISPOSALS OF GROUP COMPANIES

Result on disposals of group companies	2013	2012	2011
ING Direct USA	5	743	
ING Direct Canada	1	1,124	
ING Direct UK	10	–260	
Clarion Real Estate securities			182
ING REIM Asia and Europe			245
ING Car Lease			347
Clarion Partners			39
Other	10	–2	
	26	1,605	813

Reference is made to Note 46 'Companies and businesses acquired and divested' for more details.

23 COMMISSION INCOME

Gross fee and commission income	2013	2012	2011
Funds transfer	**982**	956	916
Securities business	**529**	511	681
Asset management fees	**155**	132	353
Brokerage and advisory fees	**334**	337	347
Insurance broking	**152**	164	161
Other	**1,193**	1,009	1,013
	3,345	3,109	3,471

Other includes commission fees of EUR 215 million (2012: EUR 230 million; 2011: EUR 183 million) in respect of bank guarantees and commission fees of EUR 27 million (2012: EUR 17 million; 2011: EUR 26 million) in respect of underwriting syndication loans.

The decrease in asset management fees in 2012 is explained by the sale of ING REIM in 2011.

Fee and commission expenses	2013	2012	2011
Funds transfer	**365**	336	313
Securities business	**111**	98	126
Management fees	**29**	10	10
Brokerage and advisory fees	**82**	86	68
Insurance broking	**8**	2	
Other	**510**	444	459
	1,105	976	976

24 VALUATION RESULTS ON NON-TRADING DERIVATIVES

Valuation results on non-trading derivatives includes the fair value movements on derivatives (used for both hedge accounting and economically hedging exposures) as well as the changes in the fair value of assets and liabilities included in hedging relationships as hedged items. In addition, Valuation results on non-trading derivatives includes the results on assets and liabilities designated as at fair value through profit and loss.

Valuation results on non-trading derivatives	2013	2012	2011
Change in fair value of derivatives relating to			
– fair value hedges	**1,180**	–470	–1,122
– cash flow hedges (ineffective portion)	**4**	17	–1
– other non-trading derivatives	**422**	25	–380
Net result on non-trading derivatives	**1,606**	–428	–1,503
Change in fair value of assets and liabilities (hedged items)	**–1,272**	579	1,155
Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading)	**–53**	–1,101	504
Net valuation results	**281**	–950	156

Valuation results on non-trading derivatives are reflected in the consolidated statement of cash flows in the line 'Result before tax - Adjusted for: other'.

The Valuation results on assets and liabilities designated as at fair value through profit and loss includes fair value changes on private equity funds and certain issued debt securities. Valuation results on assets and liabilities designated as at fair value through profit and loss are mainly due to changes in the fair value of financial liabilities driven by changes in market conditions and changes in own credit risk as disclosed in Note 18 'Financial liabilities at fair value through profit and loss'. Market conditions includes in particular credit spread developments.

In 2013 Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading) includes fair value adjustments on own issued notes amounting to EUR 136 million negative (2012: EUR 1,067 million negative), of which DVA adjustment on own issued notes in 2013 amounted to EUR 129 million negative (2012: EUR 633 million negative).

Notes to the consolidated annual accounts of ING Bank continued

25 NET TRADING INCOME

Net trading income	2013	2012	2011
Securities trading results	**129**	252	–133
Foreign exchange transactions results	**–137**	–162	–389
Derivatives trading results	**412**	898	882
Other	**81**	113	–49
	485	1,101	311

Securities trading results include the results of market making in instruments such as government securities, equity securities, corporate debt securities, money-market instruments, interest rate derivatives such as swaps, options, futures and forward contracts. Foreign exchange transactions results include gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities.

The portion of trading gains and losses relating to trading securities still held as at 31 December 2013 amounts to EUR –105 million (2012: EUR 118 million; 2011: EUR –66 million).

The majority of the risks involved in security and currency trading is economically hedged with derivatives. Securities trading results are partly off-set by results on these derivatives. The result of these derivatives is included in Derivatives trading results.

Net trading income relates to trading assets and trading liabilities which include assets and liabilities that are classified under IFRS as ‘Trading’ but are closely related to servicing the needs of the clients of ING. ING Bank offers institutional and corporate clients and governments products that are traded on the financial markets. A significant part of the derivatives in the trading portfolio are related to servicing corporate clients in their risk management to hedge for example currency or interest rate exposures. In addition, ING Bank provides its customers access to equity and debt markets for issuing their own equity or debt securities ('securities underwriting'). Although these are presented as ‘Trading’ under IFRS, these are directly related to services to ING’s customers. Loans and receivables in the trading portfolio mainly relate to (reverse) repurchase agreements, which are comparable to collateralised borrowing (lending). These products are used by ING Bank as part of its own regular treasury activities, but also relate to the role that ING Bank plays as intermediary between different professional customers. Trading assets and liabilities held for ING’s own risk are very limited. From a risk perspective, the gross amount of trading assets must be considered together with the gross amount of trading liabilities, which are presented separately on the balance sheet. However, IFRS does not allow netting of these positions in the balance sheet. Reference is made to Note 4 ‘Financial assets at fair value through profit and loss’ and Note 18 ‘Financial liabilities at fair value through profit and loss’ for information on trading liabilities.

In 2013 Net trading income – Derivatives trading results includes EUR 243 million positive CVA/DVA adjustments on trading derivatives, compared with EUR 64 million positive CVA/DVA adjustment in 2012.

26 OTHER INCOME

Other income	2013	2012	2011
Net operating lease income	**1**	1	176
Income from real estate development projects	**32**	22	31
Other	**–29**	–479	141
	4	–456	348

Net operating lease income comprises income of EUR 18 million (2012: EUR 2 million; 2011: EUR 772 million) and depreciation of EUR 17 million (2012: EUR 1 million; 2011: EUR 596 million).

In 2013, Other income - Other includes EUR –71 million net result on the unwinding of the Illiquid Assets Back-up Facility. Reference is made to Note 49 ‘Related parties’.

In 2012, Other income - Other included losses on disposal of Loans and advances to customers of EUR –618 million.

In 2011, Other income - Other included a gain of EUR 93 million on the repurchase of subordinated loans as disclosed in Note 14 ‘Subordinated loans’.

27 INTANGIBLE AMORTISATION AND OTHER IMPAIRMENTS

Intangible amortisation and (reversals of) impairments	Impairment losses			Reversals of impairments			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Property and equipment	**30**	24	29	**–6**	–7	–11	**24**	17	18
Property development	**84**	161	217	**–6**			**78**	161	217
Goodwill			32						32
Software and other intangible assets	**7**	4	15				**7**	4	15
(Reversals of) other impairments	**121**	189	293	**–12**	–7	–11	**109**	182	282
Amortisation of other intangible assets							**27**	29	39
							136	211	321

In 2013, EUR 78 million impairments are recognised on Property development (Commercial Banking segment) relating to various real estate development projects (especially Europe and Australia). The unfavourable economic circumstances in these regions and projects resulted in lower expected sales prices.

In 2012, impairments on Property development related to various real estate development projects (including mainly the United Kingdom, Spain, Germany and Belgium) due to worsening market conditions. In 2011, impairments on Property development were recognised due to the sale or termination of large projects in Germany, the Netherlands and on the reassessment of Dutch and Spanish real estate development projects.

Impairments on Loans and advances to customers are presented under Addition to loan loss provisions. Impairments on Investments are presented under Investment income. Reference is made to the ‘Risk management’ section for further information on impairments.

28 STAFF EXPENSES

Staff expenses	**2013**	2012	2011
Salaries	**3,248**	3,419	3,705
Pension costs	**255**	–249	189
Other staff-related benefit costs	**–24**	9	–5
Social security costs	**512**	532	525
Share-based compensation arrangements	**58**	106	119
External employees	**636**	625	683
Education	**60**	63	69
Other staff costs	**169**	203	234
	4,914	4,708	5,519

In 2013 and 2012, the Dutch Government imposed an additional tax charge of 16% on the income in excess of EUR 150,000 of each employee who is subject to Dutch income tax. The tax is charged to the company and does not affect the remuneration of involved staff. The tax imposed on ING for relevant employees amounts to EUR 15.7 million (2012: EUR 16.1 million), which is included in the table above.

Number of employees	Netherlands			International			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Average number of employees at full time equivalent basis [1]	**16,155**	18,072	19,027	**48,218**	48,807	52,148	**64,373**	66,879	71,175

[1] The average number of employees includes, on an average basis, employees of entities that were sold or classified as held for sale during the year.

Share-based compensation arrangements includes EUR 58 million (2012: EUR 106 million; 2011: EUR 119 million) relating to equity-settled share-based payment arrangements and nil (2012: nil; 2011: nil) relating to cash-settled share-based payment arrangements.

In 2012, Pension costs includes a release (curtailment) of EUR 251 million (EUR 335 million before tax) due to a change to a new pension scheme. Reference is made to Note 35 'Pension and other post-employment benefits'.

Remuneration of senior management, Executive Board and Supervisory Board
Reference is made to Note 49 ‘Related parties’.

Notes to the consolidated annual accounts of ING Bank continued

Stock option and share plans

ING Groep N.V. has granted option rights on ING Groep N.V. shares and conditional rights on depositary receipts (share awards) for ING shares to a number of senior executives of the Bank (members of the Management Board, general managers and other officers nominated by the Management Board), to a considerable number of employees of ING Bank. The purpose of the option and share schemes, is to attract, retain and motivate senior executives and staff.

ING grants three types of share awards, deferred shares, performance shares and upfront shares. The entitlement to the share awards is granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. In addition to the employment condition, the performance shares contain a performance condition. The number of ING depositary receipts that would ultimately be granted at the end of a performance period is dependent on ING's performance over that period. Upfront and deferred shares, with retention periods as soon as it becomes unconditional, were awarded to the Management Board members of ING Bank, as well as identified staff. ING has the authority to apply an hold back to awarded but unvested shares and a claw-back to vested shares.

In 2013 no share awards (2012: nil; 2011: nil) were granted to the members of the Executive Board of ING Groep N.V., 159,988 share awards (2012: 134,091; 2011: 129,070) were granted to the Management Board of ING Bank. To senior management and other employees of ING Bank 8,089,093 share awards (2012: 10,296,631; 2011: 11,316,095) were granted.

Every year, the ING Group Executive Board decides whether the option and share schemes are to be continued and, if so, to what extent. In 2010 the Group Executive Board decided not to continue the option scheme as from 2011. The existing option schemes up and until 2010 will be run off in the coming years.

The option rights are valid for a period of five or ten years. Option rights that are not exercised within this period lapse. Option rights granted will remain valid until the expiry date, even if the option scheme is discontinued. The option rights are subject to certain conditions, including a pre-determined continuous period of service. The exercise prices of the options are the same as the quoted prices of ING Groep N.V. shares at the date on which the options are granted.

As at 31 December 2013, ING Group holds no own shares in order to fulfil its obligations with regard to the existing stock option plan. As at 31 December 2012: 26,429,948 own shares (2011: 42,126,329) were held in connection with the option plan.

The obligations with regard to the existing stock option plan and the share plans will be funded either by cash or by newly issued shares at the discretion of ING Group.

Changes in option rights outstanding

	Options outstanding (in numbers)			Weighted average exercise price (in euros)		
	2013	2012	2011	**2013**	2012	2011
Opening balance	**51,371,539**	63,948,687	75,673,707	**14.82**	15.53	16.23
Exercised or transferred	**–2,924,484**	–1,497,290	–3,282,099	**3.65**	3.40	15.56
Forfeited	**–625,828**	–459,740	–1,439,379	**11.32**	11.98	12.86
Expired	**–6,466,750**	–10,620,118	–7,003,542	**12.80**	20.97	23.69
Closing balance	**41,354,477**	51,371,539	63,948,687	**15.98**	14.82	15.53

The weighted average share price at the date of exercise for options exercised in 2013 is EUR 8.24 (2012: EUR 6.15; 2011: EUR 8.09).

Changes in option rights non-vested

	Options non-vested (in numbers)			Weighted average grant date fair value (in euros)		
	2013	2012	2011	**2013**	2012	2011
Opening balance	**9,535,407**	18,254,509	30,044,041	**3.26**	2.68	3.13
Vested or transferred	**–9,230,828**	–8,481,339	–10,808,607	**3.26**	2.02	3.91
Forfeited	**–304,579**	–237,763	–980,925	**3.21**	2.70	3.07
Closing balance	**0**	9,535,407	18,254,509	**0.00**	3.26	2.68

Notes to the consolidated annual accounts of ING Bank continued

Summary of stock options outstanding and exercisable

2013 Range of exercise price in euros	Options outstanding as at 31 December 2013	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2013	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	3,869,133	4.25	2.87	3,869,133	4.25	2.87
5.00 – 10.00	7,870,182	6.21	7.38	7,870,182	6.21	7.38
10.00 – 15.00	3,674,375	0.36	14.31	3,674,375	0.36	14.31
15.00 – 20.00	14,119,139	2.48	17.34	14,119,139	2.48	17.34
20.00 – 25.00	5,269,423	2.55	24.56	5,269,423	2.55	24.56
25.00 – 30.00	6,552,225	2.32	25.19	6,552,225	2.32	25.19
	41,354,477			41,354,477		

Summary of stock options outstanding and exercisable

2012 Range of exercise price in euros	Options outstanding as at 31 December 2012	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2012	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	6,095,656	5.00	2.86	6,095,656	5.00	2.86
5.00 – 10.00	13,364,491	5.31	7.99	3,829,084	0.54	9.61
10.00 – 15.00	3,957,838	1.36	14.27	3,957,838	1.36	14.27
15.00 – 20.00	15,212,637	3.49	17.32	15,212,637	3.49	17.32
20.00 – 25.00	5,719,959	3.59	24.56	5,719,959	3.59	24.56
25.00 – 30.00	7,020,958	3.32	25.18	7,020,958	3.32	25.18
	51,371,539			41,836,132		

As at 31 December 2013, the aggregate intrinsic values of options outstanding and exercisable are EUR 49 million (2012: EUR 26 million) and EUR 49 million (2012: EUR 26 million) respectively.

As at 31 December 2013, total unrecognised compensation costs related to stock options amounted to nil (2012: EUR 2 million; 2011: EUR 14 million).

The fair value of options granted is recognised as an expense under personnel expenses and is allocated over the vesting period of the options. The fair values of the option awards containing a market based performance condition have been determined using a Monte Carlo Simulation. This model takes the risk free interest rate into account (ranging from 2.02% to 4.62%), as well as the expected life of the options granted (from 5 to 9 years), the exercise price, the current share price (EUR 2.90- EUR 26.05), the expected volatility of the certificates of ING Groep N.V. shares (25% - 84%) and the expected dividend yield (0.94% to 8.99%). The source for implied volatilities used for the valuation of the stock options is ING's trading system. The implied volatilities in this system are determined by ING's traders and are based on market data implied volatilities not on historical volatilities.

29 OTHER OPERATING EXPENSES

Other operating expenses

	2013	2012	2011
Depreciation of property and equipment	345	362	371
Amortisation of software	234	214	332
Computer costs	695	725	707
Office expenses	649	713	737
Travel and accommodation expenses	146	157	120
Advertising and public relations	404	495	594
External advisory fees	223	253	332
Postal charges	79	80	82
Addition/(releases) of provision for reorganisations and relocations	222	457	387
Other	758	1,255	737
	3,755	4,711	4,399

Other operating expenses include lease and sublease payments in respect of operating leases of EUR 206 million (2012: EUR 234 million; 2011: EUR 148 million). No individual operating lease has terms and conditions that significantly affect the amount, timing or certainty of the consolidated cash flows of ING Bank.

Notes to the consolidated annual accounts of ING Bank continued

For Addition/(releases) of provision for reorganisations and relocations reference is made to the disclosure on the reorganisation provision in Note 19 ‘Other liabilities’.

In 2012, Other operating expenses – Other included the settlement with US authorities of EUR 473 million as disclosed in Note 45 ‘Legal proceedings’ and the Netherlands bank tax of EUR 175 million.

Notes to the consolidated annual accounts of ING Bank continued

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

30 NET CASH FLOW FROM INVESTING ACTIVITIES

Information on the impact of companies acquired or disposed of is presented in Note 46 'Companies and businesses acquired and divested'.

31 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

Interest and dividend received and paid

	2013	2012	2011
Interest received	**53,186**	61,789	66,855
Interest paid	**–42,171**	–48,958	–52,693
	11,015	12,831	14,162
Dividend received	**111**	97	127
Dividend paid	**–2,955**	–2,125	–3,000

Interest received, interest paid and dividends received are included in operating activities in the cash flow statement.

32 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

	2013	2012	2011
Treasury bills and other eligible bills	**574**	518	2,611
Amounts due from/to banks	**1,015**	4,633	–4,506
Cash and balances with central banks	**11,920**	15,447	28,112
Cash and Cash equivalents classified as Assets held for sale		14	4,980
Cash and cash equivalents at end of year	**13,509**	20,612	31,197

Treasury bills and other eligible bills included in cash and cash equivalents

	2013	2012	2011
Treasury bills and other eligible bills included in trading assets	**489**	79	1,471
Treasury bills and other eligible bills included in available-for-sale investments	**85**	439	1,140
	574	518	2,611

Amounts due to/from banks

	2013	2012	2011
Included in cash and cash equivalents			
– amounts due to banks	**–11,451**	–12,147	–19,122
– amounts due from banks	**12,466**	16,780	14,616
	1,015	4,633	–4,506
Not included in cash and cash equivalents			
– amounts due to banks	**–15,806**	–26,557	–53,111
– amounts due from banks	**30,546**	22,273	30,707
	14,740	–4,284	–22,404
Total as included in balance sheet			
– amounts due to banks	**–27,257**	–38,704	–72,233
– amounts due from banks	**43,012**	39,053	45,323
	15,755	349	–26,910

Cash and cash equivalents includes amounts due to/from banks with a term of less than three months from the date on which they were acquired.

ING Bank's Risk management (including liquidity) is explained in the 'Risk management' section.

Notes to the consolidated annual accounts of ING Bank continued

SEGMENT REPORTING

33 SEGMENTS

ING Bank's segments are based on the internal reporting structure by lines of business. As of 2012 the internal management reporting structure for the banking operations was changed in order to improve transparency and to reflect the impact of the divestments of ING Direct USA and ING Real Estate Investment Management. The segments have changed accordingly. The comparatives have been adjusted to reflect the new segment structure for the banking operations. ING Bank identifies the following segments:

Segments of ING Bank
Retail Netherlands
Retail Belgium
Retail Germany
Retail Rest of World
Commercial Banking

The Management Board Banking sets the performance targets, approves and monitors the budgets prepared by the business lines. Business lines formulate strategic, commercial and financial policy in conformity with the strategy and performance targets set by the Management Board.

The accounting policies of the segments are the same as those described in note 1 'Accounting policies'. Transfer prices for inter-segment transactions are set at arm's length. Corporate expenses are allocated to business lines based on time spent by head office personnel, the relative number of staff, or on the basis of income, expenses and/or assets of the segment.

ING Bank evaluates the results of its segments using a financial performance measure called underlying result. Underlying result is defined as result under IFRS-EU excluding the impact of divestments and special items. Special items include items of income or expense that are significant and arise from events or transactions that are clearly distinct from the ordinary operating activities. Disclosures on comparative years also reflect the impact of current year's divestments. Underlying result as presented below is a non-GAAP financial measure and is not a measure of financial performance under IFRS-EU. Because it is not determined in accordance with IFRS-EU, underlying result as presented by ING Bank may not be comparable to other similarly titled measures of performance of other companies. The underlying result of ING's Bank segments is reconciled to the Net result as reported in the IFRS-EU Consolidated profit and loss account below. The information presented in this note is in line with the information presented to the Management Board.

The following table specifies the main sources of income of each of the segments:

Specification of the main sources of income of each of the segments

Segment	Main source of income
Retail Netherlands	Income from retail and private banking activities in the Netherlands, including the SME and mid-corporate segments. The main products offered are current and savings accounts, business lending, mortgages and other consumer lending in the Netherlands.
Retail Belgium	Income from retail and private banking activities in Belgium, including the SME and mid-corporate segments. The main products offered are similar to those in the Netherlands.
Retail Germany	Income from retail and private banking activities in Germany. The main products offered are current and savings accounts, mortgages and other customer lending.
Retail Rest of World	Income from retail banking activities in the rest of the world, including the SME and mid-corporate segments in specific countries. The main products offered are similar to those in the Netherlands.
Commercial Banking	Income from wholesale banking activities (a full range of products is offered from cash management to corporate finance), real estate and lease.

In addition to these segments, ING Bank reconciles the total segment results to the total result of ING Bank using the Corporate Line Banking. Corporate Line Banking is a reflection of capital management activities and certain expenses that are not allocated to the banking businesses. ING Group applies a system of capital charging for its banking operations in order to create a comparable basis for the results of business units globally, irrespective of the business units' book equity and the currency they operate in.

This note does not provide information on the revenue specified to each product or service as this is not reported internally and is therefore not readily available.

Notes to the consolidated annual accounts of ING Bank continued

Segments

2013	Retail Netherlands	Retail Belgium	Retail Germany	Retail Rest of World	Commercial Banking	Corporate line Banking	Total
Underlying income							
Net interest result	3,574	1,817	1,314	1,778	2,874	624	11,980
Commission income	463	346	114	361	964	–9	2,239
Total investment and other income	42	158	–40	235	1,155	–434	1,117
Total underlying income	4,079	2,321	1,388	2,374	4,994	180	15,337
Underlying expenditure							
Operating expenses	2,306	1,471	709	1,621	2,232	208	8,547
Additions to loan loss provision	877	183	82	280	867		2,288
Other impairments*	24	5		2	78	27	136
Total underlying expenses	3,207	1,658	791	1,903	3,177	235	10,971
Underlying result before taxation	872	663	598	471	1,817	–55	4,365
Taxation	221	196	188	111	415	–42	1,088
Minority interests		–4	1	66	27		90
Underlying net result	651	470	409	294	1,375	–12	3,187
Divestments				–42			–42
Special items	–107					25	–82
Net result	544	470	409	252	1,375	13	3,063

* Analysed as part of operating expenses

Reconciliation between IFRS-EU and Underlying income, expenses and net result

2013	Income	Expenses	Net result
Underlying	15,337	10,971	3,187
Divestments	–9	14	–42
Special items		109	–82
IFRS-EU	15,327	11,094	3,063

Special items in 2013 is primarily related to the previously announced restructuring programmes in both Bank and Insurance which is partly offset by pension curtailments in the Netherlands.

Notes to the consolidated annual accounts of ING Bank continued

Segments

2012	Retail Netherlands	Retail Belgium	Retail Germany	Retail Rest of World	Commer-cial Banking	Corporate line Banking	Total
Underlying income							
Net interest result	3,377	1,723	1,141	1,740	3,422	540	11,944
Commission income	485	335	87	339	907	6	2,160
Total investment and other income	35	136	–36	–273	633	–90	406
Total underlying income	3,897	2,194	1,193	1,807	4,963	457	14,510
Underlying expenditure							
Operating expenses	2,235	1,419	669	1,618	2,211	275	8,427
Additions to loan loss provision	665	168	83	250	955		2,121
Other impairments*	13	6			162	29	211
Total underlying expenses	2,914	1,593	752	1,868	3,328	304	10,759
Underlying result before taxation	983	601	441	–62	1,635	153	3,751
Taxation	244	168	161	33	432	25	1,063
Minority interests			1	66	23		91
Underlying net result	739	433	278	–161	1,180	128	2,597
Divestments				1,278			1,278
Special items	–284	–22			–129	–160	–595
Net result	456	411	278	1,117	1,050	–32	3,281

Reconciliation between IFRS-EU and Underlying income, expenses and net result

2012	Income	Expenses	Net result
Underlying	14,510	10,759	2,597
Divestments	1,793	245	1,278
Special items	–4	751	–595
IFRS-EU	16,298	11,755	3,281

Divestments in 2012, included the gain on the sale of ING Direct Canada of EUR 1,135 million, the gain on the sale of ING Direct USA of EUR 489 million and the loss of EUR 260 million related to the sale of ING Direct UK.

Special items in 2012, included costs mainly related to the strategic reorganisation measures taken in Retail Netherlands and Commercial Banking of approximately EUR 360 million, the separation of Banking and Insurance, costs related to the final settlement with US authorities concerning transactions subject to sanctions by the US of EUR 386 million, which was partly offset by a pension curtailment of EUR 251 million following the new Dutch employee pension scheme announced in 2012.

Notes to the consolidated annual accounts of ING Bank continued

Segments

2011	Retail Nether-lands	Retail Belgium	Retail Germany	Retail Rest of World	Commer-cial Banking	Corporate line Banking	Total
Underlying income							
Net interest result	3,612	1,606	1,247	1,788	3,739	275	12,268
Commission income	481	336	117	330	977	–13	2,228
Total investment and other income	52	88	–230	–147	307	–23	49
Total underlying income	4,145	2,031	1,134	1,971	5,023	239	14,545
Underlying expenditure							
Operating expenses	2,397	1,429	649	1,559	2,314	106	8,453
Additions to loan loss provision	457	145	91	166	477		1,335
Other impairments*	29	6	–1	1	210	61	307
Total underlying expenses	2,883	1,580	740	1,725	3,000	167	10,095
Underlying result before taxation	1,262	451	395	246	2,023	72	4,450
Taxation	317	107	134	54	485	54	1,151
Minority interests			1	59	19		79
Underlying net result	946	345	259	133	1,519	18	3,220
Divestments	12	2		337	873		1,224
Special items	–246	–12			–80	–112	–451
Net result	711	335	259	470	2,312	–94	3,993

* Analysed as part of operating expenses

Reconciliation between IFRS-EU and Underlying income, expenses and net result

2011	Income	Expenses	Net result
Underlying	14,545	10,095	3,220
Divestments	2,796	1,324	1,224
Special items	–146	489	–451
IFRS-EU	17,195	11,909	3,993

Divestments in 2011 mainly reflected the results on the sale of ING Real Estate Investment Management (REIM) and ING Car Lease as well as the operating result of the divested units.

Special items in 2011 included costs for the Retail Netherlands change programme and strategic repositioning initiatives at Commercial Banking, additional costs for the combining of ING Bank and Postbank in the Netherlands, the transformation programme in Belgium, further restructuring at ING Real Estate following the sale of ING REIM, and costs related to the separation of Banking and Insurance, as well as an adjustment of the Illiquid Assets Back-up Facility based on higher prepayment behaviour in the underlying Alt-A securities and the result on the repurchase of subordinated loans executed in December 2011 as disclosed in Note 26 'Other income' and Note 14 'Subordinated loans'.

Interest income and interest expenses breakdown by segments

2013	**Retail Nether-lands**	**Retail Belgium**	**Retail Germany**	**Retail Rest of World**	**Commer-cial Banking**	**Corporate line Banking**	**Total external**
Interest income	**7,526**	**2,575**	**3,640**	**5,030**	**30,736**	**2,066**	**51,574**
Interest expense	**1,568**	**781**	**2,489**	**3,284**	**28,155**	**3,333**	**39,610**
	5,958	**1,793**	**1,151**	**1,747**	**2,581**	**–1,267**	**11,964**

Interest income and interest expenses breakdown by segments

2012	Retail Nether-lands	Retail Belgium	Retail Germany	Retail Rest of World	Commer-cial Banking	Corporate line Banking	Total external
Interest income	7,986	2,684	3,738	6,976	36,922	1,965	60,271
Interest expense	1,952	997	2,676	4,996	34,047	3,355	48,023
	6,034	1,687	1,062	1,980	2,875	–1,390	12,248

Notes to the consolidated annual accounts of ING Bank continued

Interest income and interest expenses breakdown by segments

2011	Retail Nether-lands	Retail Belgium	Retail Germany	Retail Rest of World	Commer-cial Banking	Corporate line Banking	Total external
Interest income	8,169	2,959	3,688	8,856	39,997	1,534	65,204
Interest expense	1,708	1,202	2,411	5,619	37,534	3,146	51,620
	6,461	1,757	1,277	3,237	2,463	–1,612	13,584

IFRS-EU balance sheets by segment are not reported internally to, and not managed by, the chief operating decision maker. IFRS-EU balance sheet information is prepared for the Banking operations as a whole.

Further balance sheet related information for the banking operations is provided by segment in the section 'Risk Management'.

34 INFORMATION ON GEOGRAPHICAL AREAS

ING Bank's business lines operate in seven main geographical areas: the Netherlands, Belgium, Rest of Europe, North America, Latin America, Asia and Australia. The Netherlands is ING Bank's country of domicile. Geographical distribution of income is based on the origin of revenue.

A geographical area is a distinguishable component of the Bank engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The geographical analyses are based on the location of the office from which the transactions are originated.

Geographical areas

2013	**Nether-lands**	**Bel-gium**	**Rest of Europe**	**North Ame-rica**	**Latin Ame-rica**	**Asia**	**Aus-tralia**	**Other**	**Elimi-nations**	**Total**
Total income	**4,815**	**3,297**	**5,287**	**575**	**60**	**836**	**449**		**9**	**15,327**
Total assets	**444,212**	**153,016**	**327,688**	**55,430**	**1,966**	**42,651**	**34,420**	**301**	**–272,040**	**787,644**

Geographical areas

2012	Nether-lands	Bel-gium	Rest of Europe	North Ame-rica	Latin Ame-rica	Asia	Aus-tralia	Other	Elimi-nations	Total
Total income	7,009	3,020	4,047	1,007	64	766	453		–68	16,299
Total assets	498,997	171,669	327,763	51,592	2,051	42,807	41,734	220	–302,401	834,432

Geographical areas

2011	Nether-lands	Bel-gium	Rest of Europe	North Ame-rica	Latin Ame-rica	Asia	Aus-tralia	Other	Elimi-nations	Total
Total income	6,353	2,498	4,969	1,908	44	897	525		1	17,195
Total assets	526,110	169,599	297,348	179,095	9,685	44,181	41,939	207	–306,561	961,603

In 2012, Total income in the Netherlands includes the gain on the sale of ING Direct USA and ING Direct Canada and the loss on the sale of ING Direct UK of in total EUR 1.4 billion.

Notes to the consolidated annual accounts of ING Bank continued

The table below provides additional information for the year 2013 on names of principal subsidiaries and branches, nature of main activities and average number of employees on a full time equivalent basis by country.

Additional information by country

Geographical area	Country	Name of principal subsidiary	Main activity	Average number of employees at full time equivalent basis [1]	Total Income	Total assets
Netherlands	Netherlands	ING Bank NV	Commercial banking/ Retail	16,155	4,815	297,295
Belgium	Belgium	ING België N.V.	Commercial banking/ Retail	10,266	3,297	130,508
	Luxemburg	ING Luxembourg S.A.	Retail banking	755	222	5,908
Rest of Europe	Poland	ING Bank Slaski S.A.	Commercial banking/ Retail	8,654	795	20,689
	Turkey	ING Bank A.S.	Retail banking	5,635	577	12,096
	Germany	ING DiBa A.G.	Retail banking	3,634	1,430	117,818
	Romania	Branch of ING Bank N.V.	Retail banking	1,458	191	4,036
	Spain	Branch of ING Direct N.V.	Retail banking	976	382	23,013
	Italy	Branch of ING Direct N.V.	Retail banking	828	244	15,461
	UK	Branch of ING Bank N.V.	Commercial banking	875	534	36,543
	France	Branch of ING Bank N.V.	Retail banking	556	212	4,409
	Russia	ING Bank (Eurasia) Z.A.O.	Commercial banking	356	143	3,254
	Czech Republic	Branch of ING Bank N.V.	Commercial banking	238	53	2,429
	Hungary	Branch of ING Bank N.V.	Commercial banking	197	50	2,349
	Slovakia	Branch of ING Bank N.V.	Commercial banking	149	18	563
	Ukraine	PJSC ING Bank Ukraine	Commercial banking	153	56	899
	Austria	Branch of ING DiBa A.G.	Retail banking	143	95	227
	Bulgaria	Branch of ING Bank N.V.	Commercial banking	74	8	244
	Ireland	Branch of ING Bank N.V.	Commercial banking	40	72	1,603
	Portugal	Branch of ING België N.V.	Commercial banking		9	
	Switzerland	Branch of ING België N.V.	Commercial banking	148	197	
North America	USA	ING Financial Holdings Corporation	Commercial banking	482	574	36,842
Latin America	Brazil	Branch of ING Bank N.V.	Commercial banking	46	37	1,096
	Mexico	Negociaciones Mercantiles Especializidas, S.A. de C.V.	Commercial banking	9	5	10
	Other Latin America	Branch of ING Bank N.V.	Commercial banking		18	569
Asia	China	Branch of ING Bank N.V.	Commercial banking	48	42	2,349
	Japan	Branch of ING Bank N.V.	Commercial banking	30	18	2,222
	Singapore	Branch of ING Bank N.V.	Commercial banking	460	266	13,472
	Hong Kong	Branch of ING Bank N.V.	Commercial banking	102	93	6,782
	Philippines	Branch of ING Bank N.V.	Commercial banking	72	33	488
	South Korea	Branch of ING Bank N.V.	Commercial banking	68	49	3,092
	Taiwan	Branch of ING Bank N.V.	Commercial banking	31	13	1,610
	Indonesia	PT ING Securities Indonesia	Commercial banking	5	1	6
	Malaysia	Branch of ING Bank N.V.	Commercial banking	5	1	13
	India	ING Vysya Bank Limited	Retail banking	10,778	321	6,992
	United Arabic Emirates	Branch of ING Bank N.V.	Commercial banking	5		
Australia	Australia	ING Bank (Australia) Ltd.	Retail banking	944	449	32,937
	Other	Branch of ING Bank N.V.			9	–183
Total				**64,373**	**15,327**	**787,644**

[1] The average number of employees includes, on an average basis, employees of entities that were sold or classified as held for sale during the year.

Notes to the consolidated annual accounts of ING Bank continued

ADDITIONAL NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

35 PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Balance sheet - Net defined benefit asset/liability

The disclosures below refer to the position as at balance sheet date. Reference is made to Note 51 ‘Subsequent events’ on the Dutch closed defined benefit plan, which represents approximately 80% (based on 2013 plan assets) of the total defined benefit schemes.

Summary of net defined benefit asset/liability

	2013	2012	2011
Fair value of plan assets	**15,462**	15,327	13,435
Defined benefit obligation	**15,123**	14,541	10,410
Funded status (Net defined benefit asset/(liability))	**339**	786	3,025
Presented as:			
– Other assets	**624**	919	3,048
– Other liabilities	**–285**	–133	–23
	339	786	3,025

ING Bank maintains defined benefit retirement plans in some countries. These plans provide benefits that are related to the remuneration and service of employees upon retirement. The benefits in some of these plans are subject to various forms of indexation. The indexation is, in some cases, at the discretion of management; in other cases it is dependent upon the sufficiency of plan assets.

Several Dutch subsidiaries of ING Bank participate in the Stichting Pensioenfonds ING, in which also Dutch subsidiaries of ING Verzekeringen N.V. participate. ING Bank N.V. and ING Verzekeringen N.V. are jointly and severally liable for deficits in the Stichting Pensioenfonds ING if the coverage ratio is below certain levels. The pension liability, assets and related expense are allocated to ING Bank N.V. and ING Verzekeringen N.V.

Annual contributions are paid to the funds at a rate necessary to adequately finance the accrued liabilities of the plans calculated in accordance with local legal requirements. Plans in all countries comply with applicable local regulations governing investments and funding levels.

ING Bank provides other post-employment employee benefits to certain employees and former employees. These are primarily post-employment healthcare benefits and discounts on ING products provided to employees and former employees.

The most recent (actuarial) valuations of the plan assets and the present value of the defined benefit obligation were carried out at 31 December 2013. The present value of the defined benefit obligation, and the related current service cost and past service cost, were determined using the projected unit credit method.

Changes in fair value of plan assets

	Fair value of plan assets	
	2013	2012
Opening balance	**15,327**	13,435
Interest Income	**555**	667
Remeasurements: Return on plan assets excluding amounts included in interest income	**–746**	1,058
Employer's contribution	**838**	510
Participants contributions	**1**	9
Benefits paid	**–369**	–383
Effect of settlement		
Exchange rate differences	**–44**	31
Changes in the composition of the group and other changes	**–100**	
Closing balance	**15,462**	15,327

The actual return on the plan assets amounts to EUR –191 million (2012: EUR 1,725 million).

No plan assets are expected to be returned to ING Bank during 2014.

Notes to the consolidated annual accounts of ING Bank continued

Changes in defined benefit obligation and other post employment benefits

	Defined benefit obligation		Other post-employment benefits	
	2013	2012	**2013**	2012
Opening balance	**14,541**	10,410	**114**	107
Current service cost	**268**	181	**–18**	–2
Interest cost	**515**	548	**2**	4
Remeasurements: Actuarial gains and losses arising from changes in demographic assumptions	**–12**	2		
Remeasurements: Actuarial gains and losses arising from changes in financial assumptions	**355**	4,105		6
Participants' contributions	**1**	2		
Benefits paid	**–372**	–386	**–1**	–1
Past service cost	**3**	–2		
Effect of curtailment or settlement	**–37**	–335		
Exchange rate differences	**–38**	16	**–1**	
Changes in the composition of the group and other changes	**–101**			
Closing balance	**15,123**	14,541	**96**	114

In 2013, Changes in the composition of the group and other changes (changes in fair value of plan asset and changes in defined benefit obligation) mainly relates to the transfer of approximately 400 employees of WestlandUtrecht Bank to Nationale-Nederlanden Bank. Reference is made to Note 46 'Companies and businesses acquired and divested'.

2013 – Effect of curtailment

In 2013, the Effect of curtailment or settlement includes the curtailments of a pension plan in the Netherlands. This plan is closed for new pension rights and is replaced by defined contribution schemes.

2012 - Effect of curtailment - New pension scheme for employees in the Netherlands

In 2012, ING finalised its agreement on a new pension scheme for employees in the Netherlands, following acceptance by both the unions and their members. The new pension scheme has taken effect on 1 January 2014 and will apply to the approximately 19,000 staff members in the Netherlands of ING Bank and WestlandUtrecht Bank as well as to staff members in the Netherlands of NN Group. Under the agreement, two new separate pension funds will be created, one for banking and one NN Group. The new scheme qualifies as a defined contribution under IFRS-EU and has replaced the existing defined benefit scheme in the Netherlands.

The key elements of the new scheme are:

- ING contributes a yearly pre-defined premium to the funds. The employee contribution to the new scheme will gradually increase to one-third of the base pension premium;
- The minimum salary level at which pensions are provided will be lowered to EUR 15,000;
- Pension benefit will be based on average wage over period of employment with a 2% annual accrual rate;
- The pension funds, not ING, will bear responsibility for funding adequacy; ING Bank and Insurance/IM to pay an additional risk premium;
- Responsibility for inflation indexation will move to the new funds; and
- Standard retirement age will be raised to 67.

As of the start of the new defined contribution plan on 1 January 2014, the current defined benefit plan has stopped accruing new pension benefits. Accruals built up under the defined benefit plan up to that date will remain valid. The change to the new pension scheme represents a curtailment under IFRS-EU and has resulted in a release of provisions previously taken by ING to cover estimated future liabilities in the existing defined benefit plan that are now no longer required. This release amounted to a one-off after tax gain of EUR 251 million (EUR 335 million before tax). The curtailment was included in the line Staff expenses in 2012. This curtailment related to the defined benefit plan in the Netherlands, which represented approximately 75% of the above defined benefit obligation on 31 December 2012.

Notes to the consolidated annual accounts of ING Bank continued

Amounts recognised directly in Other comprehensive income (equity) were as follows:

Remeasurement of the net defined benefit asset/liability		
	2013	2012
Remeasurement of plan assets	**–746**	1,058
Actuarial gains and losses arising from changes in demographic assumptions	**12**	
Actuarial gains and losses arising from changes in financial assumptions	**–355**	–4,105
Taxation	**278**	738
	–811	–2,309

The accumulated amount of remeasurements recognised directly in Other comprehensive income (equity) is EUR –3,588 million (EUR –2,671 million after tax) as at 31 December 2013 (2012: EUR –2,499 million, EUR –1,860 million after tax).

Information on plan assets and defined benefit obligation per country
The defined benefit obligation per country and the plan assets per country can be specified as follows:

Plan assets and defined benefit obligation per country				
	Plan assets		Defined benefit obligation	
	2013	2012	**2013**	2012
The Netherlands	**13,191**	13,038	**12,909**	12,213
United States	**101**	85	**144**	161
United Kingdom	**1,391**	1,456	**1,055**	1,039
Belgium	**599**	591	**725**	815
Other countries	**180**	157	**290**	313
	15,462	15,327	**15,123**	14,541

Determination of the net defined benefit asset/liability
The table provides the key assumptions used in the determination of the Net defined benefit asset/liability and the Other post-employment benefits.

Weighted averages of basic actuarial assumptions in annual % as at 31 December				
	Pension benefits		Post-employment benefits other than pensions	
	2013	2012	**2013**	2012
Discount rates	**3.70**	3.70	**2.90**	2.30
Mortality rates	**0.80**	0.80	**1.00**	0.80
Expected rates of salary increases (excluding promotion increases)	**2.20**	2.20	**2.00**	2.00
Indexation	**2.00**	1.80	**2.00**	2.00

The assumptions above are weighted by defined benefit obligations. The rates used for salary developments, interest discount factors and other adjustments reflect country-specific conditions.

The discount rate is the weighted average of the discount rates that are applied in different regions where the Group has defined benefit pension plans. The discount rate is based on a methodology that uses market yields on high quality corporate bonds of the specific regions with durations matching the pension liabilities as key input. Market yields of high quality corporate bonds reflect the yield on corporate bonds with an AA rating for durations where such yields are available. An extrapolation is applied in order to determine the yield to the longer durations for which no AA-rated corporate bonds are available. As a result of the limited availability of long-duration AA-rated corporate bonds, extrapolation is an important element of the determination of the discount rate.

The discount rate is approximately 3.7% on 31 December 2013 (2012: 3.7%). As disclosed in the 2012 Annual Accounts, discussions were ongoing, both in the industry and at the IASB, on the definition of the discount rate for defined benefit pension liabilities and ING would reconsider the methodology for setting the discount rate if and when appropriate. The discount rate used by ING remains based on AA-rated corporate bonds. During 2013, ING further refined its methodology to extrapolate the observable AA-rated corporate bond rates to the full duration of the defined benefit pension liability. The refined methodology and the resulting discount rate are more in line with observed market practices. The impact of the refinement of the extrapolation was an increase in the defined benefit obligation as at 31 December 2013 of approximately EUR 2.2 billion (EUR 1.6 billion after tax), this impact was recognised in Other comprehensive income (equity) in 2013.

In 2012, the discount rate changed from 5.3% to 3.7%, resulting in an increase of the defined benefit obligation of approximately EUR 4 billion.

Notes to the consolidated annual accounts of ING Bank continued

On 31 December 2013, the actuarial assumption for Indexation for inflation is 2.0% (1.8% in 2012). This percentage is mainly based on the expected inflation and the best estimate assumption for future indexation in the pension plan in the Netherlands. The best estimate assumption for future indexation was amended in 2013 to reflect the outcome of the arbitration in respect of the 2013 indexation as disclosed in Note 45 'Legal proceedings'.

Sensitivity analysis of key assumptions
The sensitivity analysis of the most significant assumptions has been determined based on changes of the assumptions occurring at the end of the reporting period that are deemed reasonably possible.

The table discloses the financial impact on the defined benefit obligation if the weighted averages of each significant actuarial assumption would increase or decrease if all other assumptions were held constant. In practice, this is unlikely to occur and some changes of the assumptions may be correlated.

Sensitivity analysis – financial impact of changes in significant actuarial assumptions on the defined benefit obligation

2013	Financial impact of increase	Financial impact of decrease
Discount rates – increase/ decrease of 1%	–927	1,035
Mortality – increase/ decrease of 1 year	460	–465
Expected rates of salary increases (excluding promotion increases) – increase/ decrease of 0.25%	140	–132
Indexation – increase/ decrease 0.25%	615	–579

Expected cash flows
Annual contributions are paid to the funds at a rate necessary to adequately finance the accrued liabilities of the plans calculated in accordance with local legal requirements. Plans in all countries comply with applicable local regulations governing investments and funding levels. ING Bank's subsidiaries should fund the cost of the entitlements expected to be earned on a yearly basis.

For 2014 the expected contributions to pension plans are EUR 398 million.

The following benefit payments, which reflect expected future service as appropriate, are expected to be made by the plan:

Benefit payments

	Defined benefit obligation	Other post-employment benefits
2014	352	9
2015	355	9
2016	370	9
2017	401	10
2018	427	10
Years 2019 – 2023	2,388	32

The average duration of the benefit obligation at the end of the reporting period is 20 years (2012: 21 years). This number can be subdivided into the duration related to:

- active members: 25 years (2012: 25 years);
- inactive members: 22 years (2012: 23 years); and
- retired members: 11 years (2012: 12 years).

The Sensitivity analysis of key assumptions and Expected cash flows presented above does not take into consideration the subsequent event that was announced 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 51 'Subsequent events' for information on this agreement.

Notes to the consolidated annual accounts of ING Bank continued

Profit and loss account - Pension and other staff-related benefit costs

Pension and other staff-related benefit costs	Net defined benefit asset/liability			Other post-employment benefits			Other			Total		
	2013	2012	2011	**2013**	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Current service cost	**268**	181	220	**–18**	–2	3	**–11**	14	1	**239**	193	224
Past service cost	**3**	–2	–9				**–16**			**–13**	–2	–9
Net Interest cost	**–41**	–161	–51	**2**	4	5	**6**	6	–2	**–33**	–151	–48
Effect of curtailment or settlement	**–37**	–335	–20							**–37**	–335	–20
Other							**13**	–13	–9	**13**	–13	–9
Defined benefit plans	**193**	–317	140	**–16**	2	8	**–8**	7	–10	**169**	–308	138
Defined contribution plans										**62**	68	46
										231	–240	184

Defined benefit plans
In 2013 and 2012, curtailments are recognised due changes in various pension schemes.

Defined contribution plans
Certain group companies sponsor defined contribution pension plans. The assets of all ING Bank's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in other assets/liabilities.

Additional information on the closed defined benefit plan in the Netherlands
The largest plan is a plan in the Netherlands (81% of total DBO).The defined benefit plan is administered by a separate fund (PFI) that is legally separated from ING Bank. The board of the pension fund is required by law or by articles of association to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees and the employer. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund, including the asset-liability matching strategies of the plan. As of 1 January 2014 the plan is closed for new build up. The plan in the Netherlands typically exposes ING Bank to risks such as: investment risk, interest rate risk and longevity risk. The primary financial objective of the closed defined benefit plan, in the Netherlands (the plan) is to secure accumulated participant retirement benefits.

Since the plan will be closed for new pension accruals as of 1 January 2014, no premiums will be paid into the plan. However, ING decides annually whether or not to grant a lump sum payment for indexation of the accrued pensions.

When the coverage ratio (assets divided by liabilities) of the plan is lower than 105% at year end, ING is required to pay the Plan an additional contribution in order to increase the coverage ratio to 106.7%. When the coverage ratio of the plan is lower than 110% but higher than 105% at year end, ING is required to pay the plan an additional contribution in accordance with a pre-defined formula. When the coverage ratio is higher than 140%, ING receives a premium reduction in future periods.

In January 2014, ING reached an agreement with the various stakeholders to transfer all future funding and indexation obligations under ING's current closed defined benefit plan in the Netherlands to the Dutch ING Pension Fund. The agreement will make the Dutch ING Pension Fund financially independent. This agreement will result in the removal of the net pension asset related to the Dutch defined benefit pension fund from ING Bank's balance sheet. Reference is made to Note 51 'Subsequent events' for information on this agreement.

Notes to the consolidated annual accounts of ING Bank continued

Closed defined benefit plan in the Netherlands - Major categories of plan assets

	Fair value of plan assets					
	Quoted price		Other		Total	
	2013	2012	**2013**	2012	**2013**	2012
Investment portfolio of the pension fund						
Debt securities (fixed income investments)						
– Governments bonds	**6,119**	5,423			**6,119**	5,423
– Corporate bonds	**945**	945			**945**	945
– Other bonds (developing markets)	**611**	772			**611**	772
Total fixed income investments	**7,675**	7,140			**7,675**	7,140
Equity security investments						
– Equity securities in developed markets	**2,344**	2,180			**2,344**	2,180
– Equity securities in developing markets	**685**	756			**685**	756
Total equity security investments	**3,029**	2,936			**3,029**	2,936
Real estate investments						
– Listed	**114**	135			**114**	135
– Not listed			**569**	577	**569**	577
Total real estate investments	**114**	135	**569**	577	**683**	712
Alternative investments						
– Private equity			**235**	213	**235**	213
– Hedge funds			**115**	104	**115**	104
– Commodities				133		133
Total alternative investments			**350**	450	**350**	450
Other assets and liabilities (including accrued interest)			**173**	57	**173**	57
Derivatives [1]	**371**	904			**371**	904
Cash and cash equivalents			**297**	97	**297**	97
Total Assets of the pension fund	**11,189**	11,115	**1,389**	1,181	**12,578**	12,296

[1] Derivatives are presented net.

The table above relates to the defined benefit pension fund in the Netherlands that is closed for new pension rights as of 1 January 2014.

At 31 December 2013 the defined benefit fund in the Netherlands did not hold any investments in ING Groep N.V. At 31 December 2012 Debt securities included EUR 30 million (0.20% of total plan assets) of investments in ING Groep N.V.

Notes to the consolidated annual accounts of ING Bank continued

36 TAXATION

Balance sheet – Deferred tax

Deferred taxes are recognised on all temporary differences under the liability method using tax rates applicable in the jurisdictions in which ING Bank is subject to taxation.

Changes in deferred tax

	Net liability 2012	Change through equity	Change through net result	Exchange rate differences	Changes in the composition of the group and other changes	Net liability (+) Net asset (-) 2013
Investments	644	–185	–6	–1	–12	440
Real estate investments	2					2
Financial assets and liabilities at fair value through profit and loss	–1,063		274	–3	–5	–797
Depreciation	43		–3	–2		38
Receivables	–48		–2	2	–1	–49
Loans and advances to customers	947	–10	–1,176	6	–11	–244
Cash flow hedges	–286	–30		1	–1	–316
Pension and post-employment benefits	46	–278	145	1	36	–50
Other provisions	–57		–8	10	12	–43
Unused tax losses carried forward	–771		662	6		–103
Other	–25	–5	159	4	24	157
	–568	–508	45	24	42	–965
Presented in the balance sheet as:						
– deferred tax liabilities	1,571					340
– deferred tax assets	–2,139					–1,305
	–568					–965

Changes through net result for Unused tax losses carried forward and Loans and advances to customers in 2013 relates mainly to an intercompany transaction that resulted in taxable profit in 2013, but did not impact the consolidated result under IFRS.

Changes in deferred tax

	Net liability 2011	Change through equity	Change through net result	Exchange rate differences	Changes in the composition of the group and other changes	Net liability (+) Net asset (-) 2012
Investments	–146	774	180	2	–166	644
Real estate investments	2					2
Financial assets and liabilities at fair value through profit and loss	–707		–366	10		–1,063
Depreciation	40		5	–1	–1	43
Receivables	–43		–8	1	2	–48
Loans and advances to customers	870	–82	157	2		947
Cash flow hedges	–282	–9		1	4	–286
Pension and post-employment benefits	567	–738	216	1		46
Other provisions	–95		29	4	5	–57
Unused tax losses carried forward	–623		–138	–11	1	–771
Other	–186	74	26	–4	65	–25
	–603	19	101	5	–90	–568
Presented in the balance sheet as:						
– deferred tax liabilities	1,735					1,571
– deferred tax assets	–2,338					–2,139
	–603					–568

In 2012, Changes in the composition of the group and other changes related mainly to the reclassification of ING Direct UK as held for sale. Reference is made to Note 11 'Assets and liabilities held for sale'.

Notes to the consolidated annual accounts of ING Bank continued

Changes in deferred tax

	Net liability 2010	Change through equity	Change through net result	Exchange rate differences	Changes in the composition of the group and other changes	Net liability (+) Net asset (-) 2011
Investments	–318	–79	–12	–1	264	–146
Real estate investments	0				2	2
Financial assets and liabilities at fair value through profit and loss	–552		–162	7		–707
Depreciation	6	1	22	2	9	40
Receivables	–22		–9	–2	–10	–43
Loans and advances to customers	462	97	208	7	96	870
Cash flow hedges	–197	–91	6			–282
Pension and post-employment benefits	180	340	48	–1		567
Other provisions	–58	1	–45	5	2	–95
Unused tax losses carried forward	–1,183	–1	286	29	246	–623
Other	–142	–64	51	–4	–27	–186
	–1,824	204	393	42	582	–603
Presented in the balance sheet as:						
– deferred tax liabilities	1,145					1,735
– deferred tax assets	–2,969					–2,338
	–1,824					–603

In 2011, Changes in the composition of the group and other changes related mainly to the classification of ING Direct USA as held for sale.

Deferred tax in connection with unused tax losses carried forward

	2013	2012
Total unused tax losses carried forward	**1,412**	4,054
Unused tax losses carried forward not recognised as a deferred tax asset	**911**	1,073
Unused tax losses carried forward recognised as a deferred tax asset	**501**	2,981
Average tax rate	**20.6%**	25.9%
Deferred tax asset	**103**	771

The following tax losses carried forward and tax credits will expire as follows at 31 December:

Total unused tax losses carried forward analysed by expiry terms

	No deferred tax asset recognised		Deferred tax asset recognised	
	2013	2012	**2013**	2012
Within 1 year	**18**	19	**2**	3
More than 1 year but less than 5 years	**269**	294	**77**	33
More than 5 years but less than 10 years	**97**	47		1,114
More than 10 years but less than 20 years	**338**	429		12
Unlimited	**189**	284	**422**	1,819
	911	1,073	**501**	2,981

Deferred tax assets are recognised for temporary deductible differences, for tax losses carried forward and unused tax credits only to the extent that realisation of the related tax benefit is probable.

Notes to the consolidated annual accounts of ING Bank continued

The deferred tax asset includes balances for which the utilisation is dependent on future taxable profits whilst the related entities have incurred losses in either the current or the preceding year. The aggregate amount for the most significant entities where this applies in 2013 is EUR 407 million (2012: EUR 280 million). This can be specified by jurisdiction as follows:

Breakdown by jurisdiction

	2013	2012
Australia	2	24
France	65	59
Germany		1
Great Britain	122	17
Italy	160	136
Luxembourg	9	7
Mexico		4
Slovakia	3	
Spain	46	32
	407	280

In 2013, the deferred tax assets for banking operations, for which the utilisation is dependent of future taxable profits, as disclosed above, increased for Great Britain due to the expected profitability of the ING UK Branches which has led to the recognition of a deferred tax asset.

Recognition is based on the fact that it is probable that the entity will have taxable profits and /or can utilise tax planning opportunities before expiration of the deferred tax assets. Changes in circumstances in future periods may adversely impact the assessment of the recoverability. The uncertainty of the recoverability is taken into account in establishing the deferred tax assets.

As at 31 December 2013 and 31 December 2012, ING Bank had no significant temporary differences associated with the parent company’s investments in subsidiaries as any economic benefit from those investments will not be taxable at parent company level.

Profit and loss account - Taxation

Taxation by type

		Netherlands			International			Total	
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Current taxation	3	4	8	1,032	1,066	814	1,035	1,070	822
Deferred taxation	73	–34	278	–28	135	115	45	101	393
	76	–30	286	1,004	1,201	929	1,080	1,171	1,215

For the year 2013, the tax charge in the Netherlands increased with EUR 106 million to EUR 76 million, due to higher tax profits. For the year 2012, the tax charge in the Netherlands decreased with EUR 316 million to EUR –30 million. A significant part of the profit in the Netherlands in 2012 was non-taxable due to tax exempt divestments.

Notes to the consolidated annual accounts of ING Bank continued

Reconciliation of the weighted average statutory income tax rate to ING Bank's effective income tax rate			
	2013	2012	2011
Result before tax	**4,233**	4,543	5,286
Weighted average statutory tax rate	**29.8%**	28.0%	27.8%
Weighted average statutory tax amount	**1,263**	1,274	1,468
Associates exemption	**–36**	–441	–209
Other income not subject to tax	**–165**	–96	–194
Expenses not deductible for tax purposes	**114**	95	72
Impact on deferred tax from change in tax rates		25	12
Deferred tax benefit from previously unrecognised amounts	**–22**		
Current tax benefit from previously unrecognised amounts	**–24**	–30	1
Write-off/reversal of deferred tax assets	**40**	382	63
Adjustment to prior periods	**–90**	–38	2
Effective tax amount	**1,080**	1,171	1,215
Effective tax rate	**25.5%**	25.8 %	23.0%

The weighted average statutory tax in 2013 is slightly higher compared to 2012. This is caused by the fact that a larger part of the result before tax was taxed against higher statutory tax rates.

The weighted average statutory tax rate in 2012 compared to 2011 did not differ significantly.

The effective tax rate in 2013 was lower than the weighted average statutory tax rate. This is mainly caused by non-taxable income and prior year adjustments which are only partly offset by non-deductible expenses and write-off of deferred tax assets.

The effective tax rate in 2012 was lower than the weighted average statutory tax rate. This was mainly caused by non-taxable income, which was partly offset by non-deductible expenses and write-offs of deferred tax assets.

The effective tax rate in 2011 was lower than the weighted average statutory tax rate. This was mainly caused by tax exempt income, which was only partly offset by non-deductible expenses and write-off of deferred tax assets.

Adjustment to prior periods in 2013 relates to a true-up of tax positions. Adjustment to prior periods in 2012 related mainly to a tax settlement.

Equity – Other comprehensive income

Income tax related to components of other comprehensive income			
	2013	2012	2011
Remeasurement of the net defined benefit asset/liability	**278**	738	–339
Unrealised revaluations available-for-sale investments and other	**185**	–774	318
Realised gains/losses transferred to profit and loss (reclassifications from equity to profit and loss)	**40**	58	–189
Changes in cash flow hedge reserve	**30**	9	91
Exchange rate differences and other	**–25**	–50	–85
Total income tax related to components of other comprehensive income	**508**	–19	–204

Notes to the consolidated annual accounts of ING Bank continued

37 FAIR VALUE OF ASSETS AND LIABILITIES

FINANCIAL ASSETS AND LIABILITIES

The following table presents the estimated fair values of ING Bank's financial assets and liabilities. Certain balance sheet items are not included in the table, as they do not meet the definition of a financial asset or liability. The aggregation of the fair values presented below does not represent, and should not be construed as representing, the underlying value of ING Bank.

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2013	2012	**2013**	2012
Financial assets				
Cash and balances with central banks	**11,920**	15,447	**11,920**	15,447
Amounts due from banks	**43,173**	39,126	**43,012**	39,053
Financial assets at fair value through profit and loss				
– trading assets	**113,537**	114,320	**113,537**	114,320
– non-trading derivatives	**5,731**	9,075	**5,731**	9,075
– designated as at fair value through profit and loss	**2,308**	2,768	**2,308**	2,768
Investments				
– available-for-sale	**76,883**	74,279	**76,883**	74,279
– held-to-maturity	**3,153**	6,626	**3,098**	6,545
Loans and advances to customers	**516,825**	557,493	**508,338**	541,546
Other assets [(1)]	**14,784**	14,737	**14,784**	14,737
	788,314	833,871	**779,611**	817,770
Financial liabilities				
Subordinated loans	**14,882**	15,730	**14,776**	16,407
Debt securities in issue	**125,736**	140,758	**122,299**	134,689
Amounts due to banks	**27,732**	39,628	**27,257**	38,704
Customer deposits and other funds on deposit	**474,479**	462,983	**474,783**	460,363
Financial liabilities at fair value through profit and loss				
– trading liabilities	**73,491**	83,652	**73,491**	83,652
– non-trading derivatives	**9,676**	15,919	**9,676**	15,919
– designated as at fair value through profit and loss	**13,855**	13,399	**13,855**	13,399
Other liabilities [(2)]	**14,897**	16,177	**14,897**	16,177
	754,748	788,246	**751,034**	779,310

[(1)] Other assets do not include (deferred) tax assets, net defined benefit asset and property development and obtained from foreclosures.
[(2)] Other liabilities do not include (deferred) tax liabilities, net defined benefit liability, prepayments received under property under development, other provisions and other taxation and social security contributions.

The estimated fair values represent the price at which an orderly transaction to sell the financial asset or to transfer the financial liability would take place between market participants at the balance sheet date (‘exit price’). The fair value of financial assets and liabilities is based on quoted market prices, where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments. Where an exchange price is not available, market prices are obtained from independent market vendors, brokers or market makers. Because substantial trading markets do not exist for all financial instruments various techniques have been developed to estimate the approximate fair values of financial assets and liabilities that are not actively traded. These techniques are subjective in nature and involve various assumptions about the relevant pricing factors, especially for inputs that are not readily available in the market (such as credit spreads for own-originated loans and advances to customers). Changes in these assumptions could significantly affect the estimated fair values. Consequently, the fair values presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of future fair values. Where exposures of a group of financial assets and financial liabilities are managed on a net basis ING applies the IFRS exception that allows ING to measure the fair value of the group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position or settle a net short position.

To include credit risk in the fair valuation, ING applies both credit and debit valuation adjustments (CVA, DVA). Own issued debt and structured notes that are valued at fair value are adjusted for credit risk by means of a DVA. Additionally, derivatives valued at fair value are adjusted for credit risk by a CVA. The CVA is of a bilateral nature as 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 also applies CVA for pricing credit risk into new external trades with counterparties.

The following methods and assumptions were used by ING Bank to estimate the fair value of the financial instruments:

Financial assets

Cash and balances with central banks

The carrying amount of cash approximates its fair value.

Amounts due from banks

The fair values of receivables from banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates offered for receivables with similar characteristics, similar to Loans and advances to customers described below.

Financial assets at fair value through profit and loss and Investments

Derivatives

Derivatives contracts can either be exchange traded or over the counter (OTC). The fair value of exchange-traded derivatives is determined using quoted market prices in an active market and those derivatives are classified in Level 1 of the fair value hierarchy. For those instruments not actively traded, fair values are estimated based on valuation techniques. OTC derivatives and derivatives trading in an inactive market are valued using valuation techniques because quoted market prices in an active market are not available for such instruments. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instruments. The principal techniques used to value these instruments are based on discounted cash flows, Black-Scholes option models and Monte Carlo simulation. These valuation models calculate the present value of expected future cash flows, based on 'no-arbitrage' principles. These models are commonly used in the financial industry. Inputs to valuation models are determined from observable market data where possible. Certain inputs may not be observable in the market directly, but can be determined from observable prices via valuation model calibration procedures. The inputs used include prices available from exchanges, dealers, brokers or providers of pricing, yield curves, credit spreads, default rates, recovery rates, dividend rates, volatility of underlying interest rates, equity prices and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes and consensus data, where available.

Equity securities

The fair values of publicly traded equity securities are based on quoted market prices when available. Where no quoted market prices are available, fair value is determined based on quoted prices for similar securities or other valuation techniques.

The fair value of private equity is based on quoted market prices, if available. In the absence of quoted prices in an active market, fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects, price, earnings comparisons and revenue multiples and by reference to market valuations for similar entities quoted in an active market.

Debt securities

Fair values for debt securities are based on quoted market prices, where available. Quoted market prices may be obtained from an exchange, dealer, broker, industry group, pricing service or regulatory service. If quoted prices in an active market are not available, fair value is based on an analysis of available market inputs, which may include values obtained from one or more pricing services or by a valuation technique that discounts expected future cash flows using a market interest rate curves, referenced credit spreads, maturity of the investment and estimated prepayment rates where applicable.

Loans and receivables

Reference is made to Loans and advances to customers below.

Loans and advances to customers

For loans and advances that are repriced frequently and have had no significant changes in credit risk, carrying amounts represent a reasonable estimate of fair values. The fair values of other loans are estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings. The fair values of mortgage loans are estimated by discounting future cash flows using interest rates currently being offered for similar loans to borrowers with similar credit ratings.

Other assets

The other assets are stated at their carrying value which is not significantly different from their fair value.

Financial liabilities

Subordinated loans

The fair value of the subordinated loans is estimated using discounted cash flows based on interest rates and credit spreads that apply to similar instruments.

Notes to the consolidated annual accounts of ING Bank continued

Amounts due to banks
The fair values of payables to banks are generally based on quoted market prices or, if not available, on estimates based on discounting future cash flows using available market interest rates and credit spreads for payables to banks with similar characteristics.

Customer deposits and other funds on deposit
The carrying values of customer deposits and other funds on deposit with no stated maturity approximate their fair values. The fair values of deposits with stated maturities have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities.

Financial liabilities at fair value through profit and loss
The fair values of securities in the trading portfolio and other liabilities at fair value through profit and loss are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated based on internal discounted cash flow valuation techniques using interest rates and credit spreads that apply to similar instruments. Reference is made to Financial assets at fair value through profit and loss above.

Debt securities in issue and other borrowed funds
The fair value of debt securities in issue and other borrowed funds is generally based on quoted market prices or, if not available, on estimated prices by discounting expected future cash flows using a current market interest rate and credit spreads applicable to the yield, credit quality and maturity.

Other liabilities
The other liabilities are stated at their carrying value which is not significantly different from their fair value.

Fair value hierarchy
ING Bank has categorised its financial instruments that are either measured in the balance sheet at fair value or of which the fair value is disclosed into a three level hierarchy based on the priority of the inputs to the valuation. The fair value hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques supported by unobservable inputs. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide reliable pricing information on an ongoing basis. The fair value hierarchy consists of three levels, depending upon whether fair values were determined based on (unadjusted) quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument (Level 3). Financial assets in Level 3 include for example illiquid debt securities, complex OTC and credit derivatives, certain complex loans (for which current market information about similar assets to use as observable, corroborated data for all significant inputs into a valuation model is not available), private equity instruments and investments in real estate funds.

Observable inputs reflect market data obtained from independent sources. Unobservable inputs are inputs which are based on ING Bank's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates and certain credit spreads. Transfers into and transfers out of fair value hierarchy levels are recognised as of the date of the event or change in circumstances that caused the transfer.

Financial instruments at fair value
The fair values of the financial instruments were determined as follows:

Methods applied in determining fair values of financial assets and liabilities

2013	Level 1	Level 2	Level 3	Total
Financial Assets				
Trading assets	27,697	84,541	1,299	113,537
Non-trading derivatives		5,669	62	5,731
Financial assets designated as at fair value through profit and loss	121	1,989	198	2,308
Available-for-sale investments	63,356	12,485	1,042	76,883
	91,174	104,684	2,601	198,459
Financial liabilities				
Trading liabilities	10,968	61,418	1,105	73,491
Designated as at fair value through profit and loss	1,911	11,601	343	13,855
Non-trading derivatives	1	9,674	1	9,676
	12,880	82,693	1,449	97,022

Notes to the consolidated annual accounts of ING Bank continued

Methods applied in determining fair values of financial assets and liabilities

2012	Level 1	Level 2	Level 3	Total
Financial assets				
Trading assets	29,214	83,615	1,491	114,320
Non-trading derivatives	43	8,541	491	9,075
Financial assets designated as at fair value through profit and loss	157	1,383	1,228	2,768
Available-for-sale investments	56,146	16,842	1,291	74,279
	85,560	110,381	4,501	200,442
Financial liabilities				
Trading liabilities	14,349	67,780	1,523	83,652
Financial liabilities designated as at fair value through profit and loss	1,833	6,464	5,102	13,399
Non-trading derivatives	112	15,493	314	15,919
	16,294	89,737	6,939	112,970

Level 1 – Unadjusted quoted prices in active markets
This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market that ING Bank can access. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions with sufficient frequency and volume to provide pricing information on an ongoing basis. Transfers out of Level 1 into Level 2 occur when ING Bank establishes that markets are no longer active and therefore (unadjusted) quoted prices no longer provide reliable pricing information.

Level 2 – Valuation technique supported by observable inputs
This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable. If certain inputs in the model are unobservable, but all significant inputs are, the instrument is still classified in this category, provided that the impact of those unobservable inputs on the overall valuation is insignificant. Included in this category are items whose value is derived from quoted prices of similar instruments, but for which the prices are modified based on other market observable external data and items whose value is derived from quoted prices but for which there was insufficient evidence of an active market.

This category also includes financial assets and liabilities whose fair value is determined by reference to price quotes but for which the market is considered inactive.

Level 3 – Valuation technique supported by unobservable inputs
This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model) for which more than an insignificant part of the inputs in terms of the overall valuation are not market observable. This category also includes financial assets and liabilities whose fair value is determined by reference to price quotes but for which the market is considered inactive. Level 3 Trading assets, Non-trading derivatives and Assets designated as at fair value through profit and loss and Level 3 Financial liabilities at fair value through profit and loss include financial instruments with different characteristics and nature, which are valued on the basis of valuation techniques that feature one or more significant inputs that are unobservable. An instrument in its entirety is classified as Level 3 if a significant portion of the instrument's fair value is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which the price at which an arm's length transaction would be likely to occur can be derived. More details on the determination of the fair value of these instruments is included above under 'Derivatives', 'Debt securities' and 'Loans and advances to customers'.

Notes to the consolidated annual accounts of ING Bank continued

Changes in Level 3 Financial assets

2013	Trading assets	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	1,491	491	1,228	1,291	4,501
Amounts recognised in profit and loss account during the year	61	394	–364	12	103
Revaluation recognised in equity during the year				10	10
Purchase of assets	531	320	214	343	1,408
Sale of assets	–639	–291	–439	–432	–1,801
Maturity/settlement	–243	–20	–398	–88	–749
Transfers into Level 3	237		86	325	648
Transfers out of Level 3	–139	–832	–129	–101	–1,201
Changes in the composition of the group and other changes				–292	–292
Exchange rate differences				–26	–26
Closing balance	1,299	62	198	1,042	2,601

Changes in Level 3 Financial assets

2012	Trading assets	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	979	798	1,463	2,251	5,491
Amounts recognised in profit and loss account during the year	149	–283	–190	24	–300
Revaluation recognised in equity during the year				30	30
Purchase of assets	1,137	154	693	289	2,273
Sale of assets	–326	–187	–358	–580	–1,451
Maturity/settlement	–313	–2	–378	–737	–1,430
Transfers into Level 3	27	11		289	327
Transfers out of Level 3	–163		–2	–261	–426
Changes in the composition of the group and other changes				–11	–11
Exchange rate differences	1			–3	–2
Closing balance	1,491	491	1,228	1,291	4,501

Main changes in fair value hierarchy in 2012

There were no significant transfers between Level 1 and 2.

Notes to the consolidated annual accounts of ING Bank continued

Changes in Level 3 Financial liabilities

2013	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit and loss	Total
Opening balance	1,523	314	5,102	6,939
Amounts recognised in profit and loss account during the year	–110	250	–137	3
Revaluation recognised in equity during the year				
Issue of liabilities	510	263	226	999
Early repayment of liabilities	–720	–452	–907	–2,079
Maturity/settlement	–276	–9	–420	–705
Transfers into Level 3	245		152	397
Transfers out of Level 3	–64	–365	–3,676	–4,105
Exchange rate differences	-3		3	
Closing balance	1,105	1	343	1,449

In 2013, EUR 3.7 billion of Financial liabilities designated as at fair value through profit and loss were transferred from level 3 to level 2 due to refinements in the methodology used to classify these liabilities. It was observed that the valuation techniques used for calculating the fair values, for the majority of the portfolio, are not significantly impacted by unobservable inputs. These liabilities are reported in level 2. Furthermore, EUR 0.9 billion of Assets-Non trading derivatives were also transferred from level 3 to level 2 as the valuation is now not significantly impacted by unobservable inputs.

Changes in Level 3 Financial liabilities

2012	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit and loss	Total
Opening balance	940	881	4,272	6,093
Amounts recognised in profit and loss account during the year	232	–796	96	–468
Issue of liabilities	1,380	239	2,614	4,233
Early repayment of liabilities	–348	–14	–1,067	–1,429
Maturity/settlement	–535	–3	–1,174	–1,712
Transfers into Level 3	85	7	395	487
Transfers out of Level 3	–223		–30	–253
Exchange rate differences	–8		–4	–12
Closing balance	1,523	314	5,102	6,939

Amounts recognised in profit and loss account during the year (Level 3)

2013	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	61		61
Non-trading derivatives	394		394
Financial assets designated as at fair value through profit and loss	–364		–364
Available-for-sale investments	–14	26	12
	77	26	103
Financial liabilities			
Trading liabilities	–110		–110
Non-trading derivatives	250		250
Financial liabilities designated as at fair value through profit and loss	–137		–137
	3		3

Notes to the consolidated annual accounts of ING Bank continued

Amounts recognised in profit and loss account during the year (Level 3)

2012	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	149		149
Non-trading derivatives	–283		–283
Financial assets designated as at fair value through profit and loss	–190		–190
Available-for-sale investments	–11	35	24
	–335	35	–300
Financial liabilities			
Trading liabilities	232		232
Non-trading derivatives	–796		–796
Financial liabilities designated as at fair value through profit and loss	96		96
	–468		–468

Level 3 Financial assets and liabilities

Financial assets measured at fair value in the balance sheet as at 31 December 2013 of EUR 198.5 billion include an amount of EUR 2.6 billion (1.3%) that is classified as Level 3 (31 December 2012: EUR 9.0 billion, being 2.1%). Changes in Level 3 from 31 December 2012 to 31 December 2013 are disclosed above in the table 'Changes in Level 3 Financial Assets'.

Financial liabilities measured at fair value in the balance sheet as at 31 December 2013 of EUR 97.0 billion include an amount of EUR 1.4 billion (1.5%) that is classified as Level 3 (31 December 2012: EUR 8.1 billion, being 6.6%). Changes in Level 3 from 31 December 2012 to 31 December 2013 are disclosed above in the table 'Changes in Level 3 Financial Liabilities'.

Financial assets and liabilities in Level 3 include both assets and liabilities for which the fair value was determined using valuation techniques that incorporate unobservable inputs and assets and liabilities for which the fair value was determined using quoted prices, but for which the market was not actively trading at or around the balance sheet date. Unobservable inputs are inputs which are based on ING's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates and certain credit spreads. Fair values that are determined using valuation techniques using unobservable inputs are sensitive to the inputs used. Fair values that are determined using quoted prices are not sensitive to unobservable inputs, as the valuation is based on unadjusted external price quotes. These are classified in Level 3 as a result of the illiquidity in the relevant market, but are not significantly sensitive to ING's own unobservable inputs.

Of the total amount of financial assets classified as Level 3 as at 31 December 2013 of EUR 2.6 billion, an amount of EUR 1.6 billion (60.5%) is based on unadjusted quoted prices in inactive markets. As ING does generally not adjust quoted prices using its own inputs, there is no significant sensitivity to ING's own unobservable inputs.

Furthermore, Level 3 financial assets includes approximately EUR 0.2 billion which relates to financial assets that are part of structures that are designed to be fully neutral in terms of market risk. Such structures include various financial assets and liabilities for which the overall sensitivity to market risk is insignificant. Whereas the fair value of individual components of these structures may be determined using different techniques and the fair value of each of the components of these structures may be sensitive to unobservable inputs, the overall sensitivity is by design not significant.

The remaining EUR 0.8 billion of the fair value classified in Level 3 financial assets is established using valuation techniques that incorporates certain inputs that are unobservable. This relates mainly to assets that are classified as Available-for-sale investments, for which changes in fair value are recognised in shareholders' equity and do not directly impact profit and loss.

Of the total amount of financial liabilities classified as Level 3 as at 31 December of EUR 1.4 billion, an amount of EUR 0.5 billion (34.8%) is based on unadjusted quoted prices in inactive markets. As ING does not generally adjust quoted prices using its own inputs, there is no significant sensitivity to ING's own unobservable inputs.

Furthermore, Level 3 financial liabilities includes approximately nil which relates to financial liabilities that are part of structures that are designed to be fully neutral in terms of market risk. As explained above, the fair value of each of the components of these structures may be sensitive to unobservable inputs, but the overall sensitivity is by design not significant.

The remaining EUR 0.9 billion of the fair value classified in Level 3 financial liabilities is established using valuation techniques that incorporates certain inputs that are unobservable.

Notes to the consolidated annual accounts of ING Bank continued

The table below provides a summary of the valuation techniques, key unobservable inputs and the lower and upper range of such unobservable inputs, by type of level 3 asset/liability.

Valuation techniques and range of unobservable inputs (Level 3)

2013	Assets	Liabilities	Valuation techniques	Significant unobservable inputs	Lower range	Upper range
At fair value through profit and loss						
Debt securities	341	26	Price based	Price (%)	0%	150%
			Net asset value	Price (%)	118%	118%
			Loan pricing model	Credit spread (bps)	696	696
Loans and advances	164	5	Price based	Price (%)	1%	100%
			Net asset value	Price (%)	32%	38%
			Present value techniques	Credit spread (bps)	106	2,101
			Loan pricing model	Credit spread (bps)	696	696
Structured notes		343	Price based	Price (%)	65%	110%
			Net asset value	Price (%)	118%	118%
			Option pricing model	Equity volatility (%)	17%	74%
				Equity/Equity correlation	–0.1	0.9
				Equity/FX correlation	–0.6	0.9
				Dividend yield (%)	0%	7%
Derivatives						
– Rates	303	387	Option pricing model	Interest rate volatility (%)	11%	69%
				Interest rate correlation	0.9	0.9
				Inflation rate (%)	0%	4%
			Present value techniques	Reset spread	3%	3%
				Prepayment rate	5%	5%
– FX	462	384	Present value techniques	Inflation rate (%)	–1%	3%
– Credit	54	60	Present value techniques	Credit spread (bps)	1	1,372
				Implied correlation	0.4	1.0
– Equity	102	240	Option pricing model	Equity volatility (%)	5%	94%
				Equity/Equity correlation	–0.1	1.0
				Equity/FX correlation	–0.9	0.5
				Dividend yield (%)	0%	9%
– Other	3	3	Option pricing model	Commodity volatility	6%	28%
				Com/Com correlation	–0.1	0.9
				Com/FX correlation	–0.8	–0.2
Available for sale						
– Debt	506			n/a		
– Equity	509			n/a		
– Asset backed securities	149			n/a		
Other	8					
Total	2,601	1,448				

Notes to the consolidated annual accounts of ING Bank continued

Equity securities
Level 3 equity securities mainly include corporate investments, fund investments, real estate positions and other equity securities which are not traded in active markets. In the absence of an active market, fair values are estimated on the basis of the analysis of fund managers reports, company's financial position, future prospects and other factors, considering valuations of similar positions or by the reference to acquisition cost of the position. Given the bespoke nature of the analysis in respect to most significant positions, it is not practical to quote a range of key unobservable inputs.

Credit spreads
Credit spread is the premium above a benchmark interest rate, typically LIBOR or relevant Treasury instrument, required by the market participant to accept a lower credit quality. Higher credit spreads indicate lower credit quality and a lower value of an asset.

Volatility
Volatility is a measure for variation of the price of a financial instrument or other valuation input over time. Volatility is one of the key inputs in option pricing models. Typically, the higher the volatility, the higher value of the option. Volatility varies by the underlying reference (equity, commodity, foreign currency and interest rates), by strike and maturity of the option.

Correlation
Correlation is a measure of dependence between two underlying references which is relevant in derivatives and other instruments which have more than one underlying reference. For example, correlation between underlying equity names may be a relevant input parameter for basket equity option pricing models. High positive correlation (close to 1) indicates strong positive relationship between underlyings implying they typically move in the same direction. High negative correlation, on the other hand, implies that underlyings typically move in opposite directions.

Interest rates
Prepayment rate and reset spread are key inputs to mortgage linked prepayments swaps valuation. Prepayment rate is the estimated rate at which mortgage borrowers will early pay off their mortgages, e.g. 5% per year. Reset spread is the future spread at which mortgages will re-price at interest rate reset dates.
Inflation rate is a key input to inflation linked instruments. Inflation linked instruments protect against price inflation and are denominated and indexed to investment units. Interest payments would be based on the inflation index and nominal rate in order to receive/pay the real rate of return. A rise in nominal coupon payments is a result of an increase in inflation expectations, real rates, or both. As markets for these inflation linked derivatives are illiquid, the valuation parameters become unobservable.

Sensitivity analysis of unobservable inputs
Where the fair value of a financial instrument is determined using inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument the actual value of those inputs at the balance sheet date may be drawn from a range of reasonably possible alternatives. The actual levels chosen for these unobservable inputs in preparing the financial statements is consistent with the valuation methodology.

If ING had used input values from the extremes of the ranges of reasonably possible alternatives when valuing these instruments as of 31 December 2013 then the impact on the profit and loss account would have been higher or lower as indicated below. The purpose of this disclosure is to present the possible impact of a change in unobservable inputs in the fair value of financial instruments where unobservable inputs are significant to the valuation. In practice it would be unlikely that all unobservable inputs would ever be simultaneously at the limits of their respective ranges of reasonably possible alternatives and so the estimates in the table below show a greater fair value uncertainty than the realistic position at year end. Also, this disclosure does not attempt to indicate or predict future fair value movements. The numbers in isolation give limited information as in most cased these level 3 assets and liabilities should be seen in combination with other instruments (for example as a hedge) that are classified as level 1 or level 2. The table below does not include available for sale investments as changes in the fair value values of such investments would not directly impact profit and loss. Further disclosure on valuations, inputs and sensitivities is provided in the Risk management section.

Sensitivity analysis

2013	Positive fair value movements from using reasonable possible alternatives	Negative fair value movements from using reasonable possible alternatives
Equity	42	9
Interest rates	36	32
Credits	24	17
	102	58

Recognition of unrealised gains and losses in Level 3

Amounts recognised in the profit and loss account relating to unrealised gains and losses during the year that relates to Level 3 assets and liabilities are included in the profit and loss account as follows:

- Results on trading assets and trading liabilities are included in Net trading income;
- Non-trading derivatives are included in Valuation results on non-trading derivatives; and
- Financial assets and liabilities designated as at fair value through profit and loss are included in Valuation results on non-trading derivatives - Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading).
- Changes in fair values of Real estate investments are included in Investments income; and
- Impairments on Property in own use are included in Intangible amortisation and other impairments.

Unrealised gains and losses recognised in Other comprehensive income that relates to Available-for-sale assets are included in the Revaluation reserve – Available-for-sale reserve and other and Property in own use are included in the Revaluation reserve – Property in own use reserve.

Asset backed security portfolio

Fair value hierarchy of certain ABS bonds

2013	Level 1	Level 2	Level 3	Total
US Subprime RMBS		13		13
US Alt-A RMBS		91		91
CDO/CLOs	4		136	140
CMBS		18		18
Total	4	122	136	262

Fair value hierarchy of certain ABS bonds

2012	Level 1	Level 2	Level 3	Total
US Subprime RMBS		15	8	23
US Alt-A RMBS		170	3	173
CDO/CLOs	7	71	305	383
CMBS	1	107	1	109
Total	8	363	317	688

Greece, Italy, Ireland, Portugal, Spain and Cyprus

Of the Government and Unsecured Financial institutions' bonds exposure in Greece, Italy, Ireland, Portugal, Spain and Cyprus as disclosed in Note 5 'Investments', EUR 2.3 billion (2012: EUR 2.4 billion) is classified as available-for-sale and is measured at fair value (with the revaluation recognised in equity, taking into account impairments that are recognised in the profit and loss account). The table below provide the fair value hierarchy per year-end 2012 for the Greek, Italian, Irish, Portuguese, Spanish and Cyprian Government and Unsecured Financial institutions' bond exposure measured at fair value.

Fair value hierarchy of Greek, Italian, Irish, Portuguese, Spanish and Cyprian bonds at fair value

2013	Level 1	Level 2	Level 3	Total
Greece				
Government bonds				
Italy				
Government bonds	981	278		1,259
Financial institutions	42	136		178
Ireland				
Financial institutions	15			15
Portugal				
Government bonds	493			493
Financial institutions	8			8
Spain				
Government bonds	311			311
Financial institutions	3			3
Cyprus				
Government bonds	10			10
Total	1,863	414		2,277

Notes to the consolidated annual accounts of ING Bank continued

Fair value hierarchy of Greek, Italian, Irish, Portuguese, Spanish and Cyprian bonds at fair value

2012	Level 1	Level 2	Level 3	Total
Greece				
Government bonds				
Italy				
Government bonds	611	349		960
Financial institutions	114	333		447
Ireland				
Financial institutions	15			15
Portugal				
Government bonds	620			620
Financial institutions	37			37
Spain				
Government bonds	279			279
Financial institutions	3			3
Cyprus				
Government bonds	13			13
Total	1,692	682		2,374

Classification of bonds in Levels 2 and 3 is mainly a result of low trading liquidity in the relevant markets.

Fair values of the financial instruments carried at amortised cost in the balance sheet, but for which fair values are disclosed are determined as follows:

Other financial instruments

Methods applied in determining fair values of financial assets and liabilities

2013	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances with central banks	11,920			11,920
Amounts due from banks	4,830	30,343	8,000	43,173
Held-to-maturity investments	1,225	1,928		3,153
Loans and advances to customers	6,665	38,906	471,254	516,825
	24,640	71,177	479,254	575,071
Financial liabilities				
Subordinated loans	7,453	7,257	172	14,882
Debt securities in issue	53,169	35,817	36,750	125,736
Amounts due to banks	5,127	20,768	1,837	27,732
Customer deposits and other funds on deposit	238,253	78,869	157,357	474,479
	304,002	142,711	196,116	642,829

NON-FINANCIAL ASSETS AND LIABILITIES

In addition to financial assets and liabilities, the following table presents the estimated fair values of ING Bank's non-financial assets and liabilities that are measured at fair value. Reference is made to Note 1 'Accounting policies' in the sections 'Real estate investments' and 'Property in own use' for the methods and assumptions used by ING Bank to estimate the fair value of the non-financial assets.

Fair value of non-financial assets

2013	Estimated fair value	Balance sheet value
Real estate investments	108	108
Property in own use	1,143	1,143
	1,251	1,251

Notes to the consolidated annual accounts of ING Bank continued

The fair values of the non-financial assets carried at fair value were determined as follows:

Methods applied in determining fair values of non-financial assets

2013	Level 1	Level 2	Level 3	Total
Real estate investments			108	108
Property in own use			1,143	1,143
			1,251	1,251

Changes in Level 3 Non-financial assets

2013	Real estate invest-ments	Property in own use	Total non-financial assets
Opening balance	207	1,203	1,410
Amounts recognised in the profit and loss account during the year		–53	–53
Revaluation recognised in equity during the year		18	18
Purchase of assets		34	34
Sale of assets	–36	–33	–69
Reclassifications	–61	–2	–63
Exchange rate differences	–2	–24	–26
Closing balance	108	1,143	1,251

Amounts recognised in the profit and loss account during the year (Level 3)

2013	Held at balance sheet date	Derecogni-sed during the year	Total
Non-financial assets			
Property in own use	–46	–7	–53
	–46	–7	–53

38 DERIVATIVES AND HEDGE ACCOUNTING

Use of derivatives and hedge accounting

As described in the ‘Risk management’ section, ING Bank uses derivatives (principally interest rate swaps and cross currency interest rate swaps) for economic hedging purposes in the management of its asset and liability portfolios and structural positions. The objective of economic hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure. The impact of ING Bank’s hedging activities is to optimise the overall cost to ING Bank of accessing debt capital markets and to mitigate the market risk which would otherwise arise from structural imbalances in the duration and other profiles of its assets and liabilities. In addition, hedging activities are undertaken to hedge against the interest rate risk in the mortgage offer period in relation to retail mortgages and to lock in the interest margin in relation to interest bearing assets and the related funding.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS-EU hedge accounting rules. Derivatives that qualify for hedge accounting under IFRS-EU are classified and accounted in accordance with the nature of the instrument hedged and the type of IFRS-EU hedge model that is applicable. The three models applicable under IFRS-EU are: fair value hedge accounting, cash flow hedge accounting and net investment hedge accounting. These are described under the relevant headings below. The company’s detailed accounting policies for these three hedge models are set out in Note 1 ‘Accounting Policies’ in the section ‘Principles of valuation and determination of results’.

To qualify for hedge accounting under IFRS-EU, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS-EU. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the profit and loss account. However, in certain cases, the Bank mitigates the profit and loss account volatility by designating hedged assets and liabilities at fair value through profit and loss. If hedge accounting is applied under IFRS-EU, it can arise that during the hedge a hedge relationship no longer qualifies for hedge accounting, and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the profit and loss account may be higher than would be expected from an economic point of view.

With respect to exchange rate and interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; however they do not represent amounts at risk. ING Bank uses credit derivatives to manage its exposure to credit risk, including total return swaps and credit default swaps, to sell or buy protection for credit risk exposures in the loan, investment and trading portfolios. Hedge accounting is not applied in relation to credit derivatives.

Notes to the consolidated annual accounts of ING Bank continued

Fair value hedge accounting
ING Bank's fair value hedges principally consist of interest rate swaps and cross-currency interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates.

Gains and losses on derivatives designated under fair value hedge accounting are recognised in the profit and loss account. The effective portion of the fair value change on the hedged item is also recognised in the profit and loss account. As a result, only the net accounting ineffectiveness has an impact on the net result.

For the year ended 31 December 2013, ING Bank recognised EUR 1,180 million (2012: EUR –470 million) of fair value changes on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was offset by EUR –1,272 million (2012: EUR 579 million) fair value changes recognised on hedged items. This resulted in EUR –92 million net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2013 the fair values of outstanding derivatives designated under fair value hedge accounting was EUR –3,072 million (2012: EUR –5,967 million), presented in the balance sheet as EUR 991 million (2012: EUR 2,556 million) positive fair values under assets and EUR 4,063 million (2012: EUR 8,523 million) negative fair values under liabilities.

ING Bank applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve-out' for macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. ING Bank applies the IFRS-EU 'carve-out' to its retail operations in which the net exposure of retail funding (savings and current accounts) and retail lending (mortgages) is hedged. The hedging activities are designated under a portfolio fair value hedge on the mortgages using the IFRS-EU provisions.

Cash flow hedge accounting
ING Bank's cash flow hedges principally consist of (forward) interest rate swaps and cross-currency interest rate swaps that are used to protect against its exposure to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows for the respective portfolios form the basis for identifying the notional amount subject to interest rate risk that is designated under cash flow hedge accounting.

Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting are recognised in Shareholder's equity. Interest cash flows on these derivatives are recognised in the profit and loss account in interest result consistent with the manner in which the forecast cash flows affect net result. The gains and losses on ineffective portions of such derivatives are recognised immediately in the profit and loss account.

For the year ended 31 December 2013, ING Bank recognised EUR –15 million (2012: EUR 60 million) in equity as effective fair value changes on derivatives under cash flow hedge accounting. The balance of the cash flow hedge reserve in equity as at 31 December 2013 was EUR –1,092 million (2012: EUR –1,048 million) gross and EUR –776 million (2012: EUR –761 million) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value changes of the underlying derivatives and will be reflected in the profit and loss account under Interest income/ expense over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities up to 40 years, with the largest concentration in the range of 5 year to 20 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in a gain of EUR 4 million (2012: EUR 17 million gain), that was recognised in the profit and loss account.

As at 31 December 2013, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR –1,001 million (2012: EUR –1,152 million), presented in the balance sheet as EUR 3,090 million (2012: EUR 4,914 million) positive fair values under assets and EUR 4,091 million (2012: EUR 6,066 million) negative fair values under liabilities.

As at 31 December 2013 the fair value of outstanding non-derivatives designated as hedging instruments for cash flow hedge accounting purposes was EUR –299 million (2012: EUR 267 million).

Included in Interest income and interest expense on non-trading derivatives is EUR 3,176 million (2012: EUR 2,291 million) and EUR 3,185 million (2012: EUR 2,513 million), respectively, relating to derivatives used in cash flow hedges.

Hedges of net investments in foreign operations
ING Bank's net investment hedges principally consist of derivatives (including currency forwards and swaps) and non-derivative financial instruments such as foreign currency denominated funding that are used to protect against foreign currency exposures on foreign subsidiaries.

Notes to the consolidated annual accounts of ING Bank continued

Gains and losses on the effective portions of derivatives designated under net investment hedge accounting are recognised in Shareholder's equity. The balance in equity is recognised in the profit and loss account when the related foreign subsidiary is disposed. The gains and losses on ineffective portions are recognised immediately in the profit and loss account.

As at 31 December 2013, the fair values of outstanding derivatives designated under net investment hedge accounting was EUR 94 million (2012: EUR –24 million), presented in the balance sheet as EUR 138 million (2012: EUR 47 million) positive fair values under assets and EUR 43 million (2012: EUR 71 million) negative fair values under liabilities.

As at 31 December 2013, there were EUR 491 million (2012: EUR 283 million) non-derivatives designated as hedging instruments for net investment hedge accounting purposes.

Accounting ineffectiveness recognised in the profit and loss account for the year ended 31 December 2013 on derivatives and non-derivatives designated under net investment hedge accounting was nil (2012: nil).

39 ASSETS BY CONTRACTUAL MATURITY

Amounts presented in these tables by contractual maturity are the amounts as presented in the balance sheet.

Assets by contractual maturity

2013	Less than 1 month [1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	11,920						11,920
Amounts due from banks	27,612	5,022	5,653	4,361	364		43,012
Financial assets at fair value through profit and loss							
– trading assets	51,070	9,199	14,527	19,471	19,270		113,537
– non-trading derivatives	256	55	279	2,923	2,218		5,731
– designated as at fair value through profit and loss	309	217	795	514	473		2,308
Investments							
– available-for-sale	3,587	3,887	8,069	31,362	28,333	1,645	76,883
– held-to-maturity		30	1,100	1,639	329		3,098
Loans and advances to customers	63,458	15,880	32,854	120,881	275,265		508,338
Intangible assets			179	359		1,068	1,606
Other assets	9,938	1,687	4,070	1,492	927		18,114
Remaining assets (for which maturities are not applicable) [3]						3,097	3,097
Total assets	168,150	35,977	67,526	183,002	327,179	5,810	787,644

[1] Includes assets on demand.
[2] Assets held for sale consist of the assets of the disposal groups classified as held for sale as disclosed in Note 11 'Assets and liabilities held for sale'. For these assets and liabilities, the underlying contractual maturities are no longer relevant to ING. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in 'maturity not applicable'.
[3] Included in remaining assets for which maturities are not applicable are property and equipment, real estate investments and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Notes to the consolidated annual accounts of ING Bank continued

Assets by contractual maturity

2012	Less than 1 month [1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	15,447						15,447
Amounts due from banks	25,636	3,630	3,894	5,597	296		39,053
Financial assets at fair value through profit and loss							
– trading assets	33,877	7,603	11,222	29,787	31,831		114,320
– non-trading derivatives	231	115	650	3,971	4,108		9,075
– designated as at fair value through profit and loss	288	40	806	722	912		2,768
Investments							
– available-for-sale	2,991	3,256	9,442	30,955	25,001	2,634	74,279
– held-to-maturity	1,267	1,168	1,007	2,774	329		6,545
Loans and advances to customers	63,981	13,752	31,944	125,556	306,313		541,546
Intangible assets			175	350		1,253	1,778
Assets held for sale [2]		6,781					6,781
Other assets	8,439	2,184	4,914	1,860	2,060		19,457
Remaining assets (for which maturities are not applicable) [3]						3,384	3,384
Total assets	152,157	38,529	64,054	201,572	370,850	7,271	834,433

[1] Includes assets on demand.
[2] Assets held for sale consist of the assets of the disposal groups classified as held for sale as disclosed in Note 11 'Assets and liabilities held for sale'. For these assets and liabilities, the underlying contractual maturities are no longer relevant to ING. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in 'maturity not applicable'.
[3] Included in remaining assets for which maturities are not applicable are property and equipment, real estate investments and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Notes to the consolidated annual accounts of ING Bank continued

40 LIABILITIES BY MATURITY

The tables below include all financial liabilities by maturity based on contractual, undiscounted cash flows. Furthermore, the undiscounted future coupon interest on financial liabilities payable will be included in a separate line and in the relevant maturity bucket. Derivative liabilities are included on a net basis if cash flows are settled out. For other derivative liabilities the contractual gross cash flow payable is included.

Non-financial liabilities are included based on a breakdown of the balance sheet amounts by expected maturity. Reference is made to the Liquidity risk paragraph in the 'Risk management' section for a description on how liquidity risk is managed.

Liabilities by maturity

2013	Less than 1 month [(1)]	1-3 months	3-12 months	1-5 years	Over 5 years	Adjust-ment [(2)]	Total
Subordinated loans	15		90	2,218	12,185	268	14,776
Debt securities in issue	5,204	25,865	18,822	39,476	31,177	1,755	122,299
Amounts due to banks	16,305	1,834	1,755	2,891	4,472		27,257
Customer deposits and other funds on deposit	413,802	27,067	25,311	6,212	2,090	301	474,783
Financial liabilities at fair value through profit and loss							
– other trading liabilities	32,561	2,022	2,201	1,767	4,716	722	43,989
– trading derivatives	903	1,910	5,514	15,154	13,657	–7,636	29,502
– non-trading derivatives	313	374	1,751	5,913	–2,140	3,465	9,676
– designated as at fair value through profit and loss	198	216	1,282	5,967	5,991	201	13,855
Financial liabilities	469,301	59,288	56,726	79,598	72,148	-924	736,137
Liabilities held for sale [(3)]							
Other liabilities	9,373	2,051	4,957	766	600		17,747
Non-financial liabilities	9,373	2,051	4,957	766	600		17,747
Total liabilities	478,674	61,339	61,683	80,364	72,748	-924	753,884
Coupon interest due on financial liabilities	1,317	1,159	4,149	9,529	38,170		54,324

(1) Includes liabilities on demand.
(2) This column reconciles the contractual undiscounted cash flows on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting, and for derivatives, to the fact the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
(3) Liabilities held for sale consist of the liabilities of the disposal groups classified as held for sale as disclosed in Note 11 'Assets and liabilities held for sale'. For these assets and liabilities, the underlying contractual maturities are no longer relevant to ING. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in 'maturity not applicable'.

Notes to the consolidated annual accounts of ING Bank continued

Liabilities by maturity

2012	Less than 1 month (1)	1-3 months	3-12 months	1-5 years	Over 5 years	Adjust-ment (2)	Total
Subordinated loans	650		28	4,581	10,615	533	16,407
Debt securities in issue	12,520	22,543	22,267	44,411	29,387	3,561	134,689
Amounts due to banks	24,016	3,875	3,305	2,757	4,751		38,704
Customer deposits and other funds on deposit	386,170	27,364	38,098	6,239	2,034	458	460,363
Financial liabilities at fair value through profit and loss							
– other trading liabilities	20,040	2,668	1,404	1,992	4,168	1,245	31,517
– trading derivatives	2,934	3,516	10,365	27,178	21,614	–13,472	52,135
– non-trading derivatives	520	749	3,403	11,204	8,106	–8,063	15,919
– designated as at fair value through profit and loss	494	242	938	6,303	5,356	66	13,399
Financial liabilities	447,344	60,957	79,808	104,665	86,031	–15,672	763,133
Liabilities held for sale (3)		14,244					14,244
Other liabilities	8,871	2,770	5,580	2,574	1,454		21,249
Non-financial liabilities	8,871	17,014	5,580	2,574	1,454		35,493
Total liabilities	456,215	77,971	85,388	107,239	87,485	–15,672	798,626
Coupon interest due on financial liabilities	1,737	936	4,185	8,890	41,831		57,579

(1) Includes liabilities on demand.
(2) This column reconciles the contractual undiscounted cash flows on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting, and for derivatives, to the fact the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
(3) Liabilities held for sale consist of the liabilities of the disposal groups classified as held for sale as disclosed in Note 11 ‘Assets and liabilities held for sale’. For these assets and liabilities, the underlying contractual maturities are no longer relevant to ING. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in ‘maturity not applicable’.

41 ASSETS NOT FREELY DISPOSABLE

The assets not freely disposable consist primarily of loans and advances to customers pledged to secure Debt securities in issue, deposits from De Nederlandsche Bank (the Dutch central bank) and other banks and serve to secure margin accounts and are used for other purposes required by law. The assets not freely disposable are as follows:

Assets not freely disposable

	2013	2012
Investments	**653**	731
Loans and advances to customers	**60,439**	57,293
Banks	**12,877**	16,420
Other assets	**1,105**	1,223
	75,074	75,667

In 2013 the disclosure is further aligned with the EBA requirements for asset encumbrance; the 2012 comparatives have been adjusted accordingly.

Banks include Amounts due from banks and balances with central banks. In some jurisdictions ING Bank N.V. has an obligation to maintain a reserve with central banks.

Loans and advances to customers that have been pledged as collateral for Debt securities in issue and for liquidity purposes, amount in the Netherlands to EUR 45.9 billion (2012: EUR 46.7 billion), in Germany to EUR 8.4 billion (2012: EUR 2.8 billion), in Belgium EUR 2.5 billion (2012: nil) and in Spain to nil (2012: EUR 1 billion).

The loan to the Dutch State in connection with the Illiquid Assets Back-Up Facility agreement as disclosed in Note 49 'Related parties' is included in Loans and advances to customers (2013 EUR 2.7 billion; 2012 EUR 7.8 billion).

The table does not include assets relating to securities lending as well as sale and repurchase transactions. Reference is made to Note 42 ‘Transfer of financial assets’.

42 TRANSFER OF FINANCIAL ASSETS

The majority of ING's financial assets that have been transferred, but do not qualify for derecognition are debt instruments used in securities lending or sale and repurchase transactions.

Transfer of financial assets not qualifying for derecognition

	Securities lending		Sale and repurchase	
2013	**Equity**	**Debt**	**Equity**	**Debt**
Transferred assets at carrying amount				
Amounts due from banks				**5,482**
Financial assets at fair value through profit and loss [1]	**1,238**	**102**	**13,880**	**38,211**
Investments				**9,111**
Loans and advances to customers				**1,010**
Associated liabilities at carrying amount				
Amounts due to banks	**n/a**	**n/a**		**3,186**
Customer deposits and other funds on deposit	**n/a**	**n/a**		**319**
Financial liabilities at fair value through profit and loss	**n/a**	**n/a**	**4,516**	**28,192**

Transfer of financial assets not qualifying for derecognition

	Securities lending		Sale and repurchase	
2012	Equity	Debt	Equity	Debt
Transferred assets at carrying amount				
Amounts due from banks				1,321
Financial assets at fair value through profit and loss [1]	167	39	8,808	29,904
Investments		35		14,118
Loans and advances to customers				5,527
Associated liabilities at carrying amount				
Amounts due to banks	n/a	n/a		5,723
Customer deposits and other funds on deposit	n/a	n/a		797
Financial liabilities at fair value through profit and loss	n/a	n/a	1,861	18,193

[1] Including assets obtained in Reverse repurchase transactions.

The tables above do not include assets relating to the Illiquid Assets Back-up Facility that ING has agreed with the Dutch State. Reference is made to Note 49 'Related parties' for detailed disclosure on the facility.

The table above does not include assets transferred to consolidated securitisation entities as the related asset remain recognised in the consolidated balance sheet. Assets transferred to unconsolidated securitisation entities are disclosed below. Reference is made to Note 48 'Structured entities'.

Transfer of financial assets that qualified for derecognition

In 2013 ING transferred financial assets (mortgages loans) for an amount of approximately EUR 2 billion to a newly established special purpose entity (SPE). The transaction resulted in full derecognition of the financial assets from ING's balance sheet. The derecognition did not have a significant impact on net result. Following this transfer ING continues to have two types of on-going involvement in the transferred assets: as counterparty to the SPE of a non-standard interest rate swap and as servicer of the transferred assets. ING has an option to unwind the transaction by redeeming all notes at their principal outstanding amount, in the unlikely event of changes in accounting and/or regulatory requirements that significantly impact the transaction. The fair value of the swap as at 31 December 2013 amounted to EUR 62.3 million; fair value changes on this swap recognised in the profit and loss account in 2013 were EUR 4.7 million. Fee income recognised in the profit and loss account in 2013 amounted to EUR 1.2 million.

Notes to the consolidated annual accounts of ING Bank continued

43 OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The following tables include information about rights to offset and the related arrangements. The amounts included consist of all recognised financial instruments that are presented net in the balance sheet under the IFRS-EU offsetting requirements (legal right to offset and intention to net settle) and amounts presented gross in the balance sheet but subject to enforceable master netting arrangements or similar arrangement.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

2013		Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not offset in the balance sheet: Financial instruments	Related amounts not offset in the balance sheet: Cash and financial instruments received as collateral	Net amount
BALANCE SHEET LINE ITEM	**FINANCIAL INSTRUMENT**						
Amounts due from banks							
	Reverse repurchase, securities borrowing and similar agreements	4,047		4,047	21	732	3,294
	Other	3,635	–6	3,629		897	2,732
		7,682	–6	7,676	21	1,629	6,026
Financial assets at fair value through profit and loss							
Trading assets	Derivatives	31,561	–4,995	26,566	19,583	1,820	5,163
	Reverse repurchase, securities borrowing and similar agreements	43,081	–6,111	36,970	695	28,744	7,531
	Other	1,219	–5	1,214			1,214
		75,861	–11,111	64,750	20,278	30,564	13,908
Non-trading derivatives	Derivatives	39,060	–35,788	3,272	2,670	8	594
		39,060	–35,788	3,272	2,670	8	594
Loans and advances to customers							
	Reverse repurchase, securities borrowing and similar agreements	96		96			96
	Other	159,202	–149,517	9,685	1	392	9,292
		159,298	–149,517	9,781	1	392	9,387
Other items where offsetting is applied in the balance sheet		4,796	–5,770	–974	54	1,402	–2,430
Impact of enforceable master netting arrangements or similar arrangements	Derivatives				–4,825	3,176	1,649
	Other				–5		5
					–4,830	3,176	1,654
Total financial assets		286,697	–202,192	84,505	18,194	37,171	29,140

Notes to the consolidated annual accounts of ING Bank continued

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

2013		Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not offset in the balance sheet: Financial instruments	Related amounts not offset in the balance sheet: Cash and financial instruments pledged as collateral	Net amount
BALANCE SHEET LINE ITEM	**FINANCIAL INSTRUMENT**						
Amounts due to banks							
	Repurchase, securities lending and similar agreements	1,085		1,085	21	1,063	1
	Other	2,372	–17	2,355		1,714	641
		3,457	–17	3,440	21	2,777	642
Customer deposits and other funds on deposit							
	Repurchase, securities lending and similar agreements	13		13			13
	Corporate deposits	30,540	–23,779	6,761			6,761
	Other	135,981	-125,726	10,255		42	10,213
		166,534	–149,505	17,029		42	16,987
Financial liabilities at fair value through profit and loss							
Trading liabilities	Derivatives	32,535	–5,589	26,946	21,897	1,208	3,841
	Repurchase, securities lending and similar agreements	34,298	–6,111	28,187	695	15,854	11,638
	Other	5	–5				
		66,838	–11,705	55,133	22,592	17,062	15,479
Non-trading derivatives	Derivatives	46,191	–39,036	7,155	4,915	71	2,169
		46,191	–39,036	7,155	4,915	71	2,169
Other items where offsetting is applied in the balance sheet		2,303	–1,929	374	245	2,718	–2,589
Impact of enforceable master netting arrangements or similar arrangements	Derivatives				–9,553	10,060	–507
	Other				–26		26
					–9,579	10,060	–481
Total financial liabilities		285,323	–202,192	83,131	18,194	32,730	32,207

Notes to the consolidated annual accounts of ING Bank continued

44 CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business ING Bank is party in activities whose risks are not reflected in whole or in part in the consolidated financial statements. In response to the needs of its customers, the Bank offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Contingent liabilities and commitments

2013	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Contingent liabilities in respect of						
– discounted bills	1					1
– guarantees	17,536	429	685	1,153	3,334	23,137
– irrevocable letters of credit	7,348	5,253	1,615	363	8	14,587
– other	376	71	50	9		506
	25,261	5,753	2,350	1,525	3,342	38,231
Irrevocable facilities	37,736	18,113	2,283	21,500	5,425	85,057
	62,997	23,866	4,633	23,025	8,767	123,288

Contingent liabilities and commitments

2012	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Contingent liabilities in respect of						
– discounted bills	1					1
– guarantees	17,427	388	924	1,140	4,155	24,034
– irrevocable letters of credit	7,221	5,747	1,266	312	6	14,552
– other	376	29	90	3		498
	25,025	6,164	2,280	1,455	4,161	39,085
Irrevocable facilities	34,380	17,582	2,697	26,128	5,762	86,549
	59,405	23,746	4,977	27,583	9,923	125,634

Guarantees relate both to credit and non-credit substitute guarantees. Credit-substitute guarantees are guarantees given by ING Bank in respect of credit granted to customers by a third party. Many of them are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows. In addition to the items included in contingent liabilities, ING Bank has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes which apply in different countries.

Irrevocable letters of credit mainly secure payments to a third-party for a customer's foreign and domestic trade transactions in order to finance a shipment of goods. ING Bank's credit risk in these transactions is limited since these transactions are collateralised by the commodity shipped and are of a short duration.

Other contingent liabilities include acceptances of bills and are of a short-term nature. Other contingent liabilities also include contingent liabilities resulting from the normal operations of the Real estate business including obligations under development and construction contracts. None of the items included in Other contingent liabilities are individually significant.

Irrevocable facilities mainly constitute unused portions of irrevocable credit facilities granted to corporate clients. Many of these facilities are for a fixed duration and bear interest at a floating rate. ING Bank's credit risk and interest rate risk in these transactions is limited. The unused portion of irrevocable credit facilities is partly secured by customers' assets or counter-guarantees by the Central Governments and exempted bodies under the regulatory requirements. Irrevocable facilities also include commitments made to purchase securities to be issued by governments and private issuers.

Notes to the consolidated annual accounts of ING Bank continued

Furthermore, ING Bank leases assets from third parties under operating leases as lessee. The future rental commitments to be paid under non–cancellable operating leases are as follows:

Future rental commitments for operating lease contracts

2014	**239**
2015	**179**
2016	**150**
2017	**107**
2018	**78**
Years after 2018	**166**

45 LEGAL PROCEEDINGS

ING Bank companies are involved in litigation and arbitration proceedings in the Netherlands and in a number of foreign jurisdictions, including the United States, involving claims by and against them which arise in the ordinary course of their businesses, including in connection with their activities as insurers, lenders, broker-dealers, underwriters, issuers of securities, employers, investors and taxpayers. In certain of such proceedings, very large or indeterminate amounts are sought, including punitive and other damages. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, the Company's management is of the opinion that some of the proceedings set out below may have or have in the recent past had a significant effect on the financial position, profitability or reputation of the Company.

Because of the geographic spread of its business, ING may be subject to tax audits in numerous jurisdictions at any point in time. Although ING believes that it has adequately provided for all its tax positions, the ultimate resolution of these audits may result in liabilities which are different from the amounts recognised.

Purported class litigation has been filed in the United States District Court for the Southern District of New York alleging violations of the federal securities laws with respect to disclosures made in connection with the 2007 and 2008 offerings of ING's Perpetual Hybrid Capital Securities. The District Court has dismissed all claims related to the 2007 and 2008 offerings. The plaintiffs appealed that decision relating to the 2008 offering. The appellate court affirmed the lower Court's decision dismissing all claims. The plaintiffs have petitioned the Court for an en banc review of that decision by the entire Court. At this moment it is not practicable to provide an estimate of the (potential) financial effect.

In January 2010, ING lodged an appeal with the General Court of the European Union against specific elements of the European Commission's decision regarding ING's restructuring plan. In its appeal, ING contested the way the Commission has calculated the amount of state aid ING received and the disproportionality of the price leadership restrictions specifically and the disproportionality of restructuring requirements in general. On 2 March 2012, the General Court handed down its judgment in relation to ING Group's appeal and annulled part of the EC's state aid decision. Subsequently, the EC filed an appeal against the General Court's judgment before the Court of Justice of the European Union. In parallel, the EC adopted a decision on 11 May 2012 that re-approved the state aid granted to ING Group as compatible with the internal market on the basis of ING Group's 2009 Restructuring Plan. On the same date, the EC adopted an interim decision which opened an investigation concerning certain amendments and elements of the 2009 Restructuring Plan.

On 24 July 2012, ING announced that the Dutch State and ING were in dialogue with the European Commission on an amended and updated Restructuring Plan to be submitted to the European Commission. However, in order to safeguard its legal rights, ING filed an appeal with the General Court of the European Union against the European Commission's decision of 11 May 2012, which re-approved ING's Restructuring Plan that ING submitted in 2009.

On November 19, 2012, ING Group and the EC announced that the EC had approved amendments to the 2009 Restructuring Plan (the "2012 Amended Restructuring Plan"). With the approval, the Commission has closed its Investigation as announced on 11 May 2012 and ING has withdrawn its appeal at the General Court of the European Union that it filed in July 2012. For principal legal reasons the European Commission will continue with its appeal against the General Court ruling of March 2012. However, the outcome of this Appeal will not affect the EC approval of the 2012 Amended Restructuring plan. It is expected that this judgment will be rendered in April 2014.

In January 2011 the Association of Stockholders (Vereniging van Effectenbezitters, 'VEB') has issued a writ alleging that investors were misled by the prospectus that was issued with respect to the September 2007 rights issue of Fortis N.V. (now: Ageas N.V.) against Ageas N.V., the underwriters of such rights issue, including ING Bank, and former directors of Fortis N.V. According to the VEB the prospectus shows substantive incorrect and misleading information. The VEB states that the impact and the risks of the subprime crisis for Fortis and Fortis' liquidity position have been reflected incorrectly in the prospectus. The VEB requests a declaratory decision stating that the summoned parties have acted wrongfully and are therefore responsible for the damages suffered by the investors in Fortis. The amount of damages of EUR 18 billion has not been substantiated yet. ING is defending itself against this claim; at this time ING is not able to assess the

Notes to the consolidated annual accounts of ING Bank continued

outcome of the court proceeding. Therefore at this moment it is not practicable to provide an estimate of the (potential) financial effect of such action.

In July 2011, the Dutch ING Pensioners' Collective Action Foundation (Stichting Collectieve Actie Pensioengerechtigden ING Nederland), together with two trade unions (FNV Bondgenoten and CNV Dienstenbond) and a number of individual pensioners, instituted legal proceedings against ING's decision not to provide funding for indexing pensions insured with the Dutch ING Pension Fund (Stichting Pensioenfonds ING) in 2009, 2010 and 2011. This claim was rejected by the district court of Amsterdam on 9 November 2012. An appeal was lodged against this court decision. In July 2011, also the Interest Group ING General Managers' Pensions (Belangenvereniging ING-Directiepensioenen), together with a number of individual retired Dutch General Managers of ING, instituted legal proceedings against ING's decision not to provide funding for indexing Dutch General Managers' pensions directly insured with Nationale-Nederlanden in 2010 and 2011. This claim was rejected by the district court of Amsterdam on 22 October 2012. An appeal was lodged against this court decision. It is not feasible to predict the ultimate outcome of these legal proceedings. The ultimate outcome of these proceedings may result in liabilities and provisions for such liabilities which are different from the amounts recognised. At this moment it is not practicable to provide an estimate of the (potential) financial effect of such proceedings.

In April 2013, the ING Pension Fund started arbitration proceedings to adjudicate a dispute with ING concerning the adjusted mortality tables used in the calculation of premiums and provisions. In 2013 ING decided to lower its contributions by 1.7% as a result of ING not accepting the adjustments made by the ING Pension Fund resulting from the mortality tables used. In February 2014 the ING Pension Fund and ING agreed that the ING Pension Fund will remain using a surcharge of 1.7% and the ING Pension Fund and ING will share the costs of the 1.7% surcharge over 2013. The payment of 50% of the surcharge 2013 by ING is included in the payment by ING of the one-time lump sum to the ING Pension Fund, which was closed for the accrual of new pension benefits as of 1 January 2014, of EUR 379 million to release ING from future financial obligations. More information is provided in Note 60 of the Annual Accounts.

In July 2013, the ING Pension Fund started arbitration proceedings against ING's decision not to provide funding (for a total amount of EUR 197.5 million) for indexing pensions insured with the ING Pension Fund as of 1 January 2013. During the arbitration proceedings the ING Pension Fund added a claim in the amount of EUR 38.8 million for funding the indexation as of 1 August 2013. On 20 December 2013 the arbitrators ruled in favour of the ING Pension Fund and concluded that ING will have to provide full funding for both the indexation as of 1 January 2013 and the indexation as of 1 August 2013. The outcome of the arbitration is reflected in the 2013 Annual Accounts.

On 12 June 2012, ING Bank entered into a Settlement Agreement with U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) and Deferred Prosecution Agreements with the Department of Justice, the United States Attorney's Office for the District of Columbia and the District Attorney of the County of New York (together the "U.S. Authorities") in relation to the investigation by those agencies into compliance with U.S. economic sanctions and U.S. dollar payment practices until 2007. The Agreements have expired as of 12 December 2013 and the motion against ING Bank N.V. has been dismissed by the US District Court of Columbia.

In December 2005, Interadvies N.V., at the time a subsidiary of ING Bank N.V. (together 'ING') sold Arenda Holding B.V. and five subsidiaries (together 'Arenda') to Amodo Europe N.V. ("Amodo"). In November 2006, Amodo instituted legal proceedings against ING. Amodo claimed that ING informed them incorrectly with respect to the current and future financial status of Arenda at the time of the sale. This claim was rejected by the Court on 1 September 2010 but Amodo lodged an appeal against that Court decision. On 6 November 2012, the Court of Appeal partly awarded the claim of Amodo in an interlocutory judgement. In the interlocutory judgement, the Court of Appeal also instructed both ING and Amodo to submit a calculation of the damages involved to the Court of Appeal. Based on both calculations the Court of Appeal will make a final judgement. In January 2014, Amodo has filed a new document to substantiate its claim. ING has until the end of March 2014 to file counter arguments, therefore a final judgment will probably not be given before the end of the second quarter of 2014. ING has the possibility to appeal against the legal grounds on which the final judgement is based. At this moment it is not practicable to provide an estimate of the (potential) financial effect of this proceeding.

46 COMPANIES AND BUSINESSES ACQUIRED AND DIVESTED

Acquisitions effective in 2013

There were no significant acquisitions in 2013.

Divestments effective in 2013

ING Direct UK

In October 2012, ING reached an agreement to sell ING Direct UK to Barclays. Under the terms of the agreement, approximately EUR 13.4 billion (GBP 11.6 billion) of savings deposits and approximately EUR 6.4 billion (GBP 5.5 billion) of mortgages of ING Direct UK have been transferred to Barclays. This agreement resulted in an after tax loss of EUR 260 million which was recognised in 2012. The transaction closed on 6 March 2013 and a gain of EUR 10 million was recognised on the final settlement. In 2012, ING Direct UK was classified as held for sale. ING Direct UK was included in the segment Retail Rest of World.

WestlandUtrecht Bank

The partial transfer of WestlandUtrecht Bank's assets and liabilities, in which the commercial operations of WestlandUtrecht Bank will be combined with the retail banking activities of Nationale-Nederlanden, was announced in November 2012. On 1 July 2013 EUR 3.8 billion of WestlandUtrecht Bank's Dutch mortgage portfolio, EUR 0.1 billion of consumer lending and EUR 3.7 billion of Dutch savings portfolio were transferred to Nationale-Nederlanden Bank. To service existing WestlandUtrecht Bank labelled mortgages, insurance policies and real estate finance agreements, part of WestlandUtrecht Bank became a separate entity within ING Retail Banking Netherlands. In addition approximately 400 of WestlandUtrecht Bank's employees were transferred to Nationale-Nederlanden Bank. All assets and liabilities were transferred at the existing carrying value as included in ING Bank's balance sheet. This transaction was completed on 1 July 2013.

In addition, during the second half of 2013 a further amount of EUR 4.2 billion of Dutch mortgages were transferred from WestlandUtrecht Bank to NN Group. The transfers have been made at an arm's length pricing.

Most significant companies divested in 2013

	ING Direct UK	Total
Sales proceeds		
Cash proceeds [1]	–7,186	–7,186
Sales proceeds	–7,186	–7,186
Assets		
Cash and cash equivalents [1]	290	290
Loans and advances to customers	6,437	6,437
Miscellaneous other assets	24	24
Liabilities		
Customer deposits and other funds on deposit	13,701	13,701
Miscellaneous other liabilities	32	32
Net assets	–6,982	–6,982
% disposed	100	
Net assets disposed	–6,982	–6,982
Gain/loss on disposal [2]	–250	–250

[1] Cash outflow / inflow on group companies in the cash flow statement includes in addition to the cash amounts in this table, also cash outflows / inflows on individually insignificant disposals.
[2] The gain/loss on disposal comprises the sales proceeds, the net assets disposed, the expenses directly related to the disposal and the realisation of unrealised reserves.

Acquisitions effective in 2012

There were no significant acquisitions in 2012.

Divestments effective in 2012

ING Direct Canada

In August 2012, ING reached an agreement to sell ING Direct Canada for a total consideration of approximately EUR 2.4 billion (CAD 3.1 billion) to Scotiabank, a leading Canadian financial services company. ING Direct Canada had approximately CAD 40 billion in assets. The sale of ING Direct Canada lead to a transaction gain of EUR 1.1 billion after tax. Under the terms of the sale agreement, Scotiabank paid CAD 3.1 billion in cash for all of the shares in ING Bank of Canada, which is the formal name of ING Direct Canada. In addition to this, Scotiabank assumed the responsibility to redeem on 5 March 2013 (which is the first eligible call date after closing) a locally issued lower tier 2 bond (ISIN CA 456847AA01) with a total outstanding amount of CAD 321 million, which carries a guarantee from ING Bank. ING Direct Canada was included in the segment Retail Rest of World. The transaction closed in November 2012.

ING Direct USA

In June 2011 ING reached an agreement to sell ING Direct USA to Capital One Financial Corporation, a leading US-based financial holding company. In February 2012, ING announced that the transaction closed. Total proceeds of the transaction were approximately EUR 6.9 billion (USD 9.0 billion), including USD 6.3 billion in cash and USD 2.7 billion in the form of 54.0 million shares in Capital One, based on the share price of USD 49.29 at closing on 16 February 2012. These shares represented a 9.7% stake in Capital One at closing. The transaction resulted in a positive result after tax of EUR 489 million and had a positive impact on ING Bank's core Tier 1 ratio of approximately 80 basis points at closing. This result included the release of the currency translation reserve and the available-for-sale reserve. The net negative cash proceeds from the divestment of ING Direct USA of EUR 10.3 billion (being the net amount of cash received of EUR 4.8 billion and cash included in the divestment of EUR 15.1 billion) is included in the cash flow statement in 'disposals and

Notes to the consolidated annual accounts of ING Bank continued

redemption – group companies. ING Direct USA was previously included in the segment Retail Rest of World (ING Direct). In September 2012, ING sold all of its shares in Capital One Financial Corporation as disclosed in Note 21 'Investment income'.

Most significant companies divested in 2012

	ING Direct USA	ING Direct Canada	Total
Sales proceeds			
Cash proceeds [1]	4,777	2,448	7,225
Non-cash proceeds [2]	2,012		2,012
Sales proceeds	6,789	2,448	9,237
Assets			
Cash assets [1]	15,092	1	15,093
Investments	22,874	3,871	26,745
Loans and advances to customers	30,546	26,362	56,908
Amounts due from banks	268	773	1,041
Financial assets at fair value through profit and loss	3	17	20
Property and equipment	76		76
Miscellaneous other assets	2,103	186	2,289
Liabilities			
Amounts due to banks	5	253	258
Customer deposits and other funds on deposit	63,744	29,383	93,127
Miscellaneous other liabilities	132	148	280
Net assets	7,081	1,426	8,507
% disposed	100%	100%	
Net assets disposed	7,081	1,426	8,507
Gain/loss on disposal [3]	743	1,124	1,867

(1) Cash outflow / inflow on group companies in the cash flow statement includes in addition to the cash amounts in this table, also cash outflows / inflows on individually insignificant disposals.
(2) Non-cash proceeds include the shares in Capital One Financial Corporation received.
(3) The gain/loss on disposal comprises the sales proceeds, the net assets disposed, the expenses directly related to the disposal and the realisation of unrealised reserves.

Acquisitions effective in 2011

There were no significant acquisitions in 2011.

Divestments effective in 2011

ING REIM Europe, ING REIM Asia and Clarion Real Estate Securities (CRES)

In July 2011 ING completed the sale of Clarion Real Estate Securities (CRES) to CB Richard Ellis. The sale resulted in a net gain on divestment of EUR 182 million. CRES was previously included in the former segment ING Real Estate.

In October 2011 ING completed the sale of REIM's Asian and European operations to US-based CBRE Group Inc., thereby completing the divestment of ING REIM. The divestment of ING REIM has resulted in an after-tax gain on disposal of approximately EUR 245 million. As a result of the agreement at closing ING continues to have certain contingent income and expenses however no significant impact on the result on divestment is expected. REIMs Asian and European operations were previously included in the segment Commercial Banking (ING Real Estate).

Clarion Partners

In June 2011 ING completed the sale of the private market real estate investment manager of its US operations, Clarion Partners, to Clarion Partners management in partnership with Lightyear Capital LLC for USD 100 million. The sale resulted in a net gain on divestment of EUR 39 million. Clarion Partners was previously included in the segment Commercial Banking (ING Real Estate).

ING Car Lease

In September 2011 ING completed the sale of ING Car Lease to BMW Group fleet management division Alphabet for total proceeds of EUR 696 million and a net transaction result of EUR 347 million. ING Car Lease was previously partly included in both Commercial Banking and Retail Banking.

Notes to the consolidated annual accounts of ING Bank continued

Most significant companies divested in 2011

	Clarion Partners	Clarion Real Estate securities	ING REIM Asia and Europe	ING Car Lease	Total
Sales proceeds					
Cash proceeds [1]	69	224	365	696	1,354
Sales proceeds	69	224	365	696	1,354
Assets					
Loans and advances to customers			1	104	105
Amounts due from banks	1	3	94	103	201
Financial assets at fair value through profit and loss	5				5
Property and equipment				3,275	3,275
Miscellaneous other assets	20	44	82	341	487
Liabilities					
Amounts due to banks				101	101
Customer deposits and other funds on deposit				3,028	3,028
Miscellaneous other liabilities	10	19	116	333	478
Net assets	16	28	61	361	466
% disposed	100%	100%	100%	100%	
Net assets disposed	16	28	61	361	466
Gain/loss on disposal [2]	39	182	245	347	813

[1] Cash outflow / inflow on group companies in the cash flow statement includes cash outflows / inflows on individually insignificant disposals in addition to the cash flow presented.
[2] The gain/loss on disposal comprises the sales proceeds, the net assets disposed, the expenses directly related to the disposal and the realisation of unrealised reserves.

47 PRINCIPAL SUBSIDIARIES

For the majority of ING's principal subsidiaries, ING Bank N.V. has control because it either directly or indirectly owns more than half of the voting power. For subsidiaries in which the interest held is below 50%, control exists based on the combination of ING Bank's financial interest and its rights from other contractual arrangements which result in control over the operating and financial policies of the entity.

Principal subsidiaries

		Proportion of ownership and interest held by the Bank	
Subsidiary	**Country**	**2013**	2012
Bank Mendes Gans N.V.	The Netherlands	**100%**	100%
ING Lease (Nederland) B.V.	The Netherlands	**100%**	100%
ING Corporate Investments B.V.	The Netherlands	**100%**	100%
ING Vastgoed Management Holding B.V.	The Netherlands	**100%**	100%
WestlandUtrecht Bank N.V.	The Netherlands	**100%**	100%
ING België N.V.	Belgium	**100%**	100%
ING Luxembourg S.A.	Luxembourg	**100%**	100%
ING DiBa A.G.	Germany	**100%**	100%
ING Bank Slaski S.A.	Poland	**75%**	75%
ING Financial Holdings Corporation	United States of America	**100%**	100%
ING Vysya Bank Limited	India	**43%**	44%
ING Direct N.V.	Spain, Italy	**100%**	100%
ING Bank A.S.	Turkey	**100%**	100%
ING Bank (Australia) Ltd	Australia	**100%**	100%
ING Bank (Eurasia) Z.A.O.	Russia	**100%**	100%

For each of the subsidiaries listed above, except for ING Vysya Bank Limited, the voting rights held equal the proportion of ownership interest and consolidation by ING is based on the majority of ownership. For ING Vysya Bank Limited, consolidation is based on the combination of ownership interest and additional agreements that, amongst others, provide ability to nominate the majority of the board of directors.

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48 STRUCTURED ENTITIES

ING Bank's activities involve transactions with various structured entities ('SE') in the normal course of its business. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. ING Bank's involvement in these entities varies and includes both debt financing and equity financing of these entities as well as other relationships. Based on its accounting policies, as disclosed in the section 'Principles of valuation and determination of results' of these financial statements, ING establishes whether these involvements result in no significant influence, significant influence, joint control or control over the structured entity.

The structured entities over which ING can exercise control are consolidated. ING may provide support to these consolidated structured entities as and when appropriate, however this is fully reflected in the consolidated financial statements of ING Bank as all assets and liabilities of these entities are included and off-balance sheet commitments are disclosed.

ING's activities involving structured entities are explained below in the following categories:
1) Consolidated ING originated Credit management securitisation programmes;
2) Consolidated ING originated Liquidity management securitisation programmes (Lions);
3) Consolidated ING originated Covered bond programme (CBC);
4) Consolidated ING sponsored Securitisation programme (Mont Blanc);
5) Unconsolidated Securitisation programme;
6) Investments – Third party managed structured entities; and
7) Other structured entities.

1) Consolidated ING originated Credit management securitisation programmes

ING Bank enters into synthetic securitisation programmes in order to reduce credit risk on certain assets. In synthetic securitisations, ING Bank enters into a credit default swap ('CDS') with securitisation Special Purpose Entities ('SPEs'), in relation to which ING Bank purchases credit protection in respect of residential mortgage loans and loans to corporates and small and medium-sized enterprises. The SPEs have hedged their exposure with investors through the issue of credit-linked notes or credit-linked commercial paper. As a result of these transactions, ING Bank has transferred a part of its credit risk related to these loan portfolios to third-party investors.

As not substantially all risks and rewards of the assets are transferred to the third party investors of the SPEs, ING Bank continues to recognise these assets in the consolidated financial statements. Reference is made to Note 6 'Loans and advances to customers'.

Assets used in securitisation programmes

	2013	2012
Loans to small and medium-sized enterprises	426	656
Residential mortgages	0	3,878
	426	4,534

Since 2007, the most senior tranches of ING Bank's own securitisations have been called and are now retained by ING Bank. ING Bank hedged the first loss tranches in 2009. The mezzanine tranches are transferred to third parties.

In 2012, two synthetic securitisations were unwound and in 2013 one synthetic securitisation is unwound. There was no impact on the balance sheets and profit and loss accounts. As at 31 December 2013, there is one such programme remaining.

2) Consolidated ING originated Liquidity management securitisation programmes (Lions)

ING Bank enters into liquidity management securitisation programmes in order to obtain funding and improve liquidity. Within the programme ING Bank sells ING originated assets to a structured entity. The underlying exposures include residential mortgages in the Netherlands, Germany, Belgium, Spain, Italy and Australia.

The structured entity issues securitised notes ('traditional securitisations') which are eligible collateral for central bank liquidity purposes. In most programmes ING Bank acts as investor of the securitised notes. As there are limited transfer of risks and rewards, ING Bank continues to consolidate these structured entities.

The structured entity issues securitisation notes in two tranches, one subordinated tranche and one senior tranche, rated AAA by a rating agency. The AAA tranche can subsequently be used by ING Bank as collateral in the money market for secured borrowings.

ING Bank originated various securitisations with at 31 December 2013 approximately EUR 76 billion (2012: EUR 90 billion) of AAA rated notes and subordinated notes, of which approximately EUR 6.7 billion (2012: EUR 3.5 billion) are held by third parties. The underlying exposures are residential mortgages and SME loans. Apart from the third party funding, these securitisations did not impact ING Bank's consolidated balance sheet.

There are no minority interests as part of the securitisation structured entities that are significant to ING Bank. ING Bank for the majority of the securitisation vehicles provides the funding for the entity except for EUR 56 billion which are funded by third parties.

3) Consolidated ING originated Covered bond programme

ING Bank has entered into a covered bond programme. Under the covered bond programme ING issues bonds. The payment of interest and principal is guaranteed by an ING administered structured entity, Covered Bond Company B.V. ('CBC'). In order for CBC to fulfil its guarantee, ING legally transfers mainly Dutch mortgage loans originated by ING to CBC. Furthermore ING offers CBC protection against deterioration of the mortgage loans. CBC is consolidated by ING Bank.

Covered bond programme

	Fair value pledged mortgage loans		Cash balance structured entity	
Structured entity	**2013**	2012	**2013**	2012
ING Covered Bond Company B.V. ('CBC')	**43,173**	42,820	**2,282**	1,270
	43,173	42,820	**2,282**	1,270

In general, the third-party investors in securities issued by the structured entity have recourse only to the assets of the entity and not to the assets of ING Bank.

4) Consolidated ING sponsored Securitisation programme (Mont Blanc)

In the normal course of business, ING Bank structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling (also referred to as 'factoring') the clients' receivables or other financial assets to an ING sponsored SPE.

The transactions are funded by the ING Bank administered multi seller Asset Backed Commercial Paper ('ABCP') conduit Mont Blanc Capital Corporation ('Mont Blanc'), which funds itself in the ABCP market. Mont Blanc does not have minority interests that are significant to ING Bank. ING Bank facilitates these transactions by providing structuring, accounting, funding and operations services.

The types of assets currently in Mont Blanc include trade receivables, consumer finance receivables, credit card receivables, motor vehicle loans and residential mortgage backed securities ('RMBS').

ING Bank supports the commercial paper programmes by providing the 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, including programme wide enhancements, provided to Mont Blanc are EUR 1,728 million. The drawn liquidity amount is EUR 159 million as at 31 December 2013.

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.

5) Unconsolidated Securitisation programme

In 2013 ING transferred financial assets (mortgages loans) for an amount of approximately EUR 2 billion to a newly established special purpose entity (SPE). The transaction resulted in full derecognition of the financial assets from ING's balance sheet. The derecognition did not have a significant impact on net result. Following this transfer ING continues to have two types of on-going involvement in the transferred assets: as counterparty to the SPE of a non-standard interest rate swap and as servicer of the transferred assets. ING has an option to unwind the transaction by redeeming all notes at their principal outstanding amount, in the unlikely event of changes in accounting and/or regulatory requirements that significantly impact the transaction. The fair value of the swap as at 31 December 2013 amounted to EUR 62.3 million; fair value changes on this swap recognised in the profit and loss account in 2013 were EUR 4.7 million. Fee income recognised in the profit and loss account in 2013 amounted to EUR 1.2 million.

Notes to the consolidated annual accounts of ING Bank continued

6) Investments – Third party managed structured entities
As part of its investment activities, ING Bank invests both in debt and equity instruments of various structured entities originated by third parties. Most of the debt investments relate to asset backed securities. Reference is made to Note 5 'Investments' in which Available for sale investments – Debt securities – ABS portfolio is disclosed. The majority of the equity investments relate to investments in investment funds that are not originated or managed by ING. Reference is made to Note 5 'Investments' in which Available for sale investments – Equity securities are specified and Third party managed investment funds. ING has significant influence for some of its real estate investment funds as disclosed in Note 7 'Investments in associates'.

7) Other structured entities
In the normal course of business, ING Bank enters into transactions with structured entities as counterparty. Predominantly in its structured finance operations, ING can be instrumental in facilitating the creation of these structured entity counterparties. These entities are generally not included in the consolidated financial statements of ING Bank, as ING facilitates these transactions as administrative agent by providing structuring, accounting, funding, lending and operations services.

49 RELATED PARTIES
In the normal course of business, ING Bank enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Related parties of ING Bank include, amongst others, its Joint ventures, Associates, Key management personnel, the Dutch State and various defined benefit and contribution plans. Transactions between related parties have taken place on an arm's length basis and include rendering or receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral. There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

Transactions with joint ventures and associates

	Joint ventures		Associates	
	2013	2012	**2013**	2012
Assets	**140**	138	**1**	2
Liabilities	**20**	21	**28**	16
Income received		2	**3**	24

In addition to the transactions with joint ventures and associates, ING Bank also enters into transactions with ING Group, NN Group and its subsidiaries. ING Bank together with NN Group forms the ING Group. These transactions vary from financing activities to regular purchases and sales transactions.

For the decrease in 'Associates' reference is made to Note 7 'Investments in associates'.

Transactions with ING Groep N.V. and NN Group N.V.

	ING Groep N.V.		NN Group N.V.	
	2013	2012	**2013**	2012
Assets	**1,060**	2,372	**961**	294
Liabilities	**5,351**	7,886	**6,388**	4,942
Income received	**210**	289	**100**	176
Expenses paid	**757**	828	**36**	68

Liabilities to ING Groep N.V. mainly include long-term funding. Liabilities to NN Group N.V. mainly include short-term deposits and private loans made by NN Group N.V.

As at 31 December 2012, NN Group and ING Bank had a liquidity facility in place under which NN Group could borrow up to EUR 1,250 million (USD 1,649 million) from ING Bank. The terms of this facility were at arm's length. As at 31 December 2013 this liquidity facility is no longer in place.

In addition, during 2013 ING Bank issued an irrevocable credit facility to Nationale-Nederlanden Bank in the amount of EUR 2.7 billion. As at 31 December 2013 EUR 0.9 billion of this credit facility was drawn.

ING Bank provides various letters of credit directly and indirectly to NN Group. At 31 December 2013 and 31 December 2012 none of these Letters of Credit have been drawn.

During 2013 certain assets and liabilities were transferred from ING Bank to NN Group. Reference is made to Note 46 'Companies and businesses acquired and divested'.

Notes to the consolidated annual accounts of ING Bank continued

Nationale-Nederlanden Bank has entered into a Residential Mortgage-Backed Securities (RMBS) transaction with ING Bank for the aggregate amount of EUR 0.4 billion (of which currently EUR 0.4 billion is outstanding).

NN Group (as Lenders) have entered into securities lending transactions with ING Bank (as Borrower) on the basis of customary legal (master) documents in the aggregate amount of EUR 0.7 billion during 2013, for general investment purposes.

On 20 December 2012, NN Group has entered into a Financial Collateral Pledge Agreement with ING Bank (all obligations will expire as of 20 March 2014), by which a right of pledge was created in favour of NN Group on certain securities of ING Bank. The pledge serves as security for the duly repayment of the cash deposits that NN Group has placed with ING Bank.

Nationale-Nederlanden Bank has entered into a service agreement with WestlandUtrecht Bank and RVS Hypotheekbank N.V. on 1 July 2013, for providing certain management services in relation to a housing mortgage loan portfolio of WestlandUtrecht Bank.

In 2013 EUR 1.9 billion (2012: EUR 1.9 billion; 2011: EUR 1.8 billion) ING Bank mortgages were sold through the NN Group intermediary sales agents.

Key management personnel compensation

Transactions with key management personnel (Management/Executive Board and Supervisory Board) and post-employment benefit plans are transactions with related parties. Transactions with post-employment benefit plans are disclosed in Note 35 ‘Pension and other post-employment benefits’.

Three of the Management Board members of ING Bank N.V. are also Executive Board members of ING Groep N.V. The total remuneration of the Executive Board of ING Groep N.V. and the Supervisory Board is borne by ING Groep N.V. The remuneration of the members and former members of the Executive Board and Supervisory Board are charged in full by ING Group to its subsidiaries, on the basis of a general allocation formula.

Key management personnel compensation (Executive Board and Management Boards)

2013 amounts in thousands of euros	**Executive Board of ING Groep N.V.** (1)	**Management Board of ING Bank N.V.** (2)	**Total**
Fixed Compensation			
– Base salary	**3,309**	**3,195**	**6,504**
– Pension costs	**549**	**938**	**1,487**
Variable compensation			
– Upfront cash		**473**	**473**
– Upfront shares		**473**	**473**
– Deferred cash		**710**	**710**
– Deferred shares		**710**	**710**
Total compensation	**3,858**	**6,499**	**10,357**

(1) Includes their compensation earned in the capacity as Executive Board members. Mr. Hamers was appointed to the Executive Board on 13 May 2013 and Mr. Hommen stepped down from the Executive Board as per 1 October 2013.
(2) Excluding members that are also members of the Executive Board of ING Groep N.V.

Key management personnel compensation (Executive Board and Management Boards)

2012 amounts in thousands of euros	Executive Board of ING Groep N.V.	Management Board of ING Bank N.V. (1)(2)	Total
Fixed Compensation			
– Base salary	2,572	3,336	5,908
– Pension costs	311	917	1,228
Variable compensation			
– Upfront cash		434	434
– Upfront shares		434	434
– Deferred cash		651	651
– Deferred shares		651	651
Total compensation	2,883	6,423	9,306

(1) Excluding members that are also members of the Executive Board of ING Groep N.V.
(2) After publication of the 2012 Annual accounts, a variable reward of EUR 84,375 was awarded to one board member, which was pending final approval. The 2012 figures were updated for this award.

Notes to the consolidated annual accounts of ING Bank continued

In 2013 and 2012, the Dutch Government imposed an additional tax charge of 16% on the income in excess of EUR 150,000 of each employee who is subject to Dutch income tax. The tax is charged to the company and does not affect the remuneration of involved staff. The tax imposed on ING for relevant members of the Executive Board and Management Board amounts to EUR 1.1 million (2012: EUR 0.9 million), which is not included in the figures in the table above.

Key management personnel compensation (Supervisory Board)

amounts in thousands of euros	2013	2012
Total compensation	1,065	806

The table above shows the fixed remuneration, expense allowances and attendance fees for the Supervisory Board for 2013 and 2012. From 1 January 2013, new VAT legislation became effective based on which Dutch members of the Supervisory Board are considered as self-employed persons whose compensation is subject to VAT in the Netherlands. The table presented above is including VAT of EUR 0.1 million for 2013.

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
amounts in thousands of euros	2013	2012	2013	2012	2013	2012
Executive Board members ING Groep N.V.	3,347	2,338	2.7 %	3.3%	500	
Management Board members of ING Bank N.V.	380	380	4.6 %	4.6%		
Supervisory Board members						282
Total	3,727	2,718			500	282

The disclosures relating to remuneration of the Supervisory Board reflect the amounts relating to ING Group as a whole.

In 2013, the total remuneration costs amounted to EUR 3.9 million (2012: EUR 2.9 million) for members and former members of the Executive Board, of these remuneration costs EUR 1.9 million (2012: EUR 1.4 million) was allocated to ING Bank. The total remuneration costs amounted EUR 1.1 million (2012: EUR 0.8 million) for members and former members of the Supervisory Board, of these remuneration costs EUR 0.5 million (2012: EUR 0.4 million) was allocated to ING Bank.

Remuneration of the Executive Board and Management Board Bank is recognised in the profit and loss account in Staff expenses as part of Total expenses. The total remuneration of the Executive Board and Management Board Bank as disclosed in the table above (for 2013: EUR 10.4 million) includes all variable remuneration related the performance year 2013. Under IFRS, certain components of variable remuneration are not recognised in the profit and loss account directly, but are allocated over the vesting period of the award. The comparable amount recognised in Staff expenses in 2013, and therefore included in Total expenses in 2013, relating to the fixed expenses of 2013 and the vesting of variable remuneration of earlier performance years, is EUR 9.2 million.

Transactions with the Dutch State

Illiquid Assets Back-up Facility

ING Group and the Dutch State reached an agreement on an Illiquid Assets Back-Up Facility (‘IABF’) on 26 January 2009. The transaction closed on 31 March 2009. The Facility covers the Alt-A portfolios of ING Direct USA, with a par value of approximately EUR 26 billion. Under the IABF, ING transferred 80% of the economic ownership of its Alt-A portfolio to the Dutch State. As a result, an undivided 80% interest in the risk and rewards on the portfolio was transferred to the Dutch State. ING retained 100% of the legal ownership of its Alt-A portfolio. The transaction price was 90% of the par value with respect to the 80% proportion of the portfolio of which the Dutch State had become the economic owner. The transaction price remains payable by the Dutch State to ING and will be redeemed over the remaining life. Furthermore, under the IABF ING pays a guarantee fee to the State and receives a funding fee and a management fee. As a result of the transaction ING derecognised 80% of the Alt-A portfolio from its balance sheet and recognised a receivable from the Dutch State. The transferred Alt-A portfolio was previously included in Available-for-sale debt securities. The Dutch State also acquired certain consent rights with respect to the sale or transfer of the 20% proportion of the Alt-A portfolio that is retained by ING.

Under the terms of the transaction as agreed on 26 January 2009, the overall sales proceeds amounted to EUR 19.8 billion at the transaction date. The amortised cost (after prior impairments) at the transaction date was also approximately EUR 19.7 billion. The transaction resulted in a profit in 2009 of EUR 45 million after tax (the difference between the sales proceeds and the amortised cost). The fair value under IFRS-EU at the date of the transaction was EUR 13.5 billion.

In order to obtain approval from the European Commission on ING Groep N.V.'s Restructuring Plan (see below), ING agreed in to make additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission to the Dutch State corresponding to an adjustment of the fees for the Illiquid Assets Back-up Facility. In total, these additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission amounted to a net present value of EUR 1.3 billion before tax, which was recognised as a one-off charge for ING Groep N.V. (as it was not charged to ING Bank N.V.) in 2009. The remainder of the IABF as agreed in January 2009, including the transfer price of the securities of 90%, remained unaltered.

The difference between the total sales proceeds and the fair value under IFRS-EU represents a 'Government grant' under IAS 20. This government grant is considered to be an integral part of the transaction and is therefore accounted for as part of the result on the transaction.

The transaction resulted in a reduction of the negative revaluation -and therefore an increase in equity- of EUR 3.9 billion (after tax).

The valuation method of the 20% Alt-A securities in the IFRS-EU balance sheet is not impacted by the IABF. The methodology used to determine the fair value for these assets in the balance sheet under IFRS-EU is disclosed in Note 37 'Fair value of assets and liabilities'.

In connection with the sale of ING Direct USA as disclosed in Note 46 'Companies and businesses acquired and divested', ING has reached an agreement with the Dutch State to adjust the structure of the Illiquid Assets Back-up Facility (IABF). This adjustment served to de-link the IABF from ING Direct USA by putting ING Bank in its place as counterparty for the Dutch State and became effective at the closing of the sale in February 2012. Under the terms of the original transaction ING Direct USA held on its balance the remaining 20% of the Alt-A portfolio, ensuring an alignment of interests between ING and the Dutch state regarding the performance of the portfolio.

Upon closing of the sale ING provided a counter guarantee to the Dutch State covering 25% of the 80% part of the Dutch State. This guarantee covered realised cash losses if they would exceed the 35% that is implied by the market value of the portfolio in June 2011. This adjustment therefore lowered the risk exposure for the Dutch State. The impact on equity and result of the alignment for ING Bank was limited.

In November 2012, NN Group restructured the IABF to effectively delink ING Insurance US from the IABF. ING Insurance US transferred its Dutch State receivable of approximately EUR 1.1 billion (USD 1.4 billion) to ING Bank, and at the same time transferred legal title to 80% of the Alt-A portfolio to ING Bank. The securities were held in an ING Bank custody account for the benefit of the Dutch State (the portion for which the investment risk has been transferred to the Dutch State). Following the restructuring, ING Insurance US continues to own 20% of the Alt-A portfolio (the portion for which the economic ownership and investment risk remains for the risk of ING), but will going forward have the right to sell these securities, subject to a right of first refusal granted to ING Bank. ING has committed to the Dutch State that it will not sell these securities to non-ING parties without the prior written consent of the Dutch state. ING Bank is severely liable for the performance of ING Group in connection with the additional payment obligation.

In December 2013, ING reached a final agreement with the Dutch State on the unwinding of the IABF. The terms of the agreement were approved by the EC. Under the agreement, the IABF in its current form was terminated, the regular guarantee fee payments were settled for an amount of EUR 0.4 billion and the other restrictions as part of the IABF agreement are no longer applicable. Furthermore, under the agreement, the Dutch State committed to sell the Alt-A securities in the market.

The total nominal value of the portfolio of securities held by the Dutch state decreased to EUR 4.6 billion at 31 December 2013 as a result of regular repayments on the underlying mortgages by homeowners and the first tranche of the divestment of securities with a notional outstanding amount of EUR 3.7 billion following the termination of the IABF. The remaining nominal value of the portfolio of securities held by the Dutch state as at 31 December 2013 was sold in January and early February 2014.

The State used all repayments and net fees received to pay off the loan from ING, reducing the amount outstanding to EUR 2.7 billion at 31 December 2013 (2012: EUR 7.8 billion). This remaining amount was fully repaid in January 2014.

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.

As at 31 December 2013, the unwinding of the IABF added 10 basis points to ING Bank's core Tier 1 ratio.

Notes to the consolidated annual accounts of ING Bank continued

European Commission Restructuring Plan
In 2009, ING Groep N.V. submitted a Restructuring Plan to the European Commission as part of the process to receive approval for the government support measures. By decision of 18 November 2009, the European Commission formally approved the Restructuring Plan. The main elements of the Restructuring Plan as announced on 26 October 2009 are as follows:

- Elimination of double leverage and significant reduction of ING Bank's balance sheet;
- Divestment of all Insurance and Investment Management activities;
- Divestment of ING Direct USA;
- Creation of a new company in the Dutch retail market composed of Interadvies (including Westland Utrecht and the mortgage activities of Nationale-Nederlanden) and the existing consumer lending portfolio of ING Retail in the Netherlands. This business, once separated, needs to be divested;
- Restriction to be a price leader in any EU country for certain retail and SME banking products and restriction to acquire financial institutions or other businesses that would delay the repayment of the non-voting equity securities. These restrictions will apply for the shorter period of three years or until the non-voting equity securities have been repaid in full to the Dutch State;
- An agreement with the Dutch State to alter the repayment terms of 50% of the non-voting equity securities;
- Repayment of EUR 5 billion of the non-voting equity securities issued in November 2008 by ING Groep N.V. to the Dutch State;
- Additional Illiquid Assets Back-Up Facility payments as part of the overall agreement with the European Commission will have to be made to the Dutch State in the form of fee adjustments relating to the Illiquid Assets Back-Up Facility which resulted in a one-off pre-tax charge to ING Groep N.V. of EUR 1.3 billion in the fourth quarter of 2009;
- Launch of a EUR 7.5 billion rights issue, in order to finance the repayment of 50% of the non-voting equity securities and a mitigation of the capital impact of the additional Illiquid Assets Back-Up Facility payment as part of the overall agreement with the European Commission to the Dutch State of EUR 1.3 billion;
- Execution of the Restructuring Plan before the end of 2013;
- If the overall return on the (remaining) non-voting equity securities (core Tier 1 securities) issued to the Dutch State is expected to be lower than 10% p.a., the European Commission may consider the imposition of additional behavioural constraints; and
- The calling of Tier 2 capital and Tier 1 hybrids will in the future be proposed case by case to the Commission for authorisation, for the shorter period of three years starting from the date of the Commission decision or up to the date on which ING has fully repaid the non-voting equity securities (core Tier 1 securities) to the Dutch State (including the relevant accrued interest of core Tier 1 coupons and exit premium fees).

ING announced in November 2012 that, together with the Dutch State, it had submitted significant amendments to the 2009 Restructuring Plan to the European Commission. The European Commission approved these amendments by Decision of 16 November 2012.

Amendments to the Restructuring Plan in 2012
The amendments to the 2009 Restructuring Plan as announced in November 2012 extended the time horizon and increase the flexibility for the completion of divestments and have adjusted other commitments in light of the market circumstances, economic climate and more stringent regulatory requirements.

Under the amendments announced in 2012, the ultimate dates for divesting the insurance and investment management businesses changed as follows:

- The divestment of more than 50% of ING's interest in its Asian insurance and investment management operations has to be completed by year-end 2013, with the remaining interest divested by year-end 2016;
- The divestment of at least 25% of ING's interest in ING US has to be completed by year-end 2013, more than 50% has to be divested by year-end 2014, with the remaining interest divested by year-end 2016;
- The divestment of more than 50% of ING's interest in its European insurance and investment management activities has to be completed by year-end 2015, with the remaining interest divested by year-end 2018; and
- As ING has committed to eliminate double leverage, proceeds from the divestments will be used to that end while ensuring adequate leverage ratios of the insurance holding companies.

A divestment of more than 50% of ING's interest as mentioned in this paragraph and furthermore below also means that ING Group (a) no longer has a majority of representatives on the Boards of these operations and (b) has deconsolidated these operations from ING Group's financial statements in line with IFRS accounting rules.

Under the terms of the original Restructuring Plan, ING was required to divest WestlandUtrecht Bank. However, due to market circumstances and changing regulatory requirements, a divestment of WestlandUtrecht has not occurred. Instead, under the amended Restructuring Plan, the commercial operations of WestlandUtrecht Bank were combined with the retail banking activities of Nationale-Nederlanden, which is to be divested as part of ING's insurance and investment management operations in Europe. The result has to be that Nationale-Nederlanden Bank is a viable and competitive business, which stands alone and is separate from the businesses retained by ING. To this end ING already needs to ring-fence Nationale-Nederlanden Bank up to the divestment of more than 50% of NN Group.

Notes to the consolidated annual accounts of ING Bank continued

On 1 July 2013 EUR 3.8 billion of WestlandUtrecht Bank's Dutch mortgage portfolio, EUR 0.1 billion of consumer lending and EUR 3.7 billion of Dutch savings portfolio were transferred to Nationale-Nederlanden Bank. In addition approximately 400 of WestlandUtrecht Bank's employees were transferred to Nationale-Nederlanden Bank. All assets and liabilities were transferred at the existing carrying value as included in ING Bank's balance sheet. This transaction was completed on 1 July 2013.

ING has committed, amongst others, that Nationale-Nederlanden Bank will reach certain targets for mortgage production and consumer credit until the date on which more than 50% of the Insurance/IM Europe operations has been divested, or until 31 December 2015 if the European Commission requires so. Furthermore, ING has agreed to a maximum ratio for mortgage production at ING Retail Banking Netherlands in relation to mortgage production of Nationale-Nederlanden Bank until year-end 2015.

The 2009 Restructuring Plan included restrictions on acquisitions and price leadership for certain products in EU markets. These restrictions will continue to apply until 18 November 2015 or until the date on which more than 50% of each of the Insurance/IM operations has been divested, whichever date comes first. The price leadership restrictions in Europe have been amended to reflect specific conditions in various local markets. Under the amendments, the constraint no longer applies in the Netherlands, and ING Direct in the EU will refrain from offering more favourable prices than its best priced direct competitor among the ten financial institutions having the largest market share in the respective countries.

The calling or buy-back of Tier 2 capital and Tier 1 Hybrid Securities will continue to be proposed for authorisation to the European Commission on a case by case basis until ING has fully repaid the core Tier 1 securities to the Dutch State, but ultimately until 18 November 2014, whichever date comes first. Notwithstanding this restriction, ING was allowed to call the EUR 1.25 billion Hybrid originally issued by ING Verzekeringen N.V. on 21 December 2012.

The 2012 amended Restructuring Plan includes a repayment schedule for the remaining core Tier 1 securities to the Dutch State as described in the above-mentioned section 'Repayment non-voting equity shares'.

The implementation of the commitments and obligations set out in the (amended) Restructuring Plan will be monitored by a monitoring trustee who is independent of ING until 31 December 2015

The 2012 amended Restructuring Plan was formally approved by the European Commission, by decision of 16 November 2012. As a result, the Commission closed its formal investigations as announced on 11 May 2012 and ING also withdrew its appeal at the General Court of the European Union, filed in July 2012. For principal legal reasons, the European Commission has continued with its appeal against the General Court ruling of March 2012. However, ING, the Dutch State and the European Commission agreed that any outcome of this procedure will not affect the approval of the amended Restructuring Plan. It is expected that this judgment will be rendered in April 2014.

Amendments to the Restructuring Plan in 2013
In November 2013 ING announced further amendments to the Restructuring Plan. ING announced that it will expand the scope of the base case Initial Public Offering (IPO) of NN Group to include ING Life Japan. In that context, ING and the Dutch State have reached an agreement with the European Commission (EC) on revised timelines for the divestment process of ING Life Japan and ING's European insurance and investment management activities.

As part of the previously announced amended restructuring agreement with the EC in 2012, ING planned to divest more than 50% of ING's Asian insurance and investment management businesses by the end of 2013. ING successfully divested most of these businesses over the course of the past year. Under the revised timelines announced, ING will divest ING Life Japan in line with the divestment timeline for ING's European insurance and investment management activities. This means that the timeline to divest more than 50% of ING Life Japan has effectively been extended by two years to year-end 2015, which is also the unchanged timeline to divest more than 50% of ING's European insurance and investment management businesses. As part of the revised 2013 agreement, ING will accelerate the timeline to complete the divestment of 100% of ING's European insurance and investment management activities by two years to year-end 2016. Preparations for a base case IPO of NN Group in 2014 are on track.

The amendments to the restructuring plan of 2013 were formally approved by the European Commission by decision of 5 November.

Credit Guarantee Scheme
As part of the measures adopted to protect the financial sector, the Dutch State introduced a EUR 200 billion credit guarantee scheme for the issuance of medium term debt instruments by banks (the Credit Guarantee Scheme). ING Bank N.V. issued government guaranteed debt instruments under this Credit Guarantee Scheme ('Government Guaranteed Bonds') as part of its regular medium-term funding operations. The relevant Rules of the Credit Guarantee Scheme set forth the rules applicable to any issues under the Credit Guarantee Scheme and include information such as scope, denomination, tenor and fees payable by the banks. ING Group pays a fee of 84 basis points over the issued bonds to the Dutch State to participate in the Credit Guarantee Scheme. Reference is made to Note 15 'Debt securities in issue'.

Notes to the consolidated annual accounts of ING Bank continued

Other
Following the transactions as disclosed in this note, the Dutch State is a related party of ING. All other transactions between ING and the Dutch State are of a normal business nature and at arm's length.

In the framework of the transactions with the Dutch State disclosed in this note, certain arrangements with respect to corporate governance and executive remuneration were agreed with the Dutch State which were in place until the Illiquid Assets Back-up Facility was unwound. The State Nominees will stay in office for the term for which they were appointed.

50 OTHER EVENTS
SNS Reaal nationalisation
In 2013, the nationalisation of SNS Reaal, a Dutch financial institution, was announced. As a consequence of the arrangements made by the Dutch government, ING Bank and other Dutch banks will be required to pay a one-time levy of EUR 1 billion in 2014. For ING this will result in a charge of EUR 304 million in 2014. There is no impact from this 2014 levy on the result of 2013.

Sale of custody services in seven European countries
In 2013, ING reached an agreement to transfer its local custody services business in seven countries in Central and Eastern Europe to Citi. The transaction did not have a significant impact on ING's results. The full migration of the clients business is expected to be finalised in the second quarter of 2014.

51 SUBSEQUENT EVENTS
Defined Benefits Pension Fund in The Netherlands
In February 2014 ING reached final agreement with the trade unions, the ING Pension Fund, the Central Works Council and the Association of Retired ING Employees (VSI) to transfer all future funding and indexation obligations under ING's current closed defined benefit plan in the Netherlands to the Dutch ING Pension Fund. The agreement makes the ING Pension Fund financially independent from ING.

The key elements of the agreement are:
Responsibility for future indexation and funding thereof is transferred to the Dutch ING Pension Fund;
- ING's obligation to restore the coverage ratio of the Dutch ING Pension Fund ceased;
- The cross guarantees between ING Bank and NN Group to jointly and severally fund the obligations of the Dutch ING Pension Fund are terminated;
- ING pays EUR 549 million (before tax) to the Dutch ING Pension Fund for the removal of these obligations; and
- ING will reduce the employees' own contribution to the pension premium under the new defined contribution plan by approximately EUR 80 million over a 6 year period.

As part of the agreement, ING Bank and NN Group are released from all financial obligations arising out of the Dutch defined benefit plan. Accordingly, this plan will no longer be accounted for as a defined benefit plan and, consequently, it will be removed from ING's balance sheet. The removal of the net pension asset related to the Dutch defined benefit pension fund from ING's balance sheet of approximately EUR 0.6 billion after tax and the payment to the Dutch ING Pension Fund of EUR 549 million (EUR 412 million after tax) will result in a charge of approximately EUR 1.1 billion after tax to be recognised in 2014. Of this impact, EUR 0.7 billion is attributed to ING Bank and EUR 0.4 billion to NN Group.

Risk management

amounts in millions of euros, unless stated otherwise

RISK MANAGEMENT

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 organisation so that ING Bank's financial strength is safeguarded.

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

Risk management continued

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 continued

Market risk

	Subjects	Risk Management	Pillar 3
Market risk is the risk of potential loss due to adverse movements in market variables.	Governance	182	
	Economic capital	183	
	Market risk in banking books	184	
	Market risk in trading books	190	
	Fair values of financial trading assets & liabilities	191	
	Capital at Risk		254

Funding and liquidity risk

	Subjects	Risk Management	Pillar 3
Liquidity risk is the risk not to meet its financial liabilities when they come to due, at reasonable cost and in a timely manner.	Governance	195	
	Liquidity risk management framework	196	
	Liquidity risk appetite	196	
	Funding	196	
	Liquidity buffers	197	255
	Liquidity risk transfer and pricing	198	
	Contingency funding plan	198	
	Regulatory developments	198	

Non-financial risk

	Subjects	Risk Management	Pillar 3
Operational risk is the risk of direct or indirect loss returning from inadequate or failed internal processes, people and systems or from external events	Governance	199	
	Framework	199	
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.	Operational risk and main developments	199	
	Compliance risk and main developments	200	

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	202	

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 continued

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.

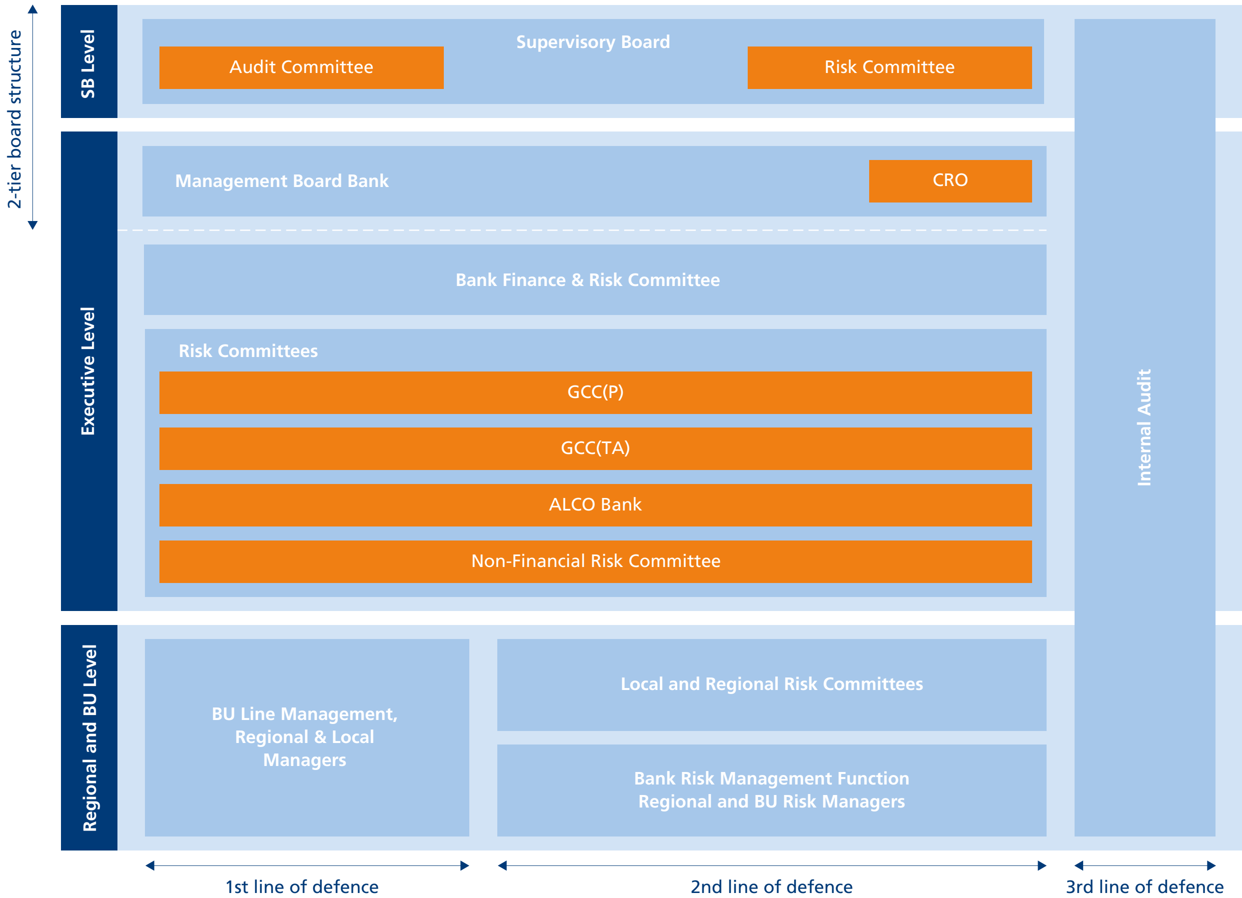
RISK GOVERNANCE

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.

Risk management continued

- 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.

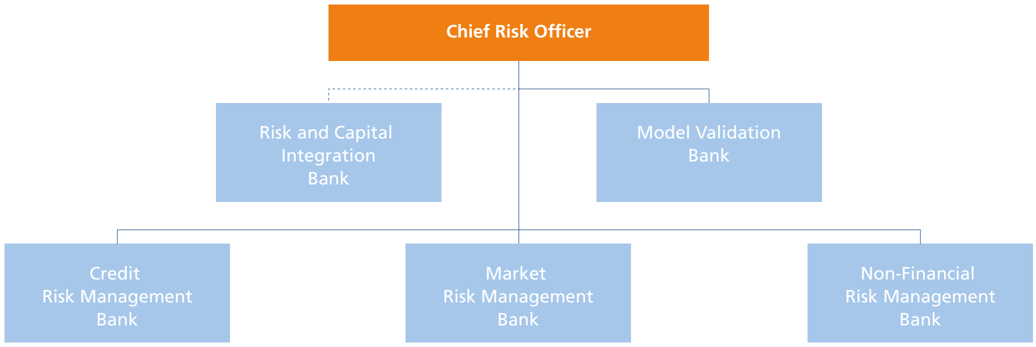
The risk committees described below act within the overall risk policy and delegated authorities granted by the Management Board Bank:
- ING Bank Credit Committee – Policy (GCC(P)): Discusses and approves policies, methodologies and procedures related to credit, country and reputation risks within ING 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.

Risk management continued



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.

Risk management continued

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.

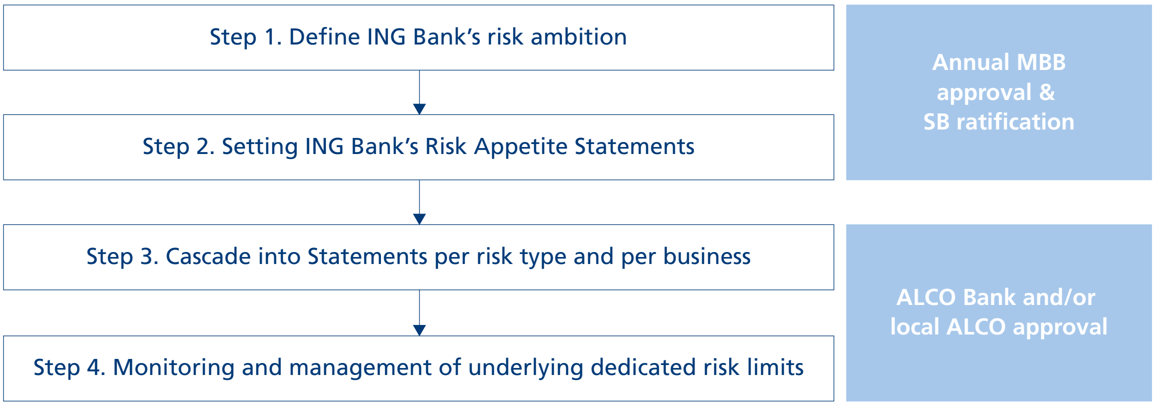
Risks can be controlled by mitigating measures that either lowers the likelihood the risk occurs, or measures that lower the impact if they occur. The ultimate measure to lower risk is to stop the activity or service that causes the risk (risk avoidance). Risk controlling/mitigating measures are defined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

Risk management continued

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.

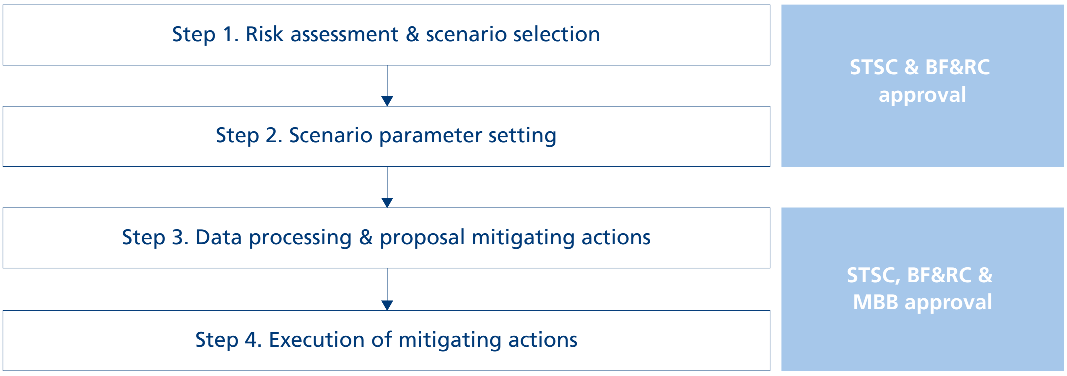
Risk management continued

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

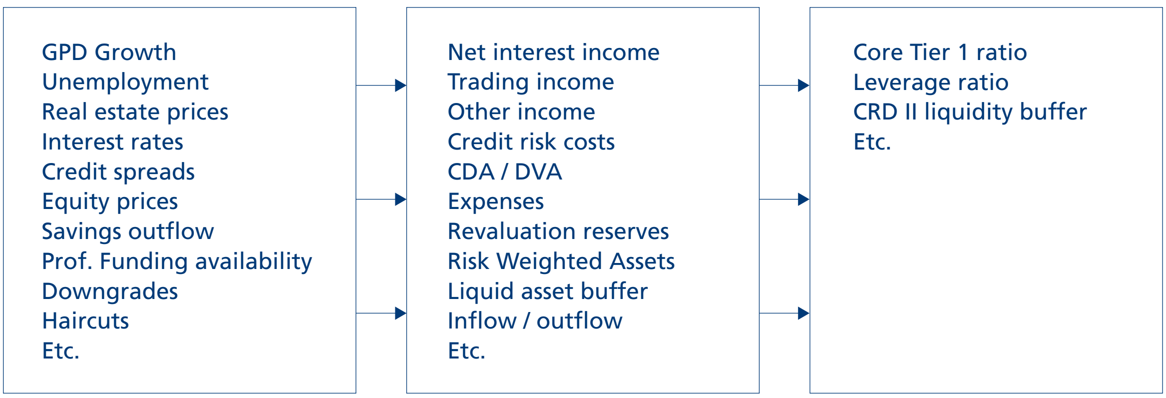
ING Bank formally determines its main risks based on the current economic situation, political and regulatory developments and developments in portfolios on an annual basis. Senior management, business representatives and risk specialists are involved in this process. Based on the risk assessment, relevant 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.



Risk management continued

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

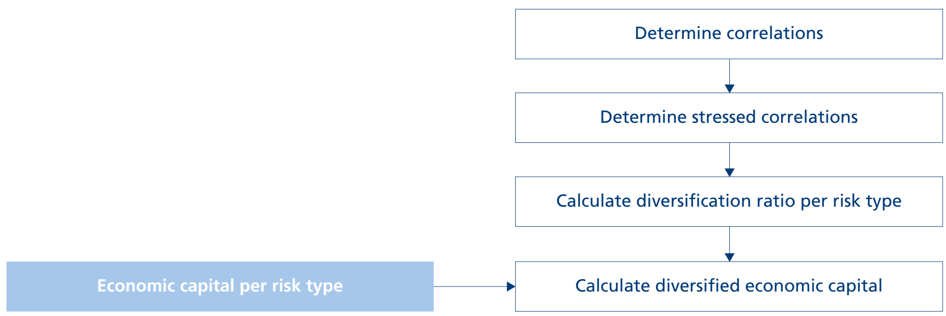
Model disclosure
This model disclosure section explains the methodologies and models used to determine economic capital (EC). The risk models for the EC calculations are reviewed on a periodic basis and validated by the internal Model Validation department. The Economic Capital calculation is also used 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

Risk management continued

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 harmonisation this leads to so-called trapped pools of liquidity, i.e. excess liquidity in a country that cannot merely be transferred (unsecured) to a central treasury in another country.

The Basel III 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.

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 in the involved countries, and regularly assesses whether the positions are still in line with its risk appetite. This assessment is supported by internal stress tests.

Throughout 2013, ING has continued to optimise its balance sheet, including reducing its positions in especially covered bonds, 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. The Eurozone countries had to manage a recession period accompanied by a below trend growth. The Southern European countries begun to slowly emerge from the recession, while the strong countries were showing some signs of recovery although the growth was not sustainable. Furthermore, the chairman of the ECB announced twice the reduction of the main refinancing rate by 25 basis points respectively in May and November 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 within the debt crisis in Europe, as well as the possible exit from the Eurozone of one or more European states and/or the replacement of the Euro by one or more successor currencies. These scenarios could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these European countries and the financial condition of European financial institutions, including ING.

Greece, Italy, Ireland, Portugal, Spain and Cyprus (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 is on Greece, Italy, Ireland, Portugal, Spain and Cyprus as these countries have either applied for support from the European Financial Stability Facility ('EFSF') or receive support from the ECB via government bond purchases in the secondary market. 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 RMBS, which exposures are based on country of risk.

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

							31-dec-2013
	Greece	Italy	Ireland	Portugal	Spain	Cyprus [2]	Total
Residential mortgages and other consumer lending	2	7,831	6	4	9,904	2	17,749
Corporate Lending	397	7,636	562	1,083	5,085	395	15,158
Financial Institutions Lending	1	323	395	39	399	6	1,163
Government Lending		160			35		195
Total Lending	**400**	**15,950**	**963**	**1,126**	**15,423**	**403**	**34,265**
RMBS		538	63	400	2,155		3,156
CMBS			8				8
Other ABS		15	8	4	22		49
Corporate Bonds		32		57	3		92
Covered Bonds		174	363	154	8,858		9,549
Financial Institutions' bonds (unsecured)		203	15	8			226
Government Bonds		1,341		486	339	10	2,176
CDS exposures in banking book [3]					–47		–47
Total Debt Securities		**2,303**	**457**	**1,109**	**11,330**	**10**	**15,209**
Real Estate [4]		102			219		321
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	**475**	**20,618**	**2,450**	**2,467**	**30,214**	**484**	**56,708**

(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.
(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.

Risk management continued

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

							31-dec-2012
	Greece	Italy	Ireland	Portugal	Spain	Cyprus [2]	Greece
Residential mortgages and other consumer lending	3	7,531	6	4	9,661	1	17,206
Corporate Lending	287	8,391	680	1,015	5,733	653	16,759
Financial institutions Lending		227	4	76	372	9	688
Government Lending		203			35		238
Total Lending	290	16,352	690	1,095	15,801	663	34,891
RMBS		667	69	442	2,495		3,673
CMBS			12				12
Other ABS		149	43	49	35		276
Corporate Bonds		32	15	40	3		90
Covered Bonds		227	354	154	11,274		12,009
Financial Institutions' bonds (unsecured)		476	38	18	2		534
Government Bonds		1,128		629	339	18	2,114
CDS exposures in banking book [3]					–390		–390
Total Debt Securities		2,679	531	1,332	13,758	18	18,318
Real Estate [4]		106			268		373
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	165	1,286	258	181	2,779	89	4,758
Pre-settlement exposures [5]	80	516	343	41	953	112	2,045
Total risk exposure	533	21,368	1,840	2,657	33,969	882	61,249

(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.
(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 4,541 million in 2013. ING Bank reduced its exposure in debt securities, with covered bonds going down by EUR 2,460 million and ABS exposure decreasing by EUR 748 million, and its lending portfolio by EUR 626 million. The reduction in the lending portfolio was mainly driven by a decrease in corporate lending by EUR 1,601 million offset by an increase in residential mortgages and other consumer lending of EUR 543 million and in financial institutions lending of EUR 475 million.

The reduction of total exposure was mainly driven by Spain with a decrease of EUR 3,755 million in 2013 to EUR 30,214 million. Debt securities of Spain declined by EUR 2,428 million to EUR 11,330 million, mainly due to covered bonds maturing by EUR 2,416 million.

The decrease in the total lending book was mainly caused by Italy with EUR 402 million and Spain with EUR 378 million, partly offset by an increase in Ireland of EUR 273 million. This increase is driven by an increase in financial institutions lending within Ireland of EUR 391 million because of additional outstandings and facilities to existing customers.

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.

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 characterised 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 non-performing 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.

Risk management continued

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.

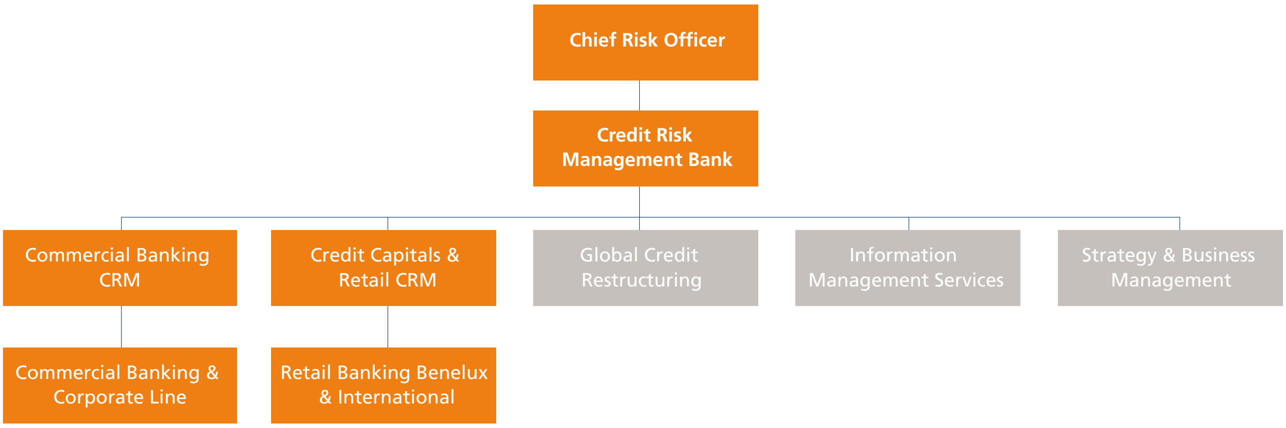
Credit analysis at portfolio level is a function of different concentration levels and various metrics like Economic Capital, Regulatory Capital, Exposure at Default, Probability of Default and Loss Given Default. The risk/reward is monitored and managed at portfolio level to ensure efficient use of 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).

Risk management continued



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

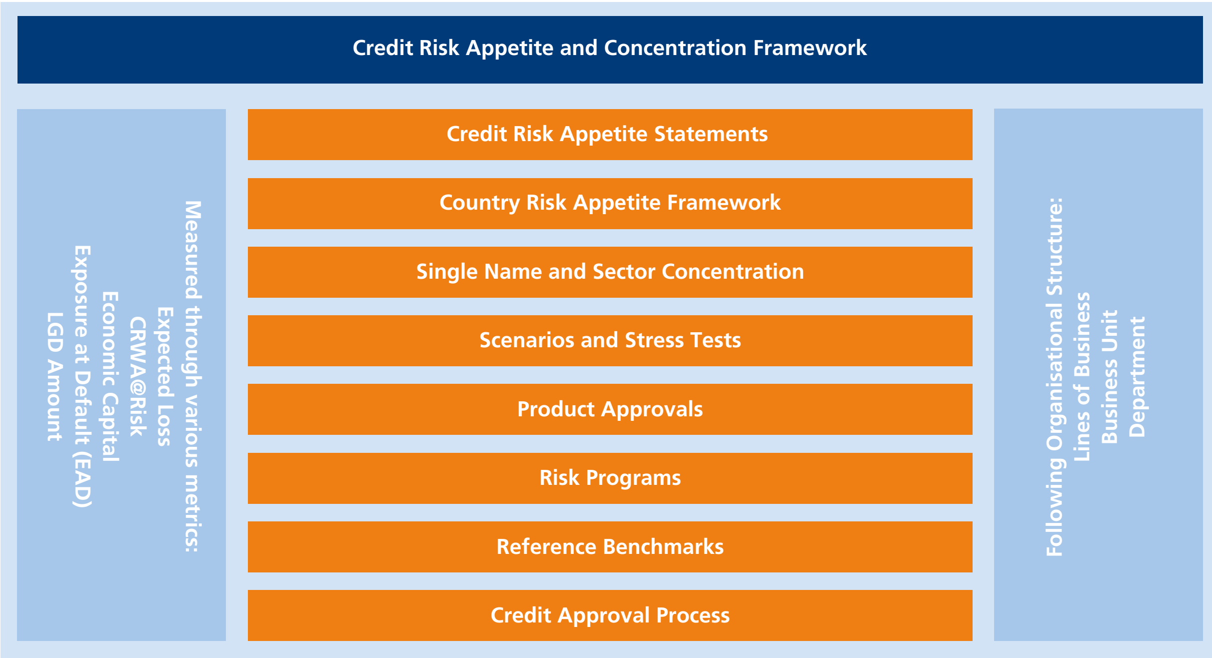
Integrity
Specific training on "good banker-ship" is obligatory. These courses, approximately three per year are known as the Personal Integrity Programme. Each CRM employee, senior managers included, needs to pass these courses within defined time frames. For specific roles within CRM, the Insider regulation 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.

Risk management continued

Credit risk appetite and concentration risk framework

The credit risk appetite and concentration risk framework enables ING to prevent undesired high levels of credit risk and credit concentrations within various levels of the ING portfolio.



Credit risk appetite

Credit risk appetite is the maximum level of credit risk ING Bank is willing to accept for growth and value creation. This credit risk appetite is linked to the overall Bank-wide risk appetite framework. Articulating the credit risk appetite is a complex task that requires balanced views. It can be expressed in quantitative and qualitative measures. Having a credit risk appetite achieves:

- Clarity over the credit risks that ING Bank can strategically assume; focused execution in balancing ING Bank's credit risk exposures within the boundaries of ING's strategy, target setting and prudent risk management;
- Consistent communication to different stakeholders;
- Guidelines how to align reporting and monitoring tools with the organisational structure and strategy;
- Alignment of business strategies and key performance indicators of business units with the overall ING Bank credit risk appetite by means of the MTP.

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

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

Concentration risk framework

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

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

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

Single name and sector concentration
ING Bank has established the concentration risk framework in order to identify, measure monitor concentrations at 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.

Risk management continued

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 organised along the business lines of ING Bank and are specialised in the relevant area of expertise. The credit approval process is supported by, amongst others, a credit approval system which ensures consistency and completeness; a risk rating (PD) system which contains all the risk rating models to ensure a proper rating is given to a counterparty and a limit and exposure monitoring system which subsequently feeds into the credit approval system. The rating model is used to indicate a counterparty's creditworthiness, and to determine the maximum risk appetite that ING Bank may have for a given type of counterparty (reference benchmark). The determination of the delegated authority (the amount that can be approved at various levels of the organisation) also depends on the risk rating. ING Bank has a rating system with in total 22 grades (1=highest rating; 22=lowest rating) and are split in the following categories:

- Investment grade (Risk Rating 1-10);
- Non-investment grade (Risk Rating 11-17);
- Problem Loan grade (Risk Rating 18-22);
  - Restructuring (Risk Rating 18-19);
  - Default (Risk Rating 20-22).

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.

Risk management continued

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).

Risk management continued

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.

Risk management continued

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.

Risk management continued

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.

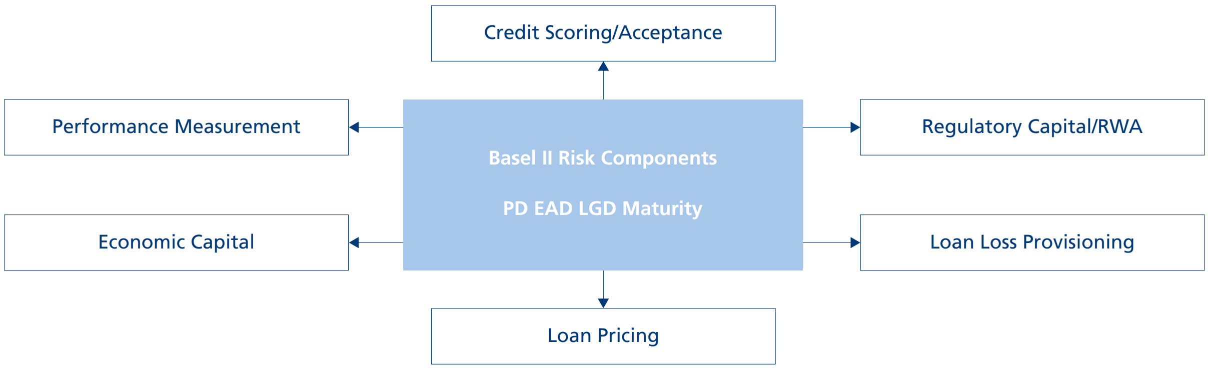
Next to the model choice, the definition of default is an important starting point for model building. ING Bank uses a framework that integrates elements of the regulatory definition of 'Default' and the loan loss provisioning indicators under IAS 39. The rationale is that several indicators are very 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.

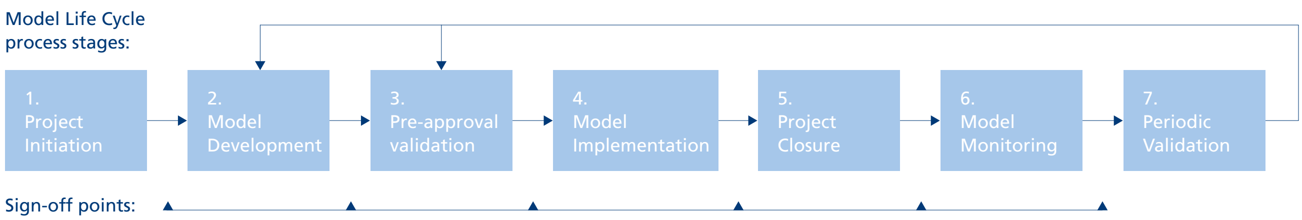
In addition to the two approaches ING recognises that certain trading products that are outside of this scope may be deemed insufficiently accurate. For example, highly structured or exotic derivative transactions may differ significantly from the generic transactions used to calculate the add-ons. For 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).



Risk management continued

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.

Risk management continued

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%**		**7.3%**	**0.4%**	**1.2%**	**0.1%**	**0.5%**		**11.8%**	**0.5%**	**12.3%**
Institutions	**4.3%**	**0.2%**	**3.5%**		**1.6%**	**0.1%**	**3.7%**	**0.1%**	**13.1%**	**0.4%**	**13.5%**
Corporate	**26.2%**	**1.4%**	**0.2%**		**0.1%**		**0.9%**		**27.4%**	**1.4%**	**28.8%**
Residential mortgages	**37.2%**	**0.8%**							**37.2%**	**0.8%**	**38.0%**
Other retail	**4.7%**	**1.4%**							**4.7%**	**1.4%**	**6.1%**
Securitisation	**0.3%**		**1.0%**						**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%		6.3%	0.4%	1.2%	0.1%	0.4%		10.5%	0.5%	11.0%
Institutions	4.0%	0.2%	4.0%		1.7%	0.1%	3.8%		13.5%	0.3%	13.8%
Corporate	26.9%	1.5%	0.2%		0.1%		1.2%		28.4%	1.5%	29.9%
Residential mortgages	36.3%	1.6%							36.3%	1.6%	37.9%
Other retail	4.5%	1.4%							4.5%	1.4%	5.9%
Securitisation	0.2%		1.3%						1.5%		1.5%
Total (ALL)	74.5%	4.7%	11.8%	0.4%	3.0%	0.2%	5.4%		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 medium-sized 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.

Risk management continued

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.

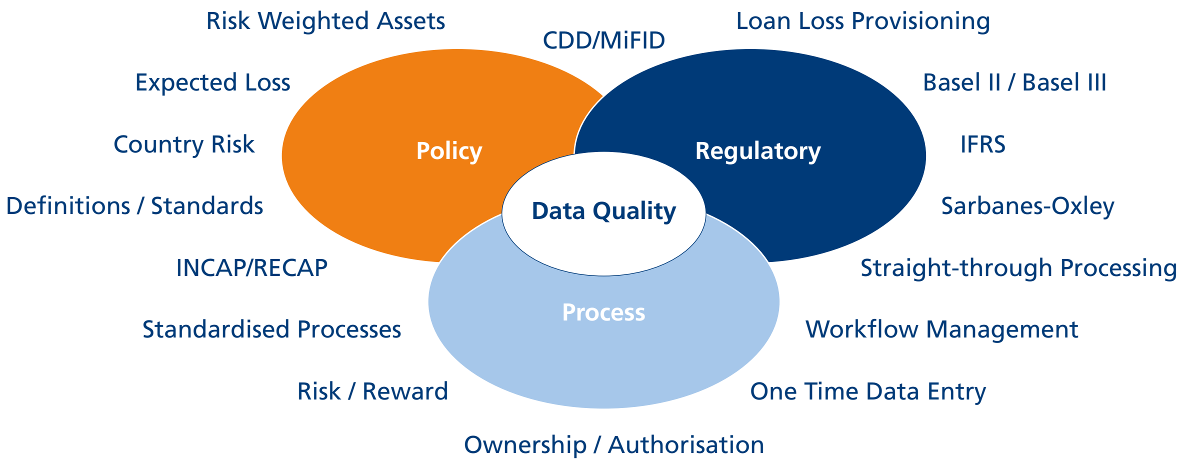
ING Bank as Sponsor
In the normal course of business, ING Bank structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to an SPV. The transactions are often funded by the ING Bank administered 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.

Risk management continued



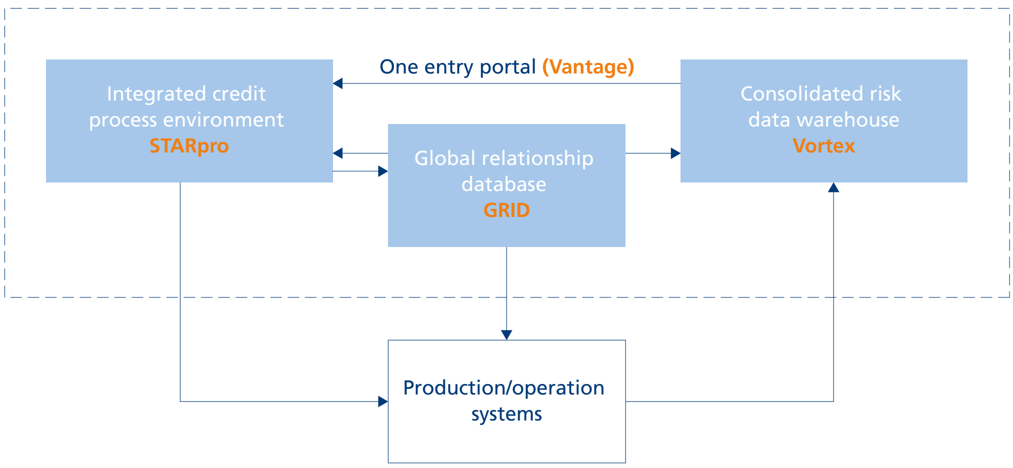
The CCRM/BCD customer-centric data model conforms strongly to the three core business needs of ING Bank:

- 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.

Risk management continued

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.

Risk management continued

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 recognise the value of risk-reporting systems and accessibility of data to monitor trends as well as to keep consistency and credibility in published data. A dedicated credit risk reporting department addresses various reporting requirements as well as key reporting principles.

Role of reporting department

The credit risk reporting department contributes in the following ways to CRM:

- Provides periodic overviews of credit capital, migration of risk weighted assets, concentration overviews by industry/sector/counterparty names required or requested by the DNB and other European regulators;
- Participate in the various exercises/simulations conducted by regulators and other policy-makers by being transparent in the data and analysis shared, to allow useful results and work towards more stable and efficient financial markets;
- Provides senior management and other risk departments an insight showing trends and quantitative as well as qualitative analysis in 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" self-assessment 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 sub-portfolios 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%			**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.

Risk management continued

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%			**0.9%**	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	2012	**2013**
Private Individuals			**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.

Risk management continued

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%**		**10.6%**	10.7%
Rest of World	**0.5%**	0.6%							**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.

Risk management continued

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.

Risk management continued

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	Front Office	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 non-performing 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**	4,370
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.

Risk management continued

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.

Risk management continued

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.

ING Bank: Summary Forbearance totals

			2013
	Forborn Outstan-dings	**% of Total ING Bank portfolio**	**Specific Provisions and Partial Write Offs**
Corporate Banking [2]	**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.

Risk management continued

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

Corporate Banking: Forbearance by Industry

	2013		
Industry	Performing Forborn Outstan-dings	Non-Performing Forborn Outstan-dings	Specific Provisions and Partial Write Offs
Real Estate	343	1,333	503
Transportation & Logistics	203	344	199
Builders & Contractors	45	355	198
Food, Beverages & Personal Care	21	363	170
General Industries	37	293	133
Services	183	98	68
Natural Resources		239	128
Retail	8	160	81
Telecom	3	142	51
Media	4	116	45
Other	81	293	136
Total	926	3,736	1,713

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.

Risk management continued

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.

Risk management continued

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	Outstandings	Cover type: Mortgages	Cover type: Eligible Financial collateral	Cover type: Other Basel II eligible	Cover type: Guarantees	Cover type: Non Basel II eligible	Value to Loan: No Cover/ Data not available	Value to Loan: Partially covered	Value to Loan: 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%		
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%	
Retail Banking Benelux				3,117		6		5		99.6%		0.4%
Retail Banking International				62,081				4,919		92.1%		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								
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%

Risk management continued

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

					Cover type					Value to Loan		
	Gross MtM before netting and collate-ral	MtM after netting	MtM after netting and collate-ral	Out-stan -dings	Mort -gages	Eligible Finan-cial collate-ral	Other Basel II eligible	Guaran -tees	Non Basel II eligible	No Cover/ Data not availa-ble	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

Risk management continued

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).

Consumer Lending

Cover values including guarantees received - Consumer portfolio – 2013 (1)(2)

		Cover type						Value to loan				
	Outstan-dings	Mort-gages	Eligible Financial Colla-teral	Other Basel II eligible	Guaran-tees	Non Basel II eligible	No Cover/ Data not availa-ble	>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				
	Outstan-dings	Mort-gages	Eligible Financial Colla-teral	Other Basel II eligible	Guaran-tees	Non Basel II eligible	No Cover/ Data not availa-ble	>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.

Risk management continued

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.

Risk management continued

Business Lending per industry

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

		Cover type						Value to Loan				
Industry	Outstan-dings	Mort-gages	Eligible Financial Colla-teral	Other Basel II eligible	Guaran-tees	Non Basel II eligible	No Cover/ Data not availa-ble	>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				46	257	52.5%		40.7%		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	31.8%	4.1%	6.7%	8.0%	7.6%	41.8%
Food, Beverages & Personal	14,467	5,427	846	7,688	2,901	16,046	30.2%	3.6%	8.2%	10.2%	14.4%	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	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		3				100.0%					
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 &	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 [3]	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%

Risk management continued

Cover values including guarantees received - Business Lending portfolio - 2012 (1)(2)

Industry	Outstan-dings	Mort-gages	Eligible Financial Colla-teral	Other Basel II eligible	Guaran-tees	Non Basel II eligible	No Cover/ Data not availa-ble	>0% - 25%	>25%-50%	> 50%-75%	>75%-<100%	≥ 100%
		Cover type						Value to Loan				
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				7	300	52.1%		37.6%		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	21.8%	8.6%	2.1%	8.6%	8.7%	50.3%
Non-Bank Financial	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		3				100.0%					
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%	32.8%
of which Non-performing	295	171	7	147	50	48	24.0%	1.1%	11.5%	4.4%	20.0%	39.0%
Others (3)	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.

Risk management continued

Business Lending per region

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

Region	Outstan -dings	Mort -gages	Eligible Financi al Colla -teral	Other Basel II eligible	Guaran -tees	Non Basel II eligible	No Cover/ Data not availa- ble	>0% - 25%	>25%- 50%	> 50%- 75%	>75%- <100%	≥ 100%
		Cover type					Value to Loan					
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%					
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%		6.8%		17.9%	1.3%
Europe												
Belgium	37,364	25,678	1,153	6,285	10,700	20,039	30.0%	2.7%	3.0%	4.3%	6.7%	53.2%
of which Non-performing	1,309	1,193	19	708	485	708	10.1%	3.7%	2.1%	5.3%	9.4%	69.3%
Germany	8,137	1,030	20	361	1,146	2,391	63.3%	2.3%	3.8%	4.9%	5.8%	19.8%
of which Non-performing	206	118	4	4	4	3	25.9%	0.7%	0.3%	30.7%	30.6%	11.8%
Netherlands	63,314	49,846	2,996	25,328	5,989	15,219	20.3%	2.8%	6.3%	15.3%	23.2%	32.1%
of which Non-performing	4,294	2,157	94	1,464	283	817	20.9%	3.6%	15.4%	25.4%	21.3%	13.4%
Rest of Europe	87,843	26,192	5,348	19,203	20,472	50,606	42.0%	5.4%	5.7%	5.1%	8.8%	33.0%
of which Non-performing	4,243	3,074	49	385	1,536	2,675	17.6%	3.3%	4.1%	10.6%	19.3%	45.1%
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%

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

Region	Outstan -dings	Mort -gages	Eligible Financi al Colla -teral	Other Basel II eligible	Guaran -tees	Non Basel II eligible	No Cover/ Data not availa- ble	>0% - 25%	>25%- 50%	> 50%- 75%	>75%- <100%	≥ 100%
		Cover type					Value to Loan					
Africa	1,062	33	152	328	169	534	36.1%	0.1%	2.9%	13.3%	27.1%	20.5%
of which Non-performing	3	1				2	42.4%					57.6%
America	26,451	7,306	4,573	17,155	3,304	22,268	18.9%	5.4%	8.7%	7.5%	12.5%	47.0%
of which Non-performing	627	346	0	201	13	143	12.0%	5.8%	4.2%	3.3%	41.8%	32.8%
Asia	29,283	972	1,689	7,672	8,321	7,358	53.1%	4.8%	4.1%	5.3%	8.5%	24.2%
of which Non-performing	300	1	81	82	64	82	43.6%	6.7%			38.9%	10.8%
Australia	3,049	639	82	1,318	331	94	69.6%	5.4%		0.4%	4.0%	20.5%
of which Non-performing	267	119	7	10			73.4%	0.0%		0.1%	26.2%	0.2%
Europe												
Belgium	37,174	24,886	1,088	6,519	9,267	22,359	29.6%	2.5%	3.6%	4.7%	7.1%	52.5%
of which Non-performing	1,326	1,095	19	740	445	822	10.1%	1.0%	3.8%	6.6%	10.1%	68.4%
Germany	8,315	1,572	46	560	693	5,236	56.1%	5.8%	6.5%	5.8%	6.3%	19.6%
of which Non-performing	223	131	4	19	3	5	23.8%	0.0%	0.1%	62.8%	1.1%	12.2%
Netherlands	66,626	56,638	3,590	26,724	6,625	19,353	18.0%	3.6%	4.2%	13.6%	24.5%	36.1%
of which Non-performing	3,867	2,116	10	1,302	225	984	20.3%	3.9%	10.0%	22.1%	24.5%	19.3%
Rest of Europe	90,249	27,381	6,720	23,163	16,194	53,443	39.6%	6.7%	3.9%	5.7%	8.1%	36.0%
of which Non-performing	3,981	2,109	233	620	1,189	2,877	29.1%	4.5%	2.1%	16.7%	9.4%	38.2%
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

Risk management continued

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]

Investment and Money Market	2013 Outstan-dings	Cover types Mortgages	Eligible Finan-cial Colla-teral	Other Basel II eligible	Guaran-tees	Non Basel II eligible	2012 Outstan-dings	Cover types Mortgages	Eligible Finan-cial Collate-ral	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		6		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.

Risk management continued

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**	**Outstan -dings**	Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	Outstan -dings
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**	7,570	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	3,000
Germany	**7,275**	**3,948**	**2,045**	**3,227**	10,919	4,117	2,014	2,704
Netherlands	**9,848**	**4,775**	**3,996**	**5,180**	15,944	6,444	4,807	6,701
Rest of Europe	**86,861**	**27,542**	**23,430**	**27,011**	104,934	22,616	17,710	23,576
Total Pre-settlement	**130,220**	**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) Include loans to ING Group and NN Group.
(2) Exclude 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.

Risk management continued

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:

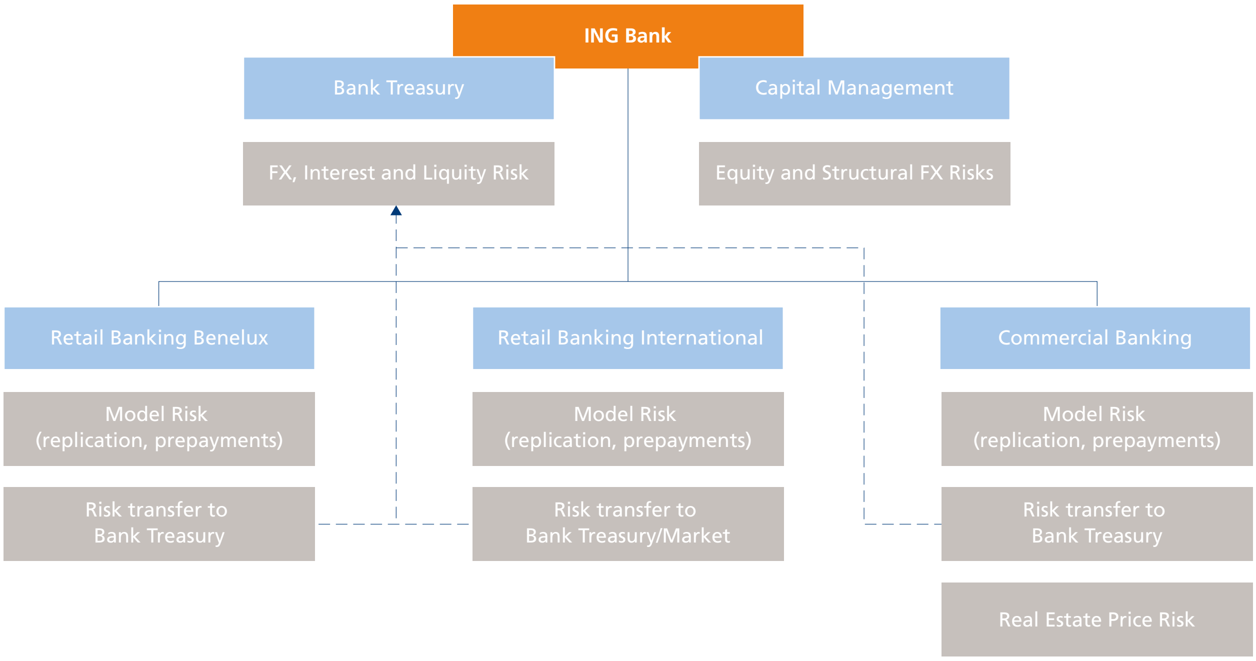
- Trading: increase in economic capital is largely driven by updated LGD model parameters for the sovereign bond portfolio, which led to an increase in Incremental Risk Charge (IRC) and the annual update of the model parameters underlying the Trading Risk EC model. Both adjustments led to an increase 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:

Risk management continued



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 management continued

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
By currency	**-100 bps**	**+100 bps**	-100 bps	+100 bps
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
By business	**-100 bps**	**+100 bps**	-100 bps	+100 bps
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.

Risk management continued

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
By currency	**-100 bps**	**+100 bps**	-100 bps	+100 bps
Euro	**1,399**	**–1,503**	1,402	–2,092
US Dollar	**–13**	**23**	69	–75
Pound Sterling	**4**	**–4**	–51	12
Other	**32**	**–25**	–21	15
Total	**1,422**	**–1,509**	1,399	–2,140

NPV-at-Risk banking books per business (instantaneous parallel shock)

		2013		2012
By business	**-100 bps**	**+100 bps**	-100 bps	+100 bps
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**	1,710	–1,815
Total	**1,422**	**–1,509**	1,399	–2,140

NPV-at-Risk banking books per accounting category (instantaneous parallel shock)

		2013		2012
By accounting category	**-100 bps**	**+100 bps**	-100 bps	+100 bps
Amortised Cost	**–1,115**	**923**	–134	–693
Fair value through equity	**2,459**	**–2,347**	1,393	–1,419
Fair value through profit & 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.

Risk management continued

BPV banking books per currency

Amounts in thousands of euros		
By currency	**2013**	2012
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		
By business	**2013**	2012
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		
By accounting category	**2013**	2012
Amortised Cost	**11,482**	–4,622
Fair value through equity	**–24,318**	–14,148
Fair value through profit & 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:

Risk management continued

Net banking currency exposures banking books

amounts in millions of euros	Foreign Investments 2013	2012	Hedges 2013	2012	Net exposures 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				–2		–2
Korean Won	**723**	1,256	**–583**	–975	**140**	281
Indian Rupee	**856**	287			**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

Currency	cTaR 2013	2012	Stress Scenario 2013	2012
US Dollar	**0.09%**	0.08%	**15%**	15%
Pound Sterling	**0.01%**	0.05%	**15%**	15%
Polish Zloty		0.01%	**15%**	–15%
Australian Dollar	**0.01%**	0.02%	**–20%**	–20%
Turkish Lira	**0.01%**	0.01%	**–25%**	–25%
Chinese Yuan			**15%**	15%
Canadian Dollar			**10%**	10%
Korean Won	**0.01%**		**–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-for-sale (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.

Risk management continued

Equities Unrealised Gains and Losses in the AFS portfolio	2013	2012
Gross unrealised gains	**1,038**	1,385
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 37 ‘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.

Risk management continued

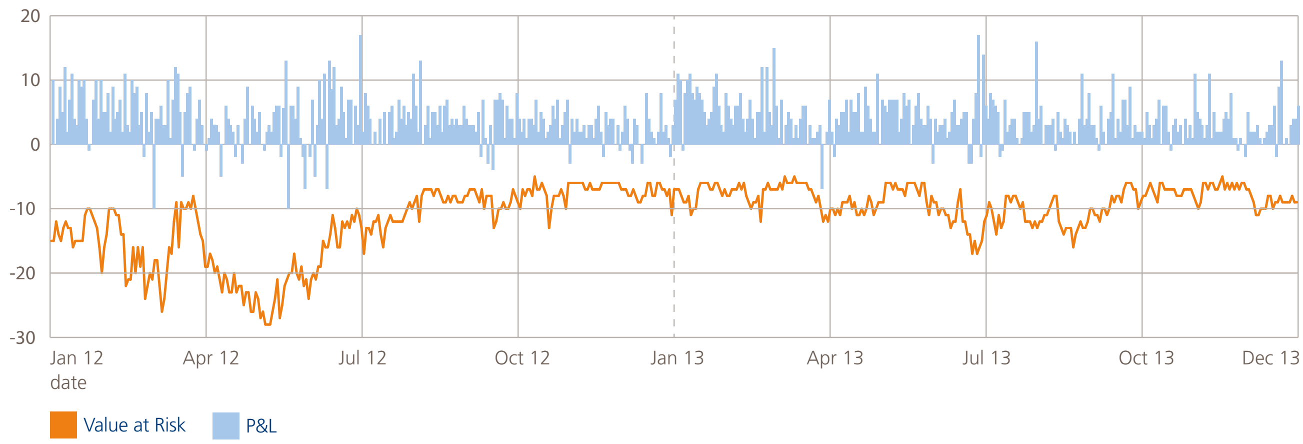
ING Bank's event risk policy is based on a large set of possible stress scenarios per risk type (fixed income, equity, foreign exchange, credit and related derivative markets). For example, for equity products we assume both a crisis scenario (prices decreasing) as well as a bull scenario (prices increasing). 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

In EUR millions



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

Risk Measures for Internal Model Approach Portfolios (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.

Risk management continued

Credit spread sensitivities per risk class and sector at year-end 2013

amounts in thousands of euros **Credit Spread (CSO1[(1)])**	**2013** **Corporate**	**2013** **Financial Institutions**	2012 Corporate	2012 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 39 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.

Risk management continued

With respect to funding sources, ING Bank manages its balance sheet prudently, whereby short-term funding is primarily utilised for short-term 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

Funding type	2013	2012
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.

Risk management continued

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, organisational 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).

Risk management continued

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.

Risk management continued

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.

Capital management

amounts in millions of euros, unless stated otherwise

OBJECTIVES

ING Group Capital Management (Capital Management) is responsible for the sufficient capitalisation of ING Group entities at all times in order to manage the risk associated with ING's business activities. This involves the management, planning and allocation of capital within ING Group. ING's 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 models such as the economic capital and market value balance sheet approach for parts of NN Group including Available Financial Resources (AFR).

ING applies the following main capital definitions:

- Core Tier 1 capital, Tier 1 capital and total BIS capital (ING Bank) – Tier 1 capital is defined as shareholders' equity including core Tier 1 securities plus hybrid capital less certain prudential filters and deductible items. Core Tier 1, Tier 1 and BIS capital divided by risk-weighted assets equal the Core Tier 1, Tier 1 and BIS ratio respectively. Core Tier 1 capital is equal to Tier 1 capital excluding hybrid capital;

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.

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. ING Bank paid a dividend to ING Group to finance the capital injection into National Nederlanden Bank.

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 repurchases, 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 amended pension accounting requirements under IFRS-EU which took place on 1 January 2013.

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 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 consider 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.

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 management continued

Capital position of ING Bank	2013	2012
Shareholders' equity (parent)	**32,805**	34,964
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**	1,860
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**	47,270
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 II	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

Capital Management continued

Capital adequacy and ratios

	Bank	
	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%

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.

Main credit ratings of ING at 31 December 2012

	Standard & Poor's		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
ING Groep N.V.						
– long-term	A-	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-			
NN Group N.V.						
– short-term	A-2		P-2		F2	
– long-term	BBB+	stable	Baa2	negative	A-	negative

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

A security rating is not a recommendation to buy, sell or hold securities and each rating should be evaluated independently of any other rating. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency if, in the rating agency's judgment, circumstances so warrant. ING accepts no responsibility for the accuracy or reliability of the ratings.

AUTHORISATION OF ANNUAL ACCOUNTS
Amsterdam, 17 March 2014

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H.J. (Hermann-Josef) Lamberti
R.W.P. (Robert) Reibestein
Y.C.M.T (Yvonne) van Rooy
L.A.C.P. (Luc) Vandewalle

THE MANAGEMENT BOARD BANKING
R.A.J.G. (Ralph) Hamers, *CEO and chairman*
J.V. (Koos) Timmermans, *vice-chairman*
P.G. (Patrick) Flynn, *CFO*
W.F. (Wilfred) Nagel, *CRO*
W.L. (William) Connelly, *CEO Commercial Banking*
C.P.A.J. (Eli) Leenaars, *CEO Retail Banking International*
H. (Hans) van der Noordaa, *CEO Retail Banking Benelux*

Parent company balance sheet of ING Bank N.V.

as at 31 December before appropriation of result

amounts in millions of euros	2013	2012
ASSETS		
Cash and balances with central banks 1	**5,210**	10,093
Short-dated government paper 2	**2,748**	1,945
Amounts due from banks 3	**66,602**	50,160
Loans and advances to customers 4	**295,770**	318,965
Debt securities 5		
– available-for-sale	**15,600**	12,065
– held-to-maturity	**532**	
– trading	**16,703**	16,289
Equity securities 6		
– available-for-sale	**1,264**	2,068
– trading	**5,729**	1,695
Investments in group companies 7	**29,422**	30,802
Investments in associates 8	**480**	517
Intangible assets 9	**980**	1,129
Equipment 10	**472**	498
Other assets 11	**54,995**	79,868
Total assets	**496,507**	526,094
LIABILITIES		
Amounts due to banks 12	**46,021**	49,892
Customer deposits and other funds on deposit 13	**224,908**	205,521
Debt securities in issue	**113,650**	129,907
Other liabilities 14	**59,698**	86,320
General provisions 15	**4,071**	2,421
Subordinated loans 16	**15,354**	17,069
Total liabilities	**463,702**	491,130
EQUITY		
Share capital	**525**	525
Share premium	**16,542**	16,542
Legal reserves (1)	**759**	2,328
Other reserves	**14,979**	15,569
Total equity 17	**32,805**	34,964
Total liabilities and equity	**496,507**	526,094

(1) Legal reserves includes Share of associates reserve of EUR 328 million (2012:EUR 363 million), Currency translation reserve of EUR –989 million (2012:EUR –263 million) and Revaluation reserve of EUR 1,420 million (2012: EUR 2,228 million).

Amounts for 2012 have been restated to reflect the changes in accounting policies for defined benefit pension schemes as disclosed in Note 1 'Accounting policies section Changes in accounting policies in 2013' of the consolidated annual accounts on page 24.

References relate to the notes starting on page 212. These form an integral part of the parent annual accounts.

Parent company profit and loss account of ING Bank N.V.

for the years ended 31 December

amounts in millions of euros	2013	2012
Result of group companies after taxation	1,476	2,916
Other results after taxation	1,587	365
Net result	3,063	3,281

Amounts for 2012 have been restated to reflect the changes in accounting policies for defined benefit pension schemes as disclosed in Note 1 ‘Accounting policies section Changes in accounting policies in 2013’ of the consolidated annual accounts on page 24.

Parent company statement of changes in equity of ING Bank N.V.

amounts in millions of euros	Share capital	Share premium	Share of associates reserve	Currency translation reserve	Revaluation reserve	Other reserves[1]	Total
Balance as at 1 January 2012 (restated)	525	16,542	339	209	568	16,622	34,805
Remeasurement of the net defined benefit asset/liability						–2,309	–2,309
Unrealised revaluations property in own use					–9		–9
Unrealised revaluations available-for-sale and other				–116	2,082		1,966
Realised gains/losses transferred to profit and loss					–473		–473
Changes in cash flow hedge reserve					60		60
Exchange rate differences and other			24	–356		–6	–338
Total amount recognised directly in equity			24	–472	1,660	–2,315	–1,103
Net result						3,281	3,281
			24	–472	1,660	966	2,178
Employee stock options and share plans						106	106
Dividend						–2,125	–2,125
Balance as at 31 December 2012 (restated)	525	16,542	363	–263	2,228	15,569	34,964
Remeasurement of the net defined benefit asset/liability						**–811**	**–811**
Unrealised revaluations property in own use					**–7**		**–7**
Unrealised revaluations available-for-sale and other				**302**	**–641**		**–339**
Realised gains/losses transferred to profit and loss					**–145**		**–145**
Changes in cash flow hedge reserve					**–15**		**–15**
Exchange rate differences and other			**–35**	**–1,028**		**55**	**–1,008**
Total amount recognised directly in equity			**–35**	**–726**	**–808**	**–756**	**–2,325**
Net result						**3,063**	**3,063**
			–35	**–726**	**–808**	**2,307**	**738**
Employee stock options and share plans						**58**	**58**
Dividend						**–2,955**	**–2,955**
Balance as at 31 December 2013	**525**	**16,542**	**328**	**–989**	**1,420**	**14,979**	**32,805**

[1] Other reserves include Retained earnings and Unappropriated result.

Amounts for 2012 have been restated to reflect the changes in accounting policies for defined benefit pension schemes as disclosed in Note 1 ‘Accounting policies section Changes in accounting policies in 2013’ of the consolidated annual accounts on page 24.

Accounting policies for the parent company annual accounts of ING Bank N.V.

BASIS OF PRESENTATION

The parent company accounts of ING Bank N.V. are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Dutch Civil Code. The accounting policies applicable to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The principles of valuation and determination of results stated in connection with the consolidated balance sheet and profit and loss account are also applicable to the parent company balance sheet and profit and loss account. Investments in group companies and investments in associates are recognised at net asset value with goodwill, if any, recorded under intangible assets.

The profit and loss account is drawn up in accordance with Section 402, Book 2 of the Dutch Civil Code.

A list containing the information referred to in Section 379 (1), Book 2, of the Dutch Civil Code has been filed with the Commercial Register of Amsterdam, in accordance with Section 379 (5), Book 2 of the Dutch Civil Code.

Changes in balance sheet values due to changes in the Revaluation reserve of the associates are reflected in the Share of associates reserve, which forms part of Shareholder’s equity. Changes in balance sheet values due to the results of these associates, accounted for in accordance with ING Bank accounting policies, are included in the profit and loss account. Other changes in the balance sheet value of these associates, other than those due to changes in share capital, are included in Other reserves, which forms part of Shareholder’s equity.

A legal reserve is carried at an amount equal to the share in the results of associates since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the Share of associates reserve.

The comparative amounts for 2012 are restated for the change in accounting policies for defined benefit pension schemes as disclosed in the section 'Change in accounting policies' in Note 1 'Accounting policies' of the consolidated annual accounts.

Notes to the parent company annual accounts of ING Bank N.V.

amounts in millions of euros, unless stated otherwise

ASSETS

1 CASH AND BALANCES WITH CENTRAL BANKS

Amounts held at central banks amount to EUR 4,678 million (2012: EUR 9,583 million). In the last quarter of 2013 excess cash was used to redeem short-term professional funding.

2 SHORT-DATED GOVERNMENT PAPER

Short-dated government paper includes international government paper amounting to EUR 2,476 million (2012: EUR 1,378 million) for the company.

3 AMOUNTS DUE FROM BANKS

Amounts due from banks		
	2013	2012
Non-subordinated receivables from:		
Group companies	**20,234**	14,992
Third parties	**42,275**	29,798
	62,509	44,790
Subordinated receivables from:		
Group companies	**3,927**	5,147
Third parties	**166**	223
	66,602	50,160

As at 31 December 2013, amounts due from banks included receivables with regard to securities, which have been acquired in reverse repurchase transactions amounting to EUR 18,964 million (2012: EUR 11,997 million).

4 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers – subordinated and non-subordinated		
	2013	2012
Non-subordinated receivables from:		
ING Groep N.V.	**762**	2,250
Group companies	**64,761**	80,595
Third parties	**226,988**	231,957
	292,511	314,802
Subordinated receivables from:		
Group companies	**3,259**	4,163
	295,770	318,965

As at 31 December 2013, assets held under finance lease contracts amounted to EUR 15 million (2012: EUR 17 million).

As at 31 December 2013, the receivables included in Loans and advances to customers that are part of the trading portfolio amounted to EUR 18,140 million (2012: EUR 15,031 million).

Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 18,427 million (2012: EUR 15,078 million) for the company.

5 DEBT SECURITIES

Debt securities by issuer		
	2013	2012
Public sector	**23,385**	20,801
Other	**9,450**	7,553
	32,835	28,354

Notes to the parent company annual accounts of ING Bank N.V. continued

Debt securities analysed by listing		
	2013	2012
Listed	**31,695**	27,014
Unlisted	**1,140**	1,340
	32,835	28,354

Debt securities – subordinated and non-subordinated		
	2013	2012
Non-subordinated debt securities issued by		
Associates	**58**	74
Group companies		
Third parties	**32,777**	28,280
	32,835	28,354

Changes in debt securities (available-for-sale)		
	2013	2012
Opening balance	**12,065**	14,383
Additions	**11,967**	12,457
Amortisation	**1**	–6
Changes in the composition of the group	**759**	33
Gains/(losses) from change in fair value	**–623**	452
Disposals and redemptions	**–8,408**	–15,303
Exchange rate differences	**–133**	49
Other changes	**–28**	
Closing balance	**15,600**	12,065

As at 31 December 2013, the cost of the trading debt securities amounted to EUR 16,703 million (2012: EUR 16,289 million).

As at 31 December 2013, an amount of EUR 8,724 million (2012: EUR 8,273 million) was expected to be settled after more than one year from the balance sheet date.

Debt securities temporarily sold in repurchase transactions amounts to EUR 4,050 million as at 31 December 2013 (2012: EUR 8,193 million).

Borrowed debt securities are not recognised in the balance sheet and amount to nil (2012: nil) as at 31 December 2013.

6 EQUITY SECURITIES

Equity securities analysed by listing		
	2013	2012
Listed	**6,833**	3,598
Unlisted	**160**	165
	6,993	3,763

Changes in equity securities (available-for-sale)		
	2013	2012
Opening balance	**2,068**	1,862
Additions	**12**	2,040
Changes in the composition of the group	**–1**	8
Gains/(losses) from change in fair value	**–263**	575
Provision for impairments	**–1**	–11
Disposals	**–547**	–2,401
Exchange rate differences		–2
Other changes	**–4**	–3
Closing balance	**1,264**	2,068

In 2012, ING Bank N.V. acquired shares in Capital One Financial Corporation, as part of the divestment transaction of ING Direct USA, for EUR 2.0 billion and sold these shares in the second half of 2012 for EUR 2.3 billion; resulting in a gain of EUR 323 million (before and after tax).

Notes to the parent company annual accounts of ING Bank N.V. continued

The cost or purchase price of the shares in the trading portfolio approximates their fair value. As at 31 December 2013 the cost or purchase price of shares in the available-for-sale portfolio was EUR 987 million lower (2012: EUR 1,316 million lower) than the carrying amount.

7 INVESTMENTS IN GROUP COMPANIES

Investments in group companies

	Interest held (%)	Balance sheet value	Interest held (%)	Balance sheet value
		2013		2012
ING België N.V.	**100**	**9,966**	100	10,792
ING Direct N.V.	**100**	**7,561**	100	8,813
ING Financial Holdings Corporation	**100**	**1,913**	100	1,701
ING Bank Slaski S.A.	**75**	**1,518**	75	1,449
WestlandUtrecht Bank N.V..	**100**	**1,283**	100	1,190
ING Bank A.S.	**100**	**1,269**	100	1,411
ING Vastgoed Management Holding B.V.	**100**	**1,208**	100	1,251
ING Australia Holdings Limited	**100**	**1,079**		
ING Corporate Investments B.V.	**100**	**447**	100	432
ING Lease Holding N.V	**100**	**428**	100	733
Other (including financing companies)		**2,750**		3,030
		29,422		30,802

As at 31 December 2013, Investments in group companies included credit institutions of EUR 22,923 million (2012: EUR 25,210 million). As at 31 December 2013 listed investments in group companies amounts to EUR 1,518 million (2012: EUR 1,449 million).

Changes in investments in group companies

	2013	2012
Opening balance	**30,802**	29,139
Additions	**1,190**	135
Repayment of capital injection	**–1,590**	–897
Revaluations	**–1,736**	–315
Results from group companies	**1,476**	2,916
Dividends received	**–2,205**	–1,200
Capital contribution	**249**	106
Mergers and liquidations	**–52**	–9
Exchange rate differences	**–778**	–485
Other changes	**2,066**	1,412
Closing balance	**29,422**	30,802

8 INVESTMENTS IN ASSOCIATES

Investments in associates

	Interest held (%)	Balance sheet value	Interest held (%)	Balance sheet value
		2013		2012
TMB Public Company Limited	**25**	**458**	25	499
Other		**22**		18
		480		517

Changes in investments in associates

	2013	2012
Opening balance	**517**	503
Additions	**1**	2
Share of results	**23**	13
Dividends received	**–10**	–8
Revaluations	**2**	
Exchange rate differences	**–54**	7
Other changes	**1**	
Closing balance	**480**	517

Notes to the parent company annual accounts of ING Bank N.V. continued

9 INTANGIBLE ASSETS

Changes in intangible assets	Goodwill		Software		Other		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Opening balance	**784**	758	**308**	281	**37**	57	**1,129**	1,096
Additions			**182**	161			**182**	161
Depreciation			**–156**	–134	**–22**	–24	**–178**	–158
Impairments						–2		–2
Exchange rate differences	**–153**	26			**–4**	2	**–157**	28
Other changes			**4**			4	**4**	4
Closing balance	**631**	784	**338**	308	**11**	37	**980**	1,129

10 EQUIPMENT

Changes in equipment	**2013**	2012
Opening balance	**498**	531
Additions	**124**	109
Depreciation	**–121**	–130
Disposals	**–16**	–4
Exchange rate differences	**–1**	
Other changes	**–12**	–8
Closing balance	**472**	498
Gross carrying amount as at 31 December	**1,535**	1,676
Accumulated depreciation as at 31 December	**–1,063**	–1,178
Net carrying value	**472**	498

11 OTHER ASSETS

Other assets by type	**2013**	2012
Derivatives	**37,729**	62,818
Deferred tax assets	**815**	257
Income tax receivable		64
Accrued interests and rents	**6,200**	8,407
Other accrued assets	**173**	183
Pension asset	**329**	415
Other receivables	**9,749**	7,724
	54,995	79,868

Other receivables includes EUR 7,943 million (2012: EUR 6,917 million) related to transactions still to be settled at balance sheet date.

Derivatives includes transactions with group companies of EUR 13,382 million (2012: EUR 23,586 million).

As at 31 December 2013, an amount of EUR 481 million (2012: EUR 708 million) is expected to be settled after more than one year from the balance sheet date.

LIABILITIES AND EQUITY
12 AMOUNTS DUE TO BANKS

Amounts due to banks by group companies and third parties	**2013**	2012
Group companies	**25,792**	25,971
Third parties	**20,229**	23,921
	46,021	49,892

Notes to the parent company annual accounts of ING Bank N.V. continued

13 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

Customer deposits and other funds on deposit by group companies and third parties	2013	2012
Group companies	**32,059**	31,887
Third parties	**192,849**	173,634
	224,908	205,521

Customer deposits and other funds on deposit by type	2013	2012
Savings accounts	**78,084**	67,047
Credit balances on customer accounts	**65,150**	58,519
Corporate deposits	**74,230**	76,236
Other	**7,444**	3,719
	224,908	205,521

14 OTHER LIABILITIES

Other liabilities	2013	2012
Derivatives	**35,605**	60,604
Trading liabilities	**10,309**	10,032
Accrued interest	**6,677**	9,382
Costs payable	**624**	492
Income tax payable	**206**	439
Other taxation and social security contribution	**34**	56
Other amounts payable	**6,243**	5,315
	59,698	86,320

Other amounts payable includes EUR 2,857 million (2012: EUR 1,551 million) related to transactions still to be settled at balance sheet date.

Derivatives includes transactions with group companies of EUR 9,940 million (2012: EUR 20,109 million).

As at 31 December 2013, an amount of EUR 740 million (2012: EUR 1,186 million) is expected to be settled after more than one year from the balance sheet date.

15 GENERAL PROVISIONS

General provisions	2013	2012
Deferred tax payable		212
Pension liabilities and other staff-related liabilities	**10**	12
Reorganisations and relocations	**273**	475
Other	**3,788**	1,722
	4,071	2,421

As at 31 December 2013, an amount of EUR 3,905 million (2012: EUR 2,235 million) was expected to be settled after more than one year from the balance sheet date.

Other includes EUR 3,702 (2012: EUR 1,639) related to provisions for investments in group companies with a negative asset value.

16 SUBORDINATED LOANS

Subordinated loans by group companies and third parties	2013	2012
Group companies	**5,074**	6,956
Third parties	**10,280**	10,113
	15,354	17,069

Notes to the parent company annual accounts of ING Bank N.V. continued

Subordinated loans by type

	2013	2012
Capital debentures	**9,310**	8,992
Private loans	**6,044**	8,077
	15,354	17,069

The subordinated loans rank subordinated to the other liabilities in a winding-up of ING Bank.

17 EQUITY

Capital and reserves

	2013	2012
Share capital	**525**	525
Share premium	**16,542**	16,542
Share of associates reserve	**328**	363
Currency translation reserve	**–989**	–263
Revaluation reserve	**1,420**	2,228
Other reserves	**14,979**	15,569
	32,805	34,964

Share capital

			Ordinary shares (par value EUR 1.13)	
	Number x1,000	Amount	Number x1,000	Amount
		2013		2012
Authorised share capital	**1,600,000**	**1,808**	1,600,000	1,808
Unissued share capital	**1,134,965**	**1,283**	1,134,965	1,283
Issued share capital	**465,035**	**525**	465,035	525

No changes occurred in the issued share capital and share premium in 2013 and 2012.

Changes in revaluation reserve

2013	Available-for-sale reserve	Cash flow hedge reserve	Property in own use reserve	Real estate invest-ments reserve	Total
Opening balance	**2,650**	**–761**	**327**	**12**	**2,228**
Unrealised revaluations	**–635**		**–7**	**–6**	**–648**
Realised gains/losses transferred to profit and loss	**–145**				**–145**
Changes in cash flow hedge reserve		**–15**			**–15**
Closing balance	**1,870**	**–776**	**320**	**6**	**1,420**

Changes in revaluation reserve

2012	Available-for-sale reserve	Cash flow hedge reserve	Property in own use reserve	Real estate invest-ments reserve	Total
Opening balance	1,035	–821	336	18	568
Unrealised revaluations	2,088		–9	–6	2,073
Realised gains/losses transferred to profit and loss	–473				–473
Changes in cash flow hedge reserve		60			60
Closing balance	2,650	–761	327	12	2,228

Notes to the parent company annual accounts of ING Bank N.V. continued

Changes in other reserves

2013	Retained earnings	Unappro-priated result	Net defined benefit assets/ liability remeasure-ment reserve	Other	Total
Opening balance	15,195	1,081	–1,860	1,153	15,569
Transfer to retained earnings	1,081	–1,081			
Employee stock options and share plans	58				58
Dividend	–1,500	–1,455			–2,955
Result for the year		2,987		76	3,063
Net defined benefit assets/liability remeasurement reserve			–811		–811
Changes in the composition of the group and other	44			11	55
Closing balance	14,878	1,532	–2,671	1,240	14,979

Changes in other reserves

2012	Retained earnings	Unappropria-ted result	Net defined benefit assets/ liability remeasure-ment reserve	Other	Total
Opening balance	11,211	3,906	449	1,056	16,622
Transfer to retained earnings	3,906	–3,906			
Employee stock options and share plans	106				106
Dividend		–2,125			–2,125
Result for the year		3,206		75	3,281
Net defined benefit assets/liability remeasurement reserve			–2,309		–2,309
Changes in the composition of the group and other	–28			22	–6
Closing balance	15,195	1,081	–1,860	1,153	15,569

Other reserves-Other includes non-distributable reserves of EUR 987 million (2012: EUR 911 million) related to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN and EUR 253 million (2012: EUR 242 million) related to legal reserves that cannot be freely distributed.

Positive components of the Revaluation reserve, the Share of associates reserve and Currency translation reserve cannot be freely distributed. The reserve for cash flow hedges is included in the revaluation reserve on a net basis. Retained earnings can be freely distributed except for an amount equal to the negative balance in the Currency translation reserve and the Revaluation reserve. Unrealised gains and losses on derivatives, other than cash flow hedges, are presented in the profit and loss account and are therefore part of Retained earnings.

In consolidated annual accounts the revaluations on real estate investments are included in the profit and loss account. For the parent company accounts however, Dutch law requires these revaluations to be included in a Revaluation reserve.

The total amount of non-distributable reserves is EUR 8,200 million (2012: EUR 7,389 million).

Notes to the parent company annual accounts of ING Bank N.V. continued

ADDITIONAL INFORMATION
18 MATURITY OF CERTAIN ASSETS AND LIABILITIES

Analysis of certain assets and liabilities by maturity

2013	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Amounts due from banks	17,620	4,920	5,908	11,187	4,742	22,225	66,602
Loans and advances to customers	41,401	7,602	17,361	67,426	143,840	18,140	295,770
Liabilities							
Amounts due to banks	19,863	1,343	1,771	6,886	4,427	11,731	46,021
Customer deposits and other funds on deposit	172,591	14,565	9,087	11,628	8,882	8,155	224,908
Debt securities in issue	4,691	19,305	15,823	37,000	25,538	11,293	113,650
Subordinated loans	15			2,066	12,142	1,131	15,354

Analysis of certain assets and liabilities by maturity

2012	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Amounts due from banks	18,840	2,974	3,797	6,074	4,042	14,433	50,160
Loans and advances to customers	35,198	6,843	22,898	72,479	166,515	15,031	318,964
Liabilities							
Amounts due to banks	18,214	4,176	3,913	7,605	8,256	7,728	49,892
Customer deposits and other funds on deposit	149,468	14,207	12,764	11,552	14,147	3,383	205,521
Debt securities in issue	10,819	20,762	18,422	39,567	28,383	11,953	129,906
Subordinated loans	650			4,357	10,544	1,518	17,069

19 ASSETS NOT FREELY DISPOSABLE

Assets not freely disposable

	2013	2012
Investments	14	118
Lending	51,389	53,447
Banks	6,094	7,659
Other assets	1,198	1,056
	58,695	62,280

In 2013 the disclosure is further aligned with the EBA requirements for asset encumbrance; the 2012 comparatives have been adjusted accordingly.

20 CONTINGENT LIABILITIES

Contingent liabilities by type

	2013	2012
Discounted bills	1	1
Guarantees	44,619	43,568
Irrevocable letters of credit	5,931	5,423
Other	305	282
Contingent debts	50,856	49,274
Irrevocable facilities	35,715	32,027
	86,571	81,301

Notes to the parent company annual accounts of ING Bank N.V. continued

Contingent debts	2013	2012
Group companies	**31,292**	29,467
Third parties	**19,564**	19,807
	50,856	49,274

Irrevocable facilities	2013	2012
Group companies	**49**	27
Third parties	**35,666**	32,000
	35,715	32,027

21 OTHER

Guarantees

ING Bank N.V. has issued statements of liabilities in connection with Section 403 Book 2 of the Dutch Civil Code and other guarantees for a number of group companies.

Fiscal unity

ING Bank N.V. forms a fiscal unity with ING Groep N.V. and several Dutch banking entities for corporation tax purposes. ING Bank N.V. and ING Groep N.V. and its banking subsidiaries that form part of the fiscal unity are jointly and severally liable for taxation payable by the fiscal unity.

REMUNERATION OF SENIOR MANAGEMENT, MANAGEMENT BOARD AND SUPERVISORY BOARD

See Note 49 ‘Related parties’ to the Consolidated annual accounts.

AUTHORISATION OF PARENT COMPANY ANNUAL ACCOUNTS

Amsterdam, 17 March 2014

THE SUPERVISORY BOARD

J. (Jeroen) van der Veer, *chairman*
P.A.F.W. (Peter) Elverding, *vice-chairman*
J.P. (Tineke) Bahlmann
H.W. (Henk) Breukink
I. (Isabel) Martín Castellá
C.W. (Carin) Gorter
J.H. (Jan) Holsboer
J.Ch.L. (Joost) Kuiper
H.J. (Hermann-Josef) Lamberti
R.W.P. (Robert) Reibestein
Y.C.M.T (Yvonne) van Rooy
L.A.C.P. (Luc) Vandewalle

THE MANAGEMENT BOARD BANKING

R.A.J.G. (Ralph) Hamers, *CEO and chairman*
J.V. (Koos) Timmermans, *vice-chairman*
P.G. (Patrick) Flynn, *CFO*
W.F. (Wilfred) Nagel, *CRO*
W.L. (William) Connelly, *CEO Commercial Banking*
C.P.A.J. (Eli) Leenaars, *CEO Retail Banking International*
H. (Hans) van der Noordaa, *CEO Retail Banking Benelux*

Independent auditor's report

To: the Shareholders, Supervisory Board and the Management Board of ING Bank N.V.

REPORT ON THE ANNUAL ACCOUNTS

We have audited the accompanying annual accounts 2013 of ING Bank N.V., Amsterdam (as set out on pages 18 to 221). The annual accounts include the consolidated annual accounts and the parent company annual accounts. The consolidated annual accounts comprise the consolidated balance sheet as at 31 December 2013, the profit and loss account, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The parent company annual accounts comprise the parent company balance sheet as at 31 December 2013, the parent company profit and loss account for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated annual accounts

In our opinion, the consolidated annual accounts give a true and fair view of the financial position of ING Bank N.V. as at 31 December 2013 and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the parent company annual accounts

In our opinion, the parent company annual accounts give a true and fair view of the financial position of ING Bank N.V. as at 31 December 2013 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination of whether the Report of the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Report of the Management Board, to the extent we can assess, is consistent with the annual accounts as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 17 March 2014

Ernst & Young Accountants LLP

signed by M.A. van Loo

Proposed appropriation of result and subsequent events

amounts in millions of euros, unless stated otherwise

PROPOSED APPROPRIATION OF RESULT

The result is appropriated pursuant to Article 24 of the Articles of Association of ING Bank N.V., the relevant stipulations of which state that the result shall firstly be appropriated to the Stichting Regio Bank Reserve, respectively the Reserve Stichting Vakbondsspaarbank SPN or charged to that reserves in proportion to the ratio between the Stichting Regio Bank Reserve, respectively the Reserve Stichting Vakbondsspaarbank SPN and the company's equity at the end of the relevant financial year and that the remainder shall be at the disposal of the General Meeting.

For 2013, it is proposed that the result, insofar at the disposal of the General Meeting, will be appropriated as follows. The dividend will be equal to the interim dividend already paid and the remainder of the result will be appropriated to the Other Reserves, so that no final dividend will be paid.

Proposed appropriation of result

Net result	**3,063**
Interim dividend paid	**–1,455**
Addition to reserves pursuant to Article 24 of the Articles of Association	**–76**
Proposed to be added to the Other Reserves pursuant to Article 24 of the Articles of Association	**1,532**

SUBSEQUENT EVENTS

Defined Benefits Pension Fund in The Netherlands

In February 2014 ING reached final agreement with the trade unions, the ING Pension Fund, the Central Works Council and the Association of Retired ING Employees (VSI) to transfer all future funding and indexation obligations under ING's current closed defined benefit plan in the Netherlands to the Dutch ING Pension Fund. The agreement makes the ING Pension Fund financially independent from ING.

The key elements of the agreement are:

- Responsibility for future indexation and funding thereof is transferred to the Dutch ING Pension Fund;
- ING's obligation to restore the coverage ratio of the Dutch ING Pension Fund ceased;
- The cross guarantees between ING Bank and NN Group to jointly and severally fund the obligations of the Dutch ING Pension Fund are terminated;
- ING pays EUR 549 million (before tax) to the Dutch ING Pension Fund for the removal of these obligations; and
- ING will reduce the employees' own contribution to the pension premium under the new defined contribution plan by approximately EUR 80 million over a 6 year period.

As part of the agreement, ING Bank and NN Group are released from all financial obligations arising out of the Dutch defined benefit plan. Accordingly, this plan will no longer be accounted for as a defined benefit plan and, consequently, it will be removed from ING's balance sheet. The removal of the net pension asset related to the Dutch defined benefit pension fund from ING's balance sheet of approximately EUR 0.6 billion after tax and the payment to the Dutch ING Pension Fund of EUR 549 million (EUR 412 million after tax) will result in a charge of approximately EUR 1.1 billion after tax to be recognised in 2014. Of this impact, EUR 0.7 billion is attributed to ING Bank and EUR 0.4 billion to NN Group.

Additional Pillar 3 information

amounts in millions of euros, unless stated otherwise

INTRODUCTION

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

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	129 - 130
	2	Risk terminology, risk measures and key parameters	257 - 264
	3	Describe and discuss top and emerging risks	143 - 147
	4	Discuss regulatory developments, Once the applicable rules are finalised, outline plans to meet each new key regulatory ratio	141 - 142 *Leverage Ratio, LCR and NSFR will be disclosed when applicable standards are finalised.*
Risk governance, risk management and business model	5	Summarise the bank's risk management organisation, processes and key functions	131 - 133
	6	Bank's risk culture, related procedures and strategies	134 - 135
	7	Key risks arising from business model, risk appetite and how risks are managed	133 - 134, 136 - 137
	8	Use of stress testing within the bank's risk governance and capital frameworks	137 - 139
Capital adequacy and risk-weighted assets	9	Minimum Pillar 1 capital requirements, including buffers, or minimum internal ratio	204 – 206, 226
	10	Summarise composition of capital based on Basel Committee templates	227 - 228 *Additional quantitative information will be addressed in future disclosures*
	11	Flow statement of regulatory capital movements since the prior reporting, including changes in common equity tier 1, tier 1 and tier 2 capital	227
	12	Qualitatively and quantitatively discuss capital planning within a more general discussion of management's strategic planning	141 – 142, 203 - 204
	13	Analyse how risk-weighted assets relate to business activities	230
	14	Capital requirements for credit risk per Basel asset class and major portfolios	236
	15	Tabulate credit risk in the banking book per Basel asset classes and major portfolios	238 - 240
	16	Flow statement to display movements in RWAs for the reporting period	229 *Flow statement for market and operational RWA will be included in future disclosures.*
	17	Basel Pillar 3 back-testing, including model performance and validation	134, 158, 160, 241
Liquidity & Funding	18	Manages of liquidity risk and quantitative analysis of the liquidity buffer	195 – 198, 255
	19	Summarise encumbered assets in a tabular format	255 *Disclosure will be extended when applicable standards are finalised.*
	20	Tabulate assets, liabilities and off-balance sheet commitments by maturity.	106 - 109, 113 - 114
	21	Discuss funding strategy, including key sources and any funding concentrations	195 - 198

Additional Pillar 3 information continued

Reference guide EDTF recommendations (continued)			
Market risk	22	Link balance sheet items with positions in traded and non-traded market risk	186 - 189, 193 - 195 *Link with balance sheet items will be addressed in future disclosures*
	23	Provide breakdowns of significant trading and non-trading market risk factors	182 - 195
	24	Qualitative and quantitative disclosures on market risk model limitations	183, 185 - 193
	25	Describe other market risk techniques applied	182 - 195, 254 - 255
Credit risk	26	Understanding the bank's credit risk profile, including significant risk concentration	231 - 235
	27	Policies for identifying impaired or non-performing loans and forbearance	35 - 36, 168 - 172
	28	Flow statements of non-performing or impaired loans and stock of loan losses	168 - 172, 242 - 244
	29	Quantitative and qualitative analysis of counterparty credit risk	246 - 247
	30	Qualitative and quantitative information on credit risk mitigation, including collateral	172 - 182, 247 - 249
Other risk	31	Describe how 'other risk' types are identified, governed, measured and managed	198 - 202
	32	Discuss publicly known risk events related to other risks	200 - 201

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 Śląski) 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".

Additional Pillar 3 information continued

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.

Additional Pillar 3 information continued

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.

Additional Pillar 3 information continued

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**	1,860	**2,671**	1,860		
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)	**33,110**	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**	38,530
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**	47,270	**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.

Additional Pillar 3 information continued

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**	–2.4
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.

Additional Pillar 3 information continued

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 0.3 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 13.6 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.

Additional Pillar 3 information continued

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	8,640	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	6,190	5,183
Securities Financing	57	57	1						57	57		
Derivatives	14	14	413	187	125	127	2	1	553	329	425	245
Total	3,790	2,548	2,781	1,389	10,834	10,752	16,557	10,605	33,961	25,294	42,699	30,190
AIRB approach												
On-balance	80,120	6,170	57,420	10,057	144,965	75,041	299,760	65,014	582,264	156,282	606,155	132,278
Off-balance	4,801	199	13,441	3,485	53,838	20,470	14,225	2,913	86,305	27,066	102,195	30,160
Securities Financing	1,710	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	33,280	10,340
Total	88,374	6,747	98,530	18,808	205,575	100,623	314,041	67,954	706,520	194,131	752,182	174,006
SEC AIRB												
On-balance									7,920	2,541	9,118	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	216,408	111,375	330,598	78,558	750,339	222,152	806,982	209,722

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.

Additional Pillar 3 information continued

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	4,179%
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	1,178%
	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	4,179%

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.

Additional Pillar 3 information continued

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	**Total per rating**	**101,311**	112,307	–9.8%
	Performing	**100,520**	111,425	–9.8%
	Impaired/Non-performing	**791**	882	–10.3%
Institutions	**Geography/business units**	**101,311**	112,307	–9.8%
	Africa	**305**	439	–30.4%
	America	**11,801**	13,151	–10.3%
	Asia	**14,375**	12,668	13.5%
	Australia	**2,684**	6,118	–56.1%
	Europe	**72,146**	79,931	–9.7%
	Europe	**72,146**	79,931	–9.7%
	Netherlands	**8,018**	9,485	–15.5%
	Belgium	**7,496**	6,924	8.3%
	Germany	**12,918**	14,076	–8.2%
	Other Europe	**43,713**	49,446	–11.6%
Institutions	**Product Type**	**101,311**	112,307	–9.8%
	Bond Investments	**26,372**	30,895	–14.6%
	Derivatives	**19,258**	18,527	3.9%
	Revolving	**13,273**	35,962	–63.1%
	Money Market	**11,927**	9,473	25.9%
	Term Loans	**11,763**	9,075	29.6%
	Other	**18,718**	8,375	123.5%
Institutions	**PD Bands**	**101,311**	112,307	15.1%
	<0.05%	**34,101**	44,245	70.9%
	0.05% to 0.5%	**51,568**	53,074	–2.8%
	0.5% to 5%	**14,267**	13,698	4.2%
	5% to 10%	**382**	371	2.8%
	10% to 20%	**52**	111	–53.2%
	20% to 50%	**150**	38	296.1%
	>50%	**791**	769	2.8%

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

Additional Pillar 3 information continued

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	–10.8%
	Impaired/Non-performing	**9,956**	9,508	4.7%
Corporate	**Geography/business units**	**216,408**	241,043	–10.2%
	Africa	**727**	731	–0.6%
	America	**23,626**	28,573	–17.3%
	Asia	**20,464**	22,074	–7.3%
	Australia	**2,722**	3,333	–18.3%
	Europe	**168,870**	186,332	–9.4%
	Europe	**168,870**	186,332	–9.4%
	Netherlands	**56,425**	64,952	–13.1%
	Belgium	**29,840**	31,772	–6.1%
	Germany	**5,154**	6,005	–14.2%
	Rest of Europe	**77,450**	83,604	–7.4%
Corporate	**Industry**	**216,408**	241,043	–10.2%
	Real Estate	**42,279**	51,371	–17.7%
	Natural Resources	**37,046**	41,665	–11.1%
	Transportation & Logistics	**21,434**	9,252	131.7%
	Food, Beverages & Personal Care	**15,717**	22,060	–28.8%
	Services	**15,109**	18,084	–16.5%
	Other	**84,823**	98,611	–14.0%
Corporate	**PD Bands**	**216,408**	241,043	–18.4%
	<0.05%	**9,106**	13,989	–34.9%
	0.05% to 0.5%	**92,315**	89,922	–19.2%
	0.5% to 5%	**84,089**	104,606	–19.6%
	5% to 10%	**7,235**	9,059	–20.1%
	10% to 20%	**5,531**	7,026	–21.3%
	20% to 50%	**8,170**	6,820	19.8%
	more than >50%	**9,961**	9,620	3.5%

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.

Additional Pillar 3 information continued

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	–6.3%
	Performing	**324,411**	347,508	–6.6%
	Impaired/Non-performing	**6,187**	5,499	12.5%
Retail	**Customer Segment**	**330,598**	353,007	–6.3%
	Private Persons	**302,437**	321,384	–5.9%
	Small Mid-sized Enterprises	**20,372**	22,281	–8.6%
	Private Banking	**3,536**	3,553	19.7%
	Other	**4,253**	5,790	–38.9%
Retail	**Geography/business units**	**330,598**	353,007	–6.3%
	Africa	**58**	57	1.0%
	America	**177**	146	20.6%
	Asia	**1,728**	1,684	2.6%
	Australia	**28,451**	34,438	–17.4%
	Other		30	–100.0%
	Europe	**300,184**	316,652	–5.2%
	Europe	**300,184**	316,652	–5.2%
	Netherlands	**152,254**	164,777	–7.6%
	Belgium	**40,278**	39,703	1.4%
	Germany	**71,358**	68,457	4.2%
	Rest of Europe	**36,294**	43,715	–17.0%
Retail	**PD Bands**	**330,598**	353,007	–6.3%
	<0.05%	**23,185**	22,009	5.3%
	0.05% to 0.5%	**184,925**	192,850	–4.1%
	0.5% to 5%	**100495**	113,563	–11.5%
	5% to 10%	**5,804**	8,525	–31.9%
	10% to 20%	**5,529**	6,792	–18.6%
	20% to 50%	**3,571**	3,769	–5.3%
	more than >50%	**7,088**	5,499	28.9%

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.

Additional Pillar 3 information continued

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%	30,420
Spain	**66%**	**9,137**	66%	9,077
Italy	**55%**	**7,713**	53%	7,440
United Kingdom	**n.a**	**n.a.**	59%	6,652
Poland	**59%**	**3,310**	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	**3,790**	**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**	30,190
Under AIRB approach	READ	**88,374**	**98,530**	**205,575**	**278,732**	**35,309**	**706,520**	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**	**45,930**	**740,481**	794,881
	RWA	**9,295**	**20,197**	**111,375**	**53,838**	**24,720**	**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**	**45,930**	**750,339**	806,982
	RWA	**9,295**	**20,197**	**111,375**	**53,838**	**24,720**	**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.

Additional Pillar 3 information continued

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	
Amounts in EUR million	**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	4,430
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**	61,700	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.

Additional Pillar 3 information continued

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	**16,430**	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**	70,700
	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**	23,090
Total		**706,520**	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 the 2012 figures in this table.
(3) For comparison purposes, the 2012 exposure class structure have been aligned for corporate and institutions with 2013.

Additional Pillar 3 information continued

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	18,790	0.06	31.81	2,610	0.14	A+
6	0.06-0.08	42,951	0.07	25.95	4,918	0.11	A
7	0.08-0.11	45,010	0.1	31.7	6,960	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	20,110	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	8,730	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		706,520	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 its 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.

Additional Pillar 3 information continued

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	Total
						2013	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**	**98,530**	**205,575**	**278,732**	**35,309**	**706,520**	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 Europe[1]. 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.

Additional Pillar 3 information continued

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.

Additional Pillar 3 information continued

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	3,080	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 years	58	34	24	116
Addition to loan loss provisions (from income statement)	867	1,060	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.

Additional Pillar 3 information continued

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 (ALL)	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.

Additional Pillar 3 information continued

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	2,700	2,661
Belgium	1,438	769	2,207	1,610
Germany	212	15	227	210
Other Europe	304	282	587	600
Americas	5		5	6
Asia / Pacific	1,047	36	1,084	1,450
ROW	1		1	4
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.

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.

Additional Pillar 3 information continued

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 (Amounts in EUR million)

			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**	**3,850**	**4,872**	5,541
Under AIRB Approach	**467**	**6,363**	**52,741**	**8,710**	**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.

Additional Pillar 3 information continued

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		2012	
	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.

Additional Pillar 3 information continued

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-to-markets from derivatives against pledged cash collateral. The collateral credit enhancement component which is referred to as Cover Values mainly includes real estate, guarantees and collateral in the form of cash. ING records collateral value per facility. For the AIRB portfolio those figures are based on original cover values although some business units attempt to update to current market values. This is inherently difficult in volatile markets. Some facilities will have multiple levels of collateral while others have no collateral. The total figures may not reflect the collateral value per facility.

Additional Pillar 3 information continued

Maximum Exposure to Credit Risk per 31 December 2013

	Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	Outstanding	Cover Values* Mortgages	Cover Values Eligible Financial Collateral*	Cover Values Guaran-tees*	Cover Values 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.

Additional Pillar 3 information continued

Exposures secured by guarantees received

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

Exposures READ secured by guarantees received

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						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**	**82,960**	**177,069**	**273,633**	**33,882**	**643,551**	668,820
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**	541,570
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**	**6,560**	**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.

Additional Pillar 3 information continued

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 ’48 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.

Additional Pillar 3 information continued

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**	2,530	–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.

Additional Pillar 3 information continued

Purchased exposures per risk weight band

	2013		2012	
	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	2,810
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

Additional Pillar 3 information continued

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	Outstan-dings	Credit Events	Past due Assets	Losses
SME						
BEL SME 2006	30-Nov-13	**2.500**	**486**	**15**	**2**	**4**
Total						

* Memphis 2006 has been unwound in October 2012 and BEL SME 2006 is unwound in November 2013. ,

Exposures securitised

2012	Cut-off Date	Initial Pool	Outstan-dings	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.

Additional Pillar 3 information continued

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.

Additional Pillar 3 information continued

Risk profile

Capital Elements & Market Risk Impact on Capital

				IFRS	Basel II	Basel III*	+100bp	+40bp
Market Risk Sensitivity (before-tax), excluding pension fund	**IFRS-EU**	**Basel II**	**Basel III***	**+100bp**	**+40bp**	**-10%**	**-10%**	**+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 51 '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

in EUR million	**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

Additional Pillar 3 information continued

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)

in EUR million		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 and RMBS notes pledged at NN Group are excluded from the table.

Financial glossary

ALT-A RESIDENTIAL MORTGAGE BACKED SECURITY (ALT-A RMBS)
A type of United States residential mortgage which is considered riskier than 'prime' and less risky than 'sub-prime' mortgages. Parameters generally taken into account are borrower credit scores, residential property values and loan-to-value ratios. Alt-A mortgages are further characterised by a limited degree of income and/or asset verification.

AMORTISED COST
The amount at which the financial asset or liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

ASSET AND LIABILITY COMMITTEE (ALCO)
Manages the balance sheet of ING, especially with regard to strategic non-trading risk. These risks comprise interest rate exposures, equity risk, real estate risk, liquidity, solvency and foreign exchange risk and fluctuations.

ASSET BACKED SECURITIES (ABS)
A type of bond or note that is based on pools of assets, or collateralised by the cash flows from a specified pool of underlying assets.

ASSET LIABILITY MANAGEMENT (ALM)
The practice of managing a business such that decisions on assets and liabilities are coordinated. It involves the ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities.

ASSOCIATE
An entity over which the Group has significant influence, generally accompanying a shareholding of between 20% and 50% of the voting rights, and that is not a subsidiary nor a joint venture.

AVAILABLE FINANCIAL RESOURCES (AFR)
The available financial resources equal the market value of assets minus market value of liabilities, excluding hybrids issued by ING Group which is counted as capital. ING's policy is that the available financial resources should exceed economic capital.

AVAILABLE-FOR-SALE FINANCIAL ASSETS
Those non-derivative financial assets that are designated as available-for-sale or are not classified as:
- loans and receivables;
- held-to-maturity investments; or
- financial assets at fair value through profit and loss.

BANK FOR INTERNATIONAL SETTLEMENTS (BIS)
An international organisation which fosters international monetary and financial co-operation and serves as a bank for central banks. BIS has set a minimum for the solvency ratio reflecting the relationship between capital and risk weighted assets. The ratio should be at least 8%.

BASEL I
Regulatory requirements issued by the Basel Committee on Banking Supervision for the solvency calculation, which are superseded by Basel II, for ING, from 2008 onwards.

BASEL II
Regulatory requirements issued by the Basel Committee on Banking Supervision for the solvency calculation, which, for ING, apply from 2008 onwards. Basel II is an international standard for calculating the required capital based on internal models that take into account the financial and operational risks.

BASEL III
Regulatory requirements issued by the Basel Committee on Banking Supervision for the solvency calculation and liquidity requirements, which will supersede Basel II. These requirements start to apply as of 1 January 2014 in Europe, with the full requirements being effective as of 1 January 2018.

BASIS POINT VALUE (BPV)
The change in the Net Present Value of a cash flow or a pool of cash flows due to a one basis point change of the yield curve.

BUSINESS RISK
The exposure to value loss due to fluctuations in volumes, margins and costs. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency.

CAPITAL REQUIREMENT DIRECTIVE (CRD IV) CAPITAL REQUIREMENT REGULATION (CRR)
For European banks the Basel III requirements will be implemented – taking into account transitional arrangements – through the Capital Requirement Directive (CRD) IV and the Capital Requirement Regulation (CRR). These requirements start to apply as of 1 January 2014 in Europe, with the full requirements being effective as of 1 January 2018.

CENTRAL CLEARING PARTIES OR CENTRAL COUNTERPARTIES (CCP)
A legal entity that interposes itself between two trade counterparties in a bilateral transaction. The parties legally assign their trades to the CCP (usually through novation), and the CCP becomes the counterparty to each, assuming all rights and responsibilities. Thus, from the point of view of the original counterparties, the counterparty credit risk exposure is shifted from the other original counterparty to the CCP.

COLLATERALISED DEBT OBLIGATION (CDO)
A type of asset-backed security which provides investors exposure to the credit risk of a pool of fixed income assets.

COLLATERALISED LOAN OBLIGATION (CLO)
A type of CDO which is backed primarily by leveraged bank loans.

Financial glossary continued

COMMERCIAL PAPER
Promissory note (issued by financial institutions or large firms) with very-short to short maturity period (usually 2 to 30 days, and not more than 270 days), and unsecured.

COMPLIANCE RISK
Compliance risk is defined as the risk of damage to ING's reputation as a result of failure or perceived failure to comply with relevant laws, regulations, internal policies and procedures or ethical standards.

CONCENTRATIONS OF CREDIT RISK
Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect groups of counterparties whose aggregate exposure is significant in relation to ING's total exposure.

CONTINGENT LIABILITIES
Possible obligations that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because:

- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

CONTROL
The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

CONVEXITY
The non-linear relationship between changes in the interest rates and changes in bond prices and their Net Present Value. It is a very important market risk measure for portfolios containing (embedded) options.

CORE DEBT
Investments in ING Group subsidiaries minus the equity of the holding company including hybrids.

CORE TIER-1 CAPITAL
Tier-1 capital excluding hybrid capital.

COST OF CAPITAL
The costs related to owning capital. These can be split into the cost of equity, hybrids and debt, taking a target leverage into account.

COST RATIO
Underwriting costs expressed as a percentage of premiums written.

COUNTRY OF RESIDENCE
From the perspective of a given country, a resident is an individual or legal entity that has its major operations in the given country. All of ING's customers and entities are said to be residents in only one country.

COUNTRY RISK
The risk that a government will not fulfil its obligations or obstructs the remittance of funds by debtors, either for financial reasons (transfer risk) or for other reasons (e.g. political risk).

CREDIT DEFAULT SWAP (CDS)
A CDS is a financial derivative instrument which synthetically transfers the credit risk of a specific reference entity between two Counterparties. The protection buyer pays a fixed periodic fee, usually expressed in basis points per annum on the notional amount. The protection seller makes no payment unless some specified credit event relating to the reference entity occurs, in which case he is obligated to make a payment to compensate the loss incurred by the protection buyer.

CREDIT INSTITUTIONS
All institutions that are subject to banking supervision by public authorities, including mortgage banks, capital market institutions, multilateral development banks and the International Monetary Fund (IMF).

CREDIT VALUATION ADJUSTMENT (CVA)
An adjustment to the valuation of OTC derivative contracts to reflect the creditworthiness of OTC derivative counterparties.

CREDIT RISK
The risk of loss from default by borrowers (including bond issuers) or counterparties. Credit risks arise in ING's lending, pre-settlement and investment activities, as well as in its trading activities. Credit risk management is supported by dedicated credit risk information systems and internal rating methodologies for debtors and counterparties.

CREDIT RISK EXPOSURE
Total amount of committed facilities to a designated borrower or an obligor group or, if higher, their outstanding balances, together with the outstanding balances of any related uncommitted facilities.

CREDIT SUPPORT ANNEX (CSA)
Supporting documentation for a collateral arrangement that accompanies a master agreement used in the execution of an over-the-counter derivative swap. The document clearly delineates the rules and procedures for the use of the collateral in the backing of the traded securities. A CSA may be executed as a separate document or can be part of the master agreement.

DEBIT VALUATION ADJUSTMENT (DVA)
An adjustment made by ING to the valuation of OTC derivative liabilities to reflect within fair value ING's own credit risk.

DEFERRED TAX LIABILITIES
The amounts of income tax payable in future periods in respect of taxable temporary differences between carrying amounts of assets or liabilities in the balance sheet and tax base, based on tax rates that are expected to apply in the period when the assets are realised or the liabilities are settled.

Financial glossary continued

DEFINED BENEFIT PLAN
Post-employment benefit plans other than defined contribution plans.

DEFINED CONTRIBUTION PLAN
Post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

DEPOSITARY RECEIPT
Depositary receipt for ordinary and preference shares, issued by the ING Trust Office, in exchange for ordinary and preference shares issued by ING Group.

DERIVATIVES
Financial instruments, which include forwards, futures, options and swaps, whose value is based on an underlying asset, index or reference rate.

DISCOUNTED BILLS
Bills that are sold under deduction of interest giving the owner the right to receive an amount of money on a given date.

DISCONTINUED OPERATIONS
When a group of assets that is classified as held for sale represents a major line of business or geographical area the disposal group classifies as discontinued operations.

EARNINGS SENSITIVITY (ES)
Measures the impact on earnings resulting from changes in economic and financial conditions over a one-year horizon.

ECONOMIC CAPITAL (EC)
The minimum amount of capital that is required to absorb unexpected losses in times of severe stress. ING Bank calculates economic capital requirements at a 99.95% level of confidence. This confidence level is derived from the historical default frequency of AA-rated companies (probability of default of 1 in 2000 years or 0.05%).

ECONOMIC EXPOSURE
Total of outstandings plus undrawn committed portions calculated on the basis of economic risk principles.

EFFECTIVE INTEREST METHOD
A method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period.

ELIMINATION
A process by which intercompany transactions are matched with each other and deducted, so that the assets, liabilities, income and expenses are not inflated.

EMPLOYEE BENEFITS
All forms of consideration given by a company in exchange for service rendered by (current and former) employees.

EXPECTED LOSS (EL)
Statistical average loss that is expected within a one-year horizon due to customers or counterparties defaulting. EL is calculated as Probability of Default x Loss Given Default x Exposure at Default. Collective provisions are taken to cover for Expected Losses.

EXPOSURE AT DEFAULT (EaD)
Expected amount of ING's exposure to a customer or counterpart at the moment of a client's default.

FAIR VALUE
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date ('exit price').

FINANCE LEASE
A lease that transfers substantially all the risks and rewards associated with ownership of an asset to the lessee. Title may or may not eventually be transferred.

FINANCIAL ASSET
Any asset that is:
- cash;
- an equity instrument of another company;
- a contractual right to;
  - receive cash or another financial asset from another company; or
  - exchange financial instruments with another company under conditions that are potentially favourable; or
  - certain contract that will or may be settled in ING's own equity instruments.

FINANCIAL INSTRUMENTS
Contracts that give rise to both a financial asset for one company and a financial liability or equity instrument for another company.

FINANCIAL LIABILITY
Any liability that is a contractual obligation:
- to deliver cash or another financial asset to another company; or
- to exchange financial instruments with another company under conditions that are potentially unfavourable; or
- certain contracts that will or may be settled in ING's own equity instruments.

FIRST CALL DATE
Perpetual subordinated loans have no set maturity. The first call date is the date on which ING has the option to repay and cancel the particular subordinated loan.

FORBEARANCE ACTIVITIES
Activities that are employed in order to maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. Such arrangements include extended payment terms, a reduction in interest and/or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures and other modifications.

Financial glossary continued

FOREIGN EXCHANGE RATE RISK
Probability of loss occurring from an adverse movement in foreign exchange rates.

FORWARD CONTRACTS
Commitments to exchange currencies or to buy or sell other financial instruments at specified future dates.

FUTURE CONTRACTS
Commitments to exchange currencies or to buy or sell other financial instruments at specified future dates. Exchanges act as intermediaries and require daily cash settlement and collateral deposits.

HELD FOR SALE
A business or group of assets for which the carrying amount will be recovered principally through a sale transaction rather than through continuing use. When a business or a group of assets are to be sold together in a single transaction, and the sale is considered to be highly probable, these are classified separately in the balance sheet as Assets held for sale. A sale is highly probable when management is demonstrably committed to the sale, which is expected to occur within one year from the date of classification as held for sale. Liabilities directly associated with those assets, and that are included in the transaction are included in the balance sheet as 'liabilities held for sale'.

HELD-TO-MATURITY INVESTMENTS
Non-derivative financial assets with fixed or determinable payments and fixed maturity that ING has the positive intention and ability to hold to maturity other than:

a. those that ING upon initial recognition designates as at fair value through profit and loss;
b. those that ING designates as available-for-sale; and
c. those that meet the definition of loans and receivables.

HISTORICAL SIMULATION
A model to calculate Value at Risk, assuming that future changes in risk factors will have the same distribution as they had in the past taking into account the non-linear behaviour of financial products.

IMPAIRMENT LOSS
The amount by which the carrying amount of an asset exceeds its recoverable amount.

INTEREST BEARING INSTRUMENT
A financial asset or a liability for which a time-proportionate compensation is paid or received in relation to a notional amount.

INTERNAL ASSESSMENT APPROACH (IAA)
Method used to calculate credit risk capital requirements for securitisation exposures (including liquidity lines provided to asset backed commercial paper programs and sponsor securitisations).

INTERNAL RATE OF RETURN (IRR)
Internal rate of return is the discount rate at which the present value of distributable earnings from new business equals the investment in new business (i.e. the projected return on the investment in new business) is calculated.

INTEREST RATE RISK
Probability that the market interest rates will rise significantly higher than the interest rate earned on investments such as bonds, resulting in their lower market value.

IN THE MONEY
A call option is said to be in the money if the exercise price is lower than the price of the underlying value; a put option is said to be in the money if the exercise price is higher than the price of the underlying value.

INVESTMENT RISK
Investment risk is the credit default and risk rating migration risk that is associated with ING Group's investments in bonds, commercial paper, securitisations, and other similar publicly traded securities. Investment risk arises when ING purchases a (synthetic) bond with the intent to hold the bond for a longer period of time (generally through maturity).

INVESTMENT PORTFOLIO
Comprises those assets which are intended for use on a continuing basis, and have been identified as such. These investments are held in order to manage interest rate, capital and liquidity risks.

IRREVOCABLE FACILITIES
Mainly constitute unused portions of irrevocable credit facilities granted to corporate clients and commitments made to purchase securities to be issued by governments and private issuers.

IRREVOCABLE LETTERS OF CREDIT
Concerns an obligation on behalf of a client to pay an amount of money under submission of a specific document or to accept a bill of exchange, subject to certain conditions. An irrevocable letter of credit cannot be cancelled or adjusted by the bank that has granted it during the duration of the agreement unless all those concerned agree.

JOINT VENTURE
A contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.

Financial glossary continued

LEGAL RISK
Legal risk is the risk related to:
- a failure (or perceived failure) to adhere to applicable laws, regulations and standards;
- contractual liabilities or contractual obligations that are defaulted or cannot be enforced as intended, or are enforced in an unexpected or adverse way; and
- liability (tort) towards third parties due to an act or omission contributable to ING; (potentially) resulting in impairment of ING's integrity, leading to damage to ING's reputation, legal or regulatory sanctions, or financial loss.

LENDING RISK
Lending risk arises when ING grants a loan to a customer, or issues guarantees on behalf of a customer. This is the most common risk category, and includes term loans, mortgages, revolving credits, overdrafts, guarantees, letters of credit, etc. The risk is measured at the notional amount of the financial obligation that the customer has to repay to ING, excluding any accrued and unpaid interest, or discount/premium amortisations or impairments.

LEVERAGE RATIO
Simple measure for the solvency of banks, introduced under Basel III, defined as Total on balance sheet and off-balance sheet exposure / Tier 1 Capital.

LIQUIDITY COVERAGE RATIO (LCR)
Regulatory measure for the liquidity of banks which compares the amount of liquid assets with a potential outflow over a one month period. The measure is introduced under Basel III. LCR is defined as: stock of liquid assets / assumed 30-days cash outflow.

LIQUIDITY PREMIUM
In order to correct the value of the liabilities for their illiquidity a premium is added to the risk free liability valuation curve. This premium reflects the price of illiquid long term funding which increases in stressed markets.

LIQUIDITY RISK
The risk that ING or one of its subsidiaries cannot meet its financial liabilities when they fall due, at reasonable costs and in a timely manner.

LOAN TO DEPOSIT RATIO (LtD RATIO)
Measure for the liquidity of banks. The LtD ratio is defined as: own originated loans / own originated deposits.

LOSS GIVEN DEFAULT (LGD)
Anticipated percentage loss in the event of a default of a customer of counterpart.

MARKET RISK
Market risk is the risk that movements in market variables, such as interest rates, equity prices, implied volatilities, foreign exchange rates, real estate prices negatively impact the earnings or market value.

MARKED TO MARKET (MTM)
Marking the price of a security, portfolio or account against its market value instead of its book value.

MASTER AGREEMENT
Contract between parties in which agreements is reached to most of the terms of future transactions such that negotiation only focus on deal-specific terms. Well known master agreements are ISDA (for over-the-counter derivative transactions), GMRA (for repo or repurchase transactions) and GMSLA (for securities lending transactions).

MINORITY INTERESTS
The part of the profit and loss and net assets of a subsidiary attributable to an interest which is not owned, directly or indirectly, by the parent company.

MONETARY ASSETS AND LIABILITIES
Assets and liabilities which are fixed in terms of units of currency by contract or otherwise. Examples are cash, short or long-term accounts, notes receivable in cash and notes payable in cash.

MONEY MARKET RISK
Money market risk arises when ING places short term deposits with a counterparty in order to manage excess liquidity, as such, money market deposits tend to be short term in nature (1-7 days is common). In the event of a counterparty default, ING may lose the deposit placed. Money market risk is therefore measured simply as the notional value of the deposit, excluding any accrued and unpaid interest or the effect of any impairment.

MONTE CARLO SIMULATION
A model to calculate Value at Risk, assuming that changes in risk factors are (jointly) normally distributed taking into account non-linear behaviour of financial products.

MORTGAGE BACKED SECURITIES (MBS)
A security whose cash flows are backed by typically the principal and/ or interest payments of a pool of mortgages.

NET ASSET VALUE
Used in the equity method of accounting. The initial net asset value of the investment is determined by the fair value of the assets and liabilities of the investee. After the initial valuation of assets and liabilities of the investee at fair value, the assets and liabilities of the investee are valued in accordance with the accounting policies of the investor. The profit and loss account reflects the investor's share in the results of operations of the investee.

NET PRESENT VALUE AT RISK (NPV-AT-RISK)
Establishes what the value of future cash flows is in terms of today's monetary value. NPV-at-Risk establishes the change in value of future cash flows as a result of interest rate changes in terms of today's monetary value.

Financial glossary continued

NON-VOTING EQUITY SECURITIES
Core Tier 1 securities issued to the Dutch State in November 2008 for a total consideration of EUR 10 billion. In December 2009 EUR 5 billion, in May 2011 EUR 2 billion, in November 2012 EUR 750 million and in November 2013 EUR 750 million was repaid to the Dutch State. This capital injection qualifies as core Tier 1 capital for regulatory purposes.

NOTIONAL AMOUNTS
Represent units of account which, in respect of derivatives, reflect the relationship with the underlying assets. They do not reflect, however, the credit risks assumed by entering into derivative transactions.

OBLIGOR
Corporate borrower, counterparty or private individual to which ING has recourse for repayment of the obligation.

OPERATING LEASE
A lease other than a finance lease.

OPERATING RESULT
Operating result is a measure to analyse the Insurance Underlying result. It is the underlying result before tax excluding realised gains/losses and impairments on debt and equity securities, revaluations and market and other impacts.

OPERATIONAL RISK
The risk of a direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

ORDINARY SHARE
An equity instrument that is subordinate to all other classes of equity instruments. Ordinary shares participate in the net profit for the financial year after other types of shares such as preference shares.

OVER-THE-COUNTER INSTRUMENT
A non-standardised financial instrument not traded on a stock exchange but directly between market participants.

OUTSTANDINGS
Total amount of all drawn portions of a facility and thus the sum of all transactions of a specific facility.

PLAN ASSETS
Comprise assets held by a long-term employee benefit fund. Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting enterprise) that:
- are held by an entity (a fund) that is legally separate from the reporting enterprise and exists solely to pay or fund employee benefits; and
- are available to be used only to pay or fund employee benefits, are not available to the reporting enterprise's own creditors (even in bankruptcy), and cannot be returned to the reporting enterprise, unless either the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting enterprise or the assets are returned to the reporting enterprise to reimburse it for employee benefits already paid.

POST-EMPLOYMENT BENEFIT PLANS
Formal or informal arrangements under which a company provides post-employment benefits for one or more employees. Post-employment benefits are employee benefits other than termination benefits and equity compensation benefits, which are payable after the completion of employment.

PREFERENCE SHARE
Similar to an ordinary share but carries certain preferential rights. These rights usually concern the guarantee of a fixed (cumulative) return to the shareholder or a guaranteed return on the investment.

PRE-SETTLEMENT RISK
Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk (potential or expected risk) is the cost of ING replacing a trade in the market. This credit risk category is associated with dealing room products such as options, swaps, and securities financing transactions. Where there is a mutual exchange of value, the amount of outstanding is generally based on the replacement value (mark-to-market) plus potential future volatility concept, using an historical 7 year time horizon and a 99% confidence level.

PRIVATE PLACEMENT
A placement in which newly issued shares or debentures come into possession of a limited group of subscribers who are prepared to buy the new securities.

PERFORMING LOANS
Loan clients that are expected to meet their financial obligations in full and on time.

PROBLEM LOANS
Also referred to as Non-Performing Loans. In line with the IFRS definition, after a payment default of an obligor of more than 90 days or the likelihood of a payment default the client will be regarded as non-performing.

PROBABILITY OF DEFAULT (PD)
The likelihood that a customer or counterparty will default.

RISK ADJUSTED RETURN ON CAPITAL (RAROC)
Risk-based performance measurement where the expected after-tax return corrected for expected losses is divided by Economic Capital.

Financial glossary continued

RECOGNITION
The process of incorporating in the balance sheet or profit and loss account an item that meets the definition of an element and satisfies the following criteria for recognition:
- it is probable that any future economic benefit associated with the item will flow to or from the enterprise; and
- the item has a cost or value that can be measured reliably.

RECOVERABLE AMOUNT
The higher of an asset's net selling price and its value in use.

RECOVERY PLAN
Plan that describes the readiness and decisiveness to tackle financial crises on the institution's own strength.

REDEMPTION VALUE
With respect to investments in fixed-interest securities, the amount payable on the maturity date.

REGULATORY CAPITAL (RC)
The minimum amount of capital that a bank is required to hold in order to absorb unexpected losses. RC is calculated using regulatory approved internal models.

RETURN ON EQUITY (ROE)
The return on equity is the net result as percentage of the average equity.

RISK-WEIGHTED ASSETS ('RWA' UNDER BASEL I)
Assets which are weighted for credit risk according to a formula used by the Dutch central bank (De Nederlandsche Bank), which conforms to the capital adequacy guidelines of the BIS (Bank of International Settlements). On and off-balance-sheet items are weighted for risk, with off-balance-sheet items converted to balance-sheet equivalents (using credit-conversion factors) before being allocated a risk weight.

RISK-WEIGHTED ASSETS ('RWA' UNDER BASEL II)
Assets which are weighted for credit and market risk in accordance with the Basel II methodology. The risk-weighted assets are calculated using internal models approved by The Dutch central bank (De Nederlandsche Bank). Regulatory capital requirements for operational risk are calculated without use of risk-weighted assets.

SETTLEMENT RISK
Settlement risk arises when there is an exchange of value (funds, instruments or commodities) for the same or different value dates and receipt is not verified or expected until ING has paid or delivered its side of the trade. The risk is that ING delivers, but does not receive delivery from the counterparty.

SIGNIFICANT INFLUENCE
The power to participate in the financial and operating policy decisions of an entity, but not to have control over these policies. Significant influence may be gained by share ownership, statute or agreement.

STRESS TESTING
Stress testing examines the effect of exceptional but plausible scenarios on the capital position of ING. Stress testing can be initiated internally or by external parties such as the Dutch central bank.

STRUCTURED ENTITY
An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

SUB-PRIME MORTGAGES
Mortgage loans made to borrowers who cannot get a regular mortgage because they have a bad credit history or limited income.

SUBSIDIARY
An entity that is controlled by another entity.

SWAP CONTRACTS
Commitments to settle in cash at a specified future date, based on differentials between specified financial indices as applied to a notional principal amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party.

TIER-1 CAPITAL
Tier-1 capital comprises paid up share capital, reserves excluding revaluation reserves, retained earnings, minority interests and hybrid capital. Where a reference is made to Basel III, we follow the definition of the Basel Committee on Banking Supervision, which means that revaluation reserves are included, but goodwill, intangibles, defined benefit pension fund assets and part of the deferred tax assets and minority interests are excluded.

TIER-1 RATIO
Reflecting the Tier 1 capital of ING Bank as a percentage of its total risk weighted assets. The minimum set by the Dutch central bank is 4%.

TIER-2 CAPITAL
Tier-2 capital, or supplementary capital, consists of mainly subordinated debt meeting the conditions set by the Basel Commission and is a constituent of ING Bank's capital base. The Basel III accord sets tighter conditions which ING Bank's current Tier-2 capital instruments do not meet. However these instruments will be grandfathered under the Basel III accord in descending degree over the years 2013-2022.

TRADING PORTFOLIO
Comprises those financial instruments which are held to obtain short-term transaction results, to facilitate transactions on behalf of clients or to hedge other positions in the trading portfolio.

Financial glossary continued

TRANSFER RISK
Probability of loss due to currency conversion (exchange) restrictions imposed by a foreign government that make it impossible to move money out of the country.

TREASURY BILLS
Generally short-term debt certificates issued by a central government. Dutch Treasury Certificates are regarded as Dutch Treasury bills.

TREASURY SHARES
An entity's own equity instruments, held by the entity or other members of the consolidated group.

UNDERLYING RESULT
Underlying result is a measure to evaluate the result of the segments. It is derived from the result in accordance with IFRS-EU by excluding the impact of divestments, discontinued operations and special items.

VALUE AT RISK (VAR)
Quantifies, with a one-sided confidence level of at least 99%, the maximum overnight loss in Net Present Value that could occur due to changes in risk factors (e.g. interest rates, foreign exchange rates, equity prices, credit spreads, implied volatilities) if positions remain unchanged for a time interval of one day. Statistically, a loss larger than the VaR figure can only occur once in every 100 days.

VALUE IN USE
The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

VARIANCE-COVARIANCE
A model to calculate Value at Risk, assuming that changes in risk factors are (jointly) normally distributed and that the change in portfolio value is linearly dependent on all risk factor changes.

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ING Bank N.V.
Bijlmerplein 888
1102 MG Amsterdam
P.O. Box 1800, 1000 BV Amsterdam
The Netherlands
Telephone: +31 20 5639111
Internet: www.ing.com

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