ING Bank Annual Report 2014

Empowering people

ING

ING Bank N.V.
2014 Annual Report

Contents

Composition of the Management Board and Supervisory Board

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 2014

R.A.J.G. (Ralph) Hamers (48), chief executive officer
J.V. (Koos) Timmermans (54), vice-chairman
P.G. (Patrick) Flynn (54), chief financial officer
R.M.M. (Roel) Louwhoff (49), chief operations officer
W.F. (Wilfred) Nagel (58), chief risk officer
W.L.A. (Bill) Connelly (56), CEO Commercial Banking

Supervisory Board

Composition on 31 December 2014

J. (Jeroen) van der Veer (67), chairman
J.C.L. (Joost) Kuiper (67), vice-chairman
E.F.C.B. (Eric) Boyer de la Giroday (62)
H.W. (Henk) Breukink (64)
I. (Isabel) Martín Castellá (67)
C.W. (Carin) Gorter (52)
H.J.M. (Hermann-Josef) Lamberti (58)
R.W.P. (Robert) Reibestein (58)

Committees of the supervisory board (1)

Composition on 31 December 2014

Audit Committee

H.J.M. (Hermann-Josef) Lamberti, chairman
E.F.C.B. (Eric) Boyer de la Giroday
I. (Isabel) Martín Castellá
C.W. (Carin) Gorter
R.W.P. (Robert) Reibestein

Risk Committee

R.W.P. (Robert) Reibestein, chairman
E.F.C.B. (Eric) Boyer de la Giroday
C.W. (Carin) Gorter
J.C.L. (Joost) Kuiper
H.J.M. (Hermann-Josef) Lamberti
J. (Jeroen) van der Veer

Remuneration Committee

J.C.L. (Joost) Kuiper, chairman
H.W. (Henk) Breukink
J. (Jeroen) van der Veer

Nomination Committee

J. (Jeroen) van der Veer, chairman
H.W. (Henk) Breukink
I. (Isabel) Martín Castellá
J.C.L. (Joost) Kuiper

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

About ING

Our purpose

In March 2014, we articulated our newly defined purpose and Think Forward strategy. We have defined our purpose as: 'empowering people to stay a step ahead in life and in business'.

Driving sustainable progress

At the beginning of 2014, as we entered the final stage of the restructuring, it was time to put more focus on placing the customer at the heart of everything we do.

In a fast-changing and ever digitising world, customer behaviour and customer needs are continuously changing and we needed a clear sense of purpose and direction guiding how to serve our customers best.

Many of our customers are self-directed. They expect solid support from their banking partner, but want to make their own decisions.

We empower people and organisations to realise their own vision for a better future in life and in business.

We believe that the ultimate purpose of a financial institution is to support and stimulate economic, social and environmental progress leading to a better quality of life for people in society. We don't just want to mitigate harm and do good; we also want to drive progress. We believe all sustainable progress is driven by people with the imagination and determination to improve their future and the future of those around them. Facilitating economic growth by playing our role as a bank should go hand in hand with social progress and environmental preservation or else our results cannot be sustained in the long term. One of the ways in which we strive to accelerate the transition to a more sustainable economy is by backing ambitious and responsible entrepreneurs and companies. We also believe that doing so will create a higher quality asset portfolio in the long term.

The more successful we are in accomplishing our mission, the more society at large will benefit.

Our strategy in context

Delivering on restructuring

In 2009, we agreed to a restructuring programme that met the European Commission's requirements. In the successive years we have put that into effect with only a few steps remaining. We have conducted many divestment transactions over a five-year period. We believe the effect of these divestment transactions leaves our company stronger, simpler and more sustainable.

The Dutch State has been repaid by ING Group in full. In November 2008, ING received EUR 10 billion in aid from the Dutch State in the form of core Tier 1 securities. In 2009, we started repaying the Dutch State and made the final payment on 7 November 2014. This was achieved six months ahead of the repayment schedule agreed with the European Commission in 2012.

Total payments on this aid package amount to EUR 13.5 billion, resulting in an annualised return of 12.7 percent for the Dutch State. To partly facilitate repayments to the Dutch State, ING Bank paid EUR 1,225 million dividend in 2014 to ING Group.

In 2009, ING and the Dutch State agreed to transfer/sell a portfolio of US mortgage securities. The agreement to unwind this facility, also known as the Illiquid Assets Back-up Facility (IABF), was completed at the end of 2013. The actual unwinding took place and was completed early 2014, when the Dutch State sold the remaining securities in the market. This generated a EUR 1.4 billion cash profit for the Dutch State.

Finally, the remaining Government Guaranteed Notes still outstanding in 2014 were all redeemed. Over the years, ING has paid EUR 0.4 billion to the Dutch State to benefit from this scheme.

Putting our strategy into practice

Our customer promise

Our customer promise is all about empowering people and creating a differentiating customer experience. Staying true to this Promise means that we aim to empower by making it easy for people to understand, convenient for people to use, possible for people to manage finance effectively and to stay a step ahead every day.

Our strategic priorities

We have identified four strategic priorities that serve to create a differentiating customer experience.

Our enablers

Our enablers help us to maintain key skills and organisational resources in support of our strategic priorities.

Building on our strengths

We are currently well positioned to be successful in the coming years.

We believe we have strong deposit gathering capabilities across Europe, a significant position in European digital banking and a successful commercial bank.

These strategic strengths are supported by a disciplined and rigorous approach to managing costs, risk and capital resources.

The strength of our balance sheet attests to the quality of our risk management. We have consistently demonstrated our ability to generate capital and now have a limited requirement for extra funding.

Internationally, our thriving commercial banking network is active in over 40 countries. At Retail Banking, we are active in three distinct categories of markets and have developed our strategy accordingly. They are characterised as market leaders, challengers and growth markets.

Our financial roadmap

We have published financial targets for 2017 reflecting our ambitions. These include a common equity Tier 1 ratio above 10 percent, a leverage ratio at around 4 percent , 50-53 percent cost/income ratio and a 10-13 percent return on equity. As also stated in our Ambition 2017 targets, ING is committed to returning capital to shareholders through a sustainable dividend policy.

The financial roadmap for the period until 2017 will differ according to the country. In general, we are pursuing sustainable profit growth in our challenger and high growth markets. We are managing our market leader businesses in Benelux countries to maintain income levels.

We plan to maintain our cost discipline, which should help to get the underlying cost/income ratio to the 50-53 percent range. We strive for all businesses to deliver an improving cost/income ratio. We will therefore need to cut costs at the operations in the Benelux to fund sustainable and profitable growth in other countries.

Market and regulatory context

Three key trends are having a major impact on ING and its competitors. First, as a market sensitive organisation, our revenue and profitability are linked with the economic environment. Second, the financial services sector is subject to increasing regulatory scrutiny. Third, digitisation and changing customer behaviour are reframing our markets. In combination, these trends are altering the competitive context in which we operate.

Financial developments ING Bank

ING Bank posted a strong performance in 2014 resulting in a net profit of EUR 2,744 million. However, compared with 2013, the net result declined by EUR 319 million or 10.4%. This was fully caused by EUR –818 million of net results related to special items and divestments in 2014 versus EUR –124 million in 2013. The special items in 2014 mainly related to a EUR 653 million net charge to make the Dutch closed defined benefit pension fund financially independent and EUR 304 million of bank levies related to the nationalization of SNS. This was partly offset by a EUR 202 million gain on the deconsolidation of ING Vysya Bank following its reclassification as an investment in an associate under equity accounting at the end of the first quarter. In 2013, the net impact of the divested ING Direct UK activities was EUR –42 million, while 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.

The underlying net result increased 11.8% to EUR 3,562 million, from EUR 3,187 million in 2013. Underlying net result is derived from total net result by excluding the impact from divestments and special items.

The underlying result before tax rose 12.5% to EUR 4,912 million in 2014 from EUR 4,365 million in 2013, mainly reflecting higher interest results, strict cost control and lower risk costs. This strong performance was achieved despite EUR 273 million on negative credit and debt valuation adjustments (CVA/DVA) in Commercial Banking and the Corporate Line, and EUR 399 million of redundancy provisions recorded in 2014, which related principally to the further digitalization of our banking services in the Netherlands.

Total underlying income rose 0.9% to EUR 15,471 million in 2014, from EUR 15,337 million in 2013. The underlying interest result increased 5.2% to EUR 12,606 million driven by an improvement of the interest margin to 1.53% from 1.44% in 2013, whereas the average balance sheet slightly declined by 1.3%. The interest margin on lending and savings products improved, supported by repricing in the loan book and further reduction of client savings rates in several countries. This more than offset the impact of lower average lending volumes, mainly caused by the sale and transfers of WestlandUtrecht Bank (WUB) assets to NN Group and the deconsolidation of ING Vysya Bank, lower margins on current accounts due to the low interest environment, and lower interest results at Bank Treasury. Commission income rose 2.3% to EUR 2,290 million. Investment and other income fell to EUR 574 million, from EUR 1,117 million in 2013. This decline was mainly explained by the negative swing in CVA/DVA adjustments in Commercial Banking and the Corporate Line (which were EUR 273 million negative in 2014, compared with EUR 74 million of positive CVA/DVA impacts in 2013), while 2013 was furthermore supported by a EUR 99 million one-off gain on the unwinding of the IABF following the agreement with the Dutch state. Excluding both items, investment and other income was 10.3% lower, mainly due to lower dividend income.

Underlying operating expenses increased 3.2% to EUR 8,965 million, compared with EUR 8,683 million in 2013. The increase was mainly due to EUR 399 million of redundancy provisions recorded in 2014 versus EUR 132 million of additional restructuring and redundancy charges taken in 2013. Excluding these items, expenses remained flat, as higher regulatory costs, higher pension costs and investments in future growth were offset by the benefits from ongoing cost-saving initiatives, the deconsolidation of ING Vysya Bank and lower impairments on real estate development projects. However, excluding CVA/DVA impacts and the redundancy/restructuring provisions in both years, the cost/income ratio improved to 54.4% from 56.0% in 2013.

The net addition to the provision for loan losses declined to EUR 1,594 million, from EUR 2,288 million in 2013. Risk costs were 55 basis points of average risk-weighted assets compared with 83 basis points in 2013. Most businesses, with the exception of Retail Netherlands, are now operating at around a normalized level of risk costs as the overall economic environment gradually improves.

The underlying return on IFRS-EU equity was 10.3% in 2014, up from 9.1% in 2013.

Retail Banking

The customer – individuals, SMEs and mid-corporations – is at the heart of our retail business. Customers want easy and transparent products, tools and advice to empower them to take smarter financial decisions during their lifetime, such as when buying a house, saving for retirement or for their children's education. We are prominent in innovative distribution via mobile, the internet, call centres and face to face.

We have a mix of mature and growth businesses in our various countries (in Europe, Asia and Australia). We have market-leader positions in the Netherlands, Belgium and Luxembourg; solid positions in Australia, Austria, France, Germany, Italy and Spain; competitive positions in Poland and Romania, and a promising position in Turkey, and through our stakes in Bank of Beijing (China), TMB (Thailand) and ING Vysya Bank (India). In late November 2014, ING Vysya Bank and Kotak Mahindra Bank announced their intention to merge their respective businesses.

These reflect ING's three categories of markets: Market leaders, Challengers and Growth markets. We are differentiating the implementation of our strategy by country.

The total number of customers at Retail Banking went up in 2014 to reach 32.6 million at year-end. Retail Banking posted strong 2014 results. We have a good track record and strive to further leverage our strong market position.

Our deposit base, positions us well to provide lending to our customers. We plan to further diversify the asset base and build sustainable market share.

Brief business insights

The condition of the economy directly affects our customers, and therefore us. The bulk of our retail businesses are in the eurozone. Despite weak, unstable and uneven recovery in the eurozone, we have delivered a good financial performance.

In the past few years, Retail Banking has been working towards converging its traditional banking model to a digital-first model. Our customers are increasingly self-directed. A digital-first offering allows us to offer transparent products, consistent fair pricing and process excellence at low costs.

Agility towards change is key in today's banking environment. We are working on becoming a more agile, innovative business, which can respond to the latest consumer demands quickly and flexibly. An agile way of working is therefore a key part of our IT programme and will be addressed in 2015.

In 2014, we have taken steps to deliver on the new ING Bank Think Forward strategy and to align Retail Banking with its strategic priorities. Our focus is on becoming the primary bank for customers, being innovation-driven and fulfilling relevant customer needs.

Conclusion

Retail Banking performed well in 2014, returning solid results in a challenging economic environment. We grew our lending portfolio, attracted more customers and achieved higher levels of customer satisfaction.

We have numerous initiatives that are bringing our strategy to life. We are earning more primary relationships and enhancing our payment solutions.

Innovations in products and with distribution channels, especially digital, are making banking with ING easier and more accessible. By offering customers easy and transparent products, tools and advice, we aim to empower them to take smarter financial decisions.

We are accelerating the transition to a more sustainable economy. ING Groenbank attracts savings to fund sustainable projects.

While many new initiatives were launched in 2014, many challenges remain on the operational front. We continually strive to do better, but in some areas – including accessibility and driving progress – there is room for improvement. We are working to prioritise the issues that we feel are the most important for our customers. We believe that while new initiatives are important, we carefully consider local market conditions, demand and customer suitability.

Looking ahead, we are now focusing on future-proofing our activities. We intend to become agile – fast, and innovative enough to keep pace with our customers' ever-changing expectations.

Financial developments Retail Banking

Total Retail Banking

Retail Banking posted strong 2014 results. The underlying profit before tax rose 23.5% to EUR 3,158 million on the back of healthy business growth and substantially lower risk costs in most markets.

Underlying income rose 5.1% from 2013 to EUR 10,685 million. The increase was driven by higher interest results in most countries due to higher volumes and improved margins on lending and savings. The margin on current accounts declined due to the low interest rate environment.

Net funds entrusted (adjusted for currency impacts and the deconsolidation of ING Vysya Bank) grew by EUR 19.2 billion in 2014. Net lending (also adjusted for the transfers of WUB mortgages to NN Bank and the sale of a mortgage portfolio in Australia) increased by EUR 8.4 billion, entirely outside the Netherlands. Net lending in the Netherlands declined due to higher prepayment on mortgages and subdued demand for business lending.

Operating expenses increased 4.0% to EUR 6,433 million in 2014, due to higher redundancy provisions mainly related to the further digitalization of our banking services in the Netherlands. Excluding these provisions in both years, expenses were almost flat. Higher pension cost in the Netherlands and investments in our franchises to further strengthen our IT-domain and expand our capabilities and services, were offset by the cost savings from the restructuring programs. The underlying cost/income ratio, excluding redundancy provisions, improved to 56.9% from 59.7% in 2013

Risk costs declined 23.0% to EUR 1,094 million in 2014, with declines in all regions, including lower risk cost for Dutch mortgages.

The underlying return on equity, based on a 10% common equity Tier 1 ratio, rose to 15.0% from 12.9% in 2013 due to higher results, partly offset by an increase in average risk-weighted assets. In 2014, total risk-weighted assets increased by EUR 2 billion to EUR 154 billion at year-end.

Retail Netherlands
The underlying result before tax of Retail Netherlands rose to EUR 888 million from EUR 834 million in 2013, mainly due to higher income and lower risk costs, while operating expenses increased substantially predominantly due to EUR 314 million of redundancy provisions to take the next step in digital banking in the Netherlands (announced on 25 November 2014), EUR 11 million for further restructuring at WUB (related to outsourcing of activities) and EUR 24 million of additional redundancy provisions taken in the third quarter, while 2013 included EUR 97 million of additional restructuring provisions. Excluding these provisions, underlying result before tax rose 32.9%.

Underlying income increased to EUR 4,250 million, up 4.2% compared with EUR 4,079 million in 2013, reflecting higher margins on lending and savings, which more than compensated for a decline in volumes due to transfer of mortgages of WestlandUtrecht Bank (WUB) to NN Group as of mid-2013 and higher mortgage prepayments. In 2014, net production of mortgages (adjusted for the transfer of WUB mortgages) was EUR –2.2 billion. Other lending, mainly business lending, decreased by EUR 1.5 billion. Net production in funds entrusted was EUR 1.7 billion in 2014, reflecting increases in savings and current accounts. Investment and other income declined by EUR 78 million on last year, in part due to a EUR 23 million one-off loss on the sale of real estate in own use in the second quarter of 2014.

Excluding the aforementioned redundancy provisions, operating expenses increased 1.2% on 2013, as higher pension costs and IT spending were only partly offset by the benefits from the ongoing cost-efficiency programmes and the transfer of part of the WUB organization to NN Bank as of mid-2013. The cost-efficiency programmes, including the next steps in digital banking, are on track to realize EUR 675 million of annual cost savings by the end of 2017. Of this amount, EUR 354 million has already been realized.

Net additions to loan loss provisions declined to EUR 714 million from EUR 877 million in 2013, both in residential mortgages and business lending, reflecting a gradual economic recovery in the Netherlands.

Retail Belgium
The underlying result before tax of Retail Belgium rose 27.3% to EUR 844 million in 2014 compared with EUR 663 million in 2013, mainly due to higher income.

Total underlying income rose 7.3% to EUR 2,490 million, from EUR 2,321 million in 2013. The interest result increased 8.6% driven by higher volumes in almost all products and increased margins on mortgages and savings. The lending portfolio grew by EUR 5.1 billion in 2014, of which EUR 1.9 billion in mortgages and EUR 3.2 billion in other lending.

Funds entrusted increased by EUR 3.9 billion, mainly in current accounts. Operating expenses increased to EUR 1,503 million, compared with EUR 1,476 million in 2013. The increase was mainly due to higher Belgium bank taxes and increased IT costs, partly offset by lower staff expenses as a result of lower headcount in the Retail branch network. The strategic projects announced by ING Belgium in the beginning of 2013 are on track to realize EUR 160 million of annual cost savings by the end of 2017. Of this amount EUR 105 million has already been realized.

The net additions to loan loss provisions declined by EUR 41 million to EUR 142 million, or 59 basis points of average risk-weighted assets, compared with 2013. The net addition for business lending and non-mortgage lending to private persons declined by EUR 58 million, while risk costs for mortgages were EUR 16 million higher.

Retail Germany
Retail Germany's underlying result before tax increased 29.6% to EUR 775 million in 2014, compared with EUR 598 million in 2013, driven by strong income growth.

Underlying income rose 16.8% to EUR 1,621 million compared with EUR 1,388 million in 2013. This increase mainly reflects higher interest results following continued business growth and improved margins on savings; the margins on lending and current accounts were somewhat lower. Commission income was EUR 29 million higher, mainly in security brokerage and advisory fees. Funds entrusted continued to grow with an increase of EUR 7.5 billion in 2014, despite a further reduction of client savings rates. The lending portfolio rose by EUR 1.6 billion, of which EUR 1.0 billion was in residential mortgages and EUR 0.6 billion in consumer lending.

Operating expenses increased 9.2% compared with 2013 to EUR 774 million. The increase primarily reflects an increase in headcount at both ING-DiBa and Interhyp, as well as investments to support business growth and attract primary banking clients. The cost/income ratio improved to 47.7% from 51.1% in 2013. The net additions to loan loss provisions declined to EUR 72 million (or 29 basis points of average risk-weighted assets) from EUR 82 million (or 37 basis points) in 2013.

Retail Rest of World
The underlying result before tax of Retail Rest of World increased to EUR 651 million, compared with EUR 464 million in 2013. The higher results mainly reflect better commercial results in Poland, Italy and Romania and lower losses in the UK Legacy run-off portfolio. This was in part offset by lower results from Turkey and a lower dividend from the Bank of Beijing.

Underlying income decreased by EUR 50 million to EUR 2,324 million from EUR 2,374 million in 2013. This decline was caused by the deconsolidation of ING Vysya Bank at the end of March 2014, following changes in the company's governance. Adjusted for the deconsolidation of ING Vysya Bank, income increased 6.2% due to higher interest results supported by increased volumes. In 2014, net funds entrusted, excluding currency effects and the deconsolidation of ING Vysya Bank, grew by EUR 6.1 billion with growth in most countries, notably Spain and Poland. Net lending grew by EUR 5.4 billion (also adjusted for the sale of a mortgage portfolio in Australia), mainly in Turkey, Poland, Australia and Spain.

Operating expenses declined by EUR 123 million compared with previous year, but were up 0.3% when excluding ING Vysya Bank. This increase was mainly due to strategic investments to support business growth, largely offset by favourable currency impacts. The net addition to the provision for loan losses was EUR 165 million, or 39 basis points of average risk-weighted assets, down from EUR 280 million, or 64 basis points of average risk-weighted assets, in 2013. This decline was predominantly caused by the deconsolidation of ING Vysya Bank and a small net release in the UK Legacy portfolio, whereas in 2013 it included an addition of EUR 60 million.

Commercial Banking

Commercial Banking plays a key role in the new ING Bank strategy, focused on empowering clients to stay a step ahead. As a European-centric network bank with global franchises in Industry Lending, Financial Markets, Cash Pooling and Trade Finance, our goal is to deliver a differentiating client experience.

To achieve this and to be relevant to clients in a very competitive market, we must understand their businesses intimately and offer real expertise. This guides our commercial strategy and the priorities we set ourselves. For the bank more broadly, Commercial Banking is a generator of diversified assets, which balances our strengths in savings and deposit gathering. In 2014, we achieved good growth in lending assets within Commercial Banking, specifically supporting the development of stronger local franchises in designated ‘challenger’ markets.

As a foundation to our plans, we initiated a four-year transformation programme in 2012, to simplify and standardise our operating model, supporting the delivery of our Customer Promise – ‘clear and easy, anytime, anywhere, empower and keep getting better’. This programme is on track, achieving client service improvements and cost efficiencies in line with targets and enables us to offer products and services in an integrated manner, across regions and business lines. This integrated client approach helps us to deliver solutions to our clients. We can only be successful if we add value for them.

In 2014 we were involved in many transactions that support our clients’ efforts to transition to more sustainable business models. We are focusing on sustainable lending as we believe that sustainable business is good business. We are committed to working with our clients on addressing their sustainability challenges.

During 2014, the market environment, particularly the eurozone economy, was at times very challenging. Very high levels of bank market liquidity have led to a continuous pricing compression in most market segments, but we have maintained focus on our clients and our key strategic priorities. We believe we have achieved much and are well placed for the years ahead to sustain and reinforce our position as one of the leading European commercial banks.

Highlights

› Our key business units performed well: we delivered strong results supported by loan growth in our global Industry Lending franchise, in particular within Structured Finance.

› We also saw positive developments in General Lending & Transaction Services, and especially in our focus areas Working Capital Solutions and Trade Finance Services.

› We prioritised sustainability in our lending business to support our clients’ transitions towards sustainability.

› Our business transformation programme aims to deliver harmonisation of our client services, standardised products and channels and to improve mobile and online capabilities, substantially enhancing the client experience.

At a glance – who are we?

We act as a relationship bank for clients around the world. We serve a range of organisations, including multinational corporations, financial institutions, governments and supranational bodies, through an extensive network of offices in more than 40 countries.

We provide a range of products and services to support our clients’ needs. Our lending capabilities anchor most of our client relationships and our offering is enhanced through Transaction Services, such as International Payments & Cash Management, Trade Finance Services and Working Capital Solutions. Financial Markets, as the Bank’s gateway to the professional markets of the world, serves our clients from treasury through to capital markets, risk management and structured financial products.

We have developed an operating model that places our clients at the heart of all we do. We deliver tailored services through integrated solutions and advice designed to meet their short- and long-term financing, liquidity, transaction and risk-management needs.

Global economic growth will place increasing demands on natural resources and brings the risks of global warming. Our clients are responding by adopting more sustainable business practices, and we are adapting our lending to support them.

Key risks and challenges

In 2014, the environment in which we operated, was challenging. There were several headwinds which influenced our business. These included the fragile economic recovery and low demand for lending in Europe which impacted our general lending as described above. Also, concerns for the future of the Eurozone intensified toward the end of the year as early elections were called in Greece. The ECB’s decisions to introduce negative deposit rates, renewed long-term refinance operations and, in early 2015, to embark on quantitative easing, highlight the difficulties faced by the Eurozone economy. Other headwinds were the drop in oil prices

and the downward pressure on the Russian economy and the declining rouble.

With regard to the latter, ING exposure in Russia is in large part to major Russian natural resource exporters. We have sought to continue support for long-term clients while reducing overall exposure.

In relation to oil price falls, most of our oil- and gas- related lending is affected to a very limited extent. The largest part by volume is short-term transactional finance for oil and gas provided to clients who do not take outright price risk. Most of the remainder is to projects with medium- or long-term offtake contracts or to investment grade companies.

We have reviewed our reserve-based lending, which has exposure to oil prices, and based on the current oil price environment we see limited risk of increased loan losses.

In the payments market we see developments that impact our business and lead to an increasing disintermediation in the medium to long term. The most important are changing customer behaviour and expectations. The benchmark for service delivery is becoming more and more influenced by what non-bank players can offer due to regulatory changes and new developments in technology.

ING is responding by adapting to the new benchmarks. We will start offering merchant acquiring in more countries, enhanced with value-added services, such as forecasting and fraud reduction. We are also teaming up with external vendors to further improve the pace of innovation. In addition, we are improving our service delivery through our multi-year, multi-product transformation programme.

Conclusion

2014 was a good year for Commercial Banking. We performed well and are executing on the strategic priorities of the Bank.

We made steady progress in adapting our business to meet changing regulatory, market and client demands and adding value for all stakeholders. As a result, we now have a robust, efficient, effective business model, winning awards which underline our strengths and supporting the bank strategy.

Products, services and procedures have been harmonised and simplified to further improve the client experience. Together with an integrated solution offering, we have made good progress in differentiating ourselves as the European network bank of choice.

Sustainability is part of how we do business. In 2014, environmental and social risk assessments were further embedded in core processes. ING is committed to dedicating more resources that give Commercial Banking teams the capacity to explore market developments in sustainability and support their clients to fulfil their sustainability agendas.

We are moving forward by combining the financial strength that sets us apart from our peers with a superior banking experience that makes a real difference for our clients.

Financial developments Commercial Banking

Commercial Banking posted a good set of results on the back of very strong Industry Lending performance, good volume growth, and despite negative CVA/DVA impacts and additional redundancy provisions. Credit and debt valuation adjustments (CVA/DVA), fully recorded in Financial Markets, were EUR 216 million negative in 2014 versus EUR 173 million of positive adjustments in 2013. Furthermore, 2014 included EUR 50 million of additional redundancy provisions taken for the next steps in digital banking in the Netherlands and the ongoing transformation programmes in Commercial Banking versus EUR 17 million of additional redundancy provisions in 2013. The underlying result before tax was EUR 1,997 million, 7.5% lower than in 2013, but up 12.9% excluding these two items in both years.

Industry Lending posted an underlying result before tax of EUR 1,252 million, up 36.5% compared with 2013. This increase was mainly caused by lower risk costs in Real Estate Finance, and higher income in Structured Finance due to strong volume growth. This was partly offset by lower income from Real Estate Finance due to a downsizing of the portfolio. General Lending & Transaction Services' underlying result before tax declined 6.3% to EUR 474 million, due to higher risk costs, while income and expenses remained flat. Financial Markets recorded an underlying result before tax of EUR 106 million, down from EUR 584 million in 2013, mainly reflecting the aforementioned negative swing in CVA/DVA impacts. The underlying result of Bank Treasury, Real Estate & Other was EUR 165 million, including EUR 50 million of redundancy provisions taken in the fourth quarter of 2014. Compared with 2013, result before tax rose 7.8%, mainly due to lower losses in the run-off businesses.

Underlying income declined 1.8% on 2013, mainly in Financial Markets and the run-off businesses, in part offset by higher income in Structured Finance. Net lending assets, adjusted for currency impacts, increased by EUR 6.3 billion in 2014, mainly due to strong growth in Structured finance and Transaction Services, while the volumes in Real Estate Finance and the Lease run-off portfolio declined. The net funds entrusted decreased by EUR 2.3 billion in 2014. Operating expenses increased 1.8% to EUR 2,430 million, compared with EUR 2,386 million in 2013. Excluding the aforementioned redundancy provisions, operating expenses declined 0.5% on 2013. The restructuring programmes are on track to realize EUR 340 million of annual cost savings by 2017; of this amount EUR 203 million has been realized so far.

Risk costs fell to EUR 500 million, or 37 basis points of average risk-weighted assets, from EUR 867 million, or 68 basis points of average risk-weighted assets, in 2013. The decrease was mainly visible in Real Estate Finance and - to a lesser extent - the lease run-off business, while risk costs were up in General Lending.

The underlying return on equity, based on a 10% common equity Tier 1 ratio, was 11.4, down from 12.8% in 2013. Excluding CVA/DVA impacts, the underlying return on equity improved to 12.6% from 11.8% in 2013.

Regulatory context

Progress on regulatory initiatives that are most relevant
This was an important year for ING, and for European banks in general.

November 2014, saw the start of the Single Supervisory Mechanism (SSM). The ECB took over responsibility for the supervision of the major European banks. The ECB had already prepared the ground with a comprehensive assessment of all supervised banks to test the stability of the financial system in stressed conditions.

ING firmly supports the establishment of the SSM and the supervisory responsibility of the ECB. As a predominantly European, cross-border universal bank, we have a strong interest in properly functioning European financial markets and advocate a harmonised approach to European supervision. The SSM should contribute to removing barriers to the free flow of capital and liquidity in the Internal Market. We expect to see a gradual elimination in the fragmentation caused by national regulation and supervision.

In 2014, agreement was also reached on the Single Resolution Mechanism (SRM) consisting of a Single Resolution Board (SRB) and a Single Resolution Fund (SRF). The SRM will apply to banks covered by the SSM to ensure an orderly resolution of failing banks within the eurozone. ING is supportive of the SRM as an important second pillar of the Banking Union.

The Capital Requirements Directive IV (CRD IV) came into force on 1 January 2014. This, and later refinements, implemented European regulation on capital, liquidity and other aspects such as remuneration. Broadly speaking, CRD IV is an essential step towards a single rule book in the European Union. However, we do have concerns with regard to the relatively large scope allowed

for discretionary national measures.

The Bank Recovery and Resolution Directive (BRRD) also came into effect in 2014. This requires European banks and authorities to put recovery and resolution plans in place and mandates the establishment of national resolution funds to be financed by banks. We support the BRRD which significantly reduces the likelihood that the failure of a systemically important bank will contaminate the system and burden taxpayers.

In 2014, EU agreement was reached regarding a revision of the Deposit Guarantee Scheme (DGS) directive. EU Member States are obliged to build up ex-ante deposit guarantee funds of an (in principle) minimum target size of 0.8 percent of covered deposits in 10 years. Banks' contributions will be risk based taking into account EBA guidance. The DGS directive will be applicable as of 2015 and ING will start to contribute to the Dutch DGS fund as of mid-2015.

Further, there have been various regulatory developments that impact our product offerings and therefore our customers directly, currently or in future years. Other important reforms in this regard seek to enhance an efficient and competitive internal market for consumers by removing barriers to cross-border activity and promoting a level playing field between providers, e.g. the European Mortgages Credit Directive. Besides this, the improvement of the European payments market also remains an important objective, and is addressed by the Payments Services Directive II.

Finally, the Dutch Parliament has approved the introduction of the Banker's Oath, a set of principles that reconfirms the industry's commitment to ethical behaviour. From 1 January 2015, it includes a disciplinary sanction mechanism for all Netherlands-based employees. Oath taking has been a requirement already for Members of the Executive and Supervisory Boards since 1 January 2013. The adopted legislation extends this to all internal and external employees working in the Netherlands who have a contract of employment with ING.

The financial system has already been strengthened considerably in recent years and the risks for customers and society as a whole have been substantially reduced. In general we support the measures described above, as they should contribute to creating a true level playing field. They help to safeguard the financial system, improve individual banks' financial resilience and support an increasing focus on customers across the industry.

Corporate Governance

Corporate governance

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.

Legislative and regulatory developments

In 2014, the Capital Requirements Directive IV ("CRD IV") has been implemented in Dutch law. CRD IV sets requirements a.o. for the corporate governance of banks. CRD IV and its Dutch implementation act apply to ING Bank N.V. and its subsidiaries within the European Union with a banking license but not to ING Group.

One of the features of CRD IV is the rules concerning the limitation of ancillary positions of board members, with implications which are different from those of the Dutch Civil Code. Another feature is that, the CRD IV corporate governance provisions are based on a one-tier board structure while the two tier-board structure is mandatory for Dutch banks. ING Bank will consult with the Dutch central bank (DNB) how to apply these requirements in the two-tier board structure of the bank.

On 16 October 2014, the Dutch Banking Association published a revised version of the Dutch Banking Code. Just like its predecessor, the revised version ("Banking Code 2014"), does not apply to ING Group, but to ING Bank N.V. The Banking Code 2014 will apply to the financial year 2015 and subsequent years, and as of the financial year 2015, ING Bank N.V. will explain how it applied the Banking Code 2014.

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.

ING's 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 the assets of ING;
- 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 2014, which was audited by ING Group's external auditor. For more information, please refer to the 2014 Annual Report of ING Group which is available on its website (www.ing.com).

Board composition

ING Bank aims to have an adequate and balanced composition of its Management Board. Thereto, annually, the Supervisory Board assesses the composition of the Management Board. In the context of such assessment, ING Bank aims to have a gender balance by having at least 30% men and at least 30% women amongst its Management Board members. However, because of the fact that ING Bank needs to balance several relevant selection criteria when composing its Management Board, the composition of the Management Board did not meet the abovementioned gender balance in 2014 (no women). ING Bank will continue to strive for an adequate and balanced composition of its Management Board 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.

Information on members of the Management Board

R.A.J.G. (Ralph) Hamers and chairman Management Board
(Born 1966, Dutch nationality, male; appointed in 2013, term expires in 2017)

Ralph Hamers was appointed a member of the Executive Board of ING Group on 13 May 2013. On 1 October 2013, he was appointed CEO and chairman of this Board and of the Management Board Banking. He is also head of Challengers and Growth markets ad interim. Ralph Hamers joined ING in 1991. Before his appointment to the Executive Board, he was CEO of ING Belgium and Luxembourg.

J.V. (Koos) Timmermans, member and vice-chairman Management Board
(Born 1960, Dutch nationality, male, appointed in 2011, term expires in 2015)

Koos Timmermans was appointed vice-chairman of the Management Board Banking as of 1 October 2011. From 1 October 2014, Koos Timmermans has, in addition to his current tasks which include aligning ING Bank's activities and balance sheet with new and upcoming regulation, also assumed responsibilities for the Bank's operations in the Benelux and ING's sustainability department.

P.G. (Patrick) Flynn, member and CFO Management Board
(Born 1960, Irish nationality, male; appointed in 2009, term expires in 2017)

Patrick Flynn was appointed a member of the Executive Board of ING Group on 27 April 2009. He is responsible for all of ING's finance departments. Before joining ING he was Chief Financial Officer Insurance, HSBC Insurance Holdings Ltd.

W.F. (Wilfred) Nagel, member and CRO Executive Board ING Group and member and CRO Management Board
(Born 1956, Dutch nationality, male; appointed in 2012, term expires in 2016)

Wilfred Nagel was appointed a member of the Executive Board of ING Group on 14 May 2012. He is responsible for all of ING's risk management departments. Wilfred Nagel became a member and CRO of the Management Board Banking on 5 October 2011.

W.L.A. (Bill) Connelly, member Management Board and head of Commercial Banking
(Born 1958, French nationality, male, appointed in 2011, term expires in 2015)

Bill Connelly was appointed to the Management Board Banking as from 1 January 2011. He is also head of Commercial Banking. Prior to this appointment, Bill Connelly combined the roles of global head of Commercial Banking Services and CEO of ING Real Estate Investment Management.

R.M.M. (Roel) Louwhoff, member Management Board and chief operations officer
(Born 1965, Dutch nationality, male, appointed in 2014, term expires in 2018)

Roel Louwhoff was appointed a member of the Management Board Banking on 1 May 2014. He is also chief operations officer (COO) and has global responsibility for Operations & IT, change management and procurement at ING Bank. Prior to this appointment, Roel Louwhoff was CEO of BT Operate. Most relevant ancillary position: Non-Executive Director Transcom Worldwide S.A.

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 2014, Tineke Bahlmann and Yvonne van Rooy stepped down as Supervisory Board members. This means that the composition of the Supervisory Board does not meet the above-mentioned gender balance (25% women).

Information on members of the Supervisory Board

J. (Jeroen) Van der Veer (chairman)
(Born 1947, Dutch nationality, male; appointed in 2009, term expires in 2017)

Former chief executive officer of Royal Dutch Shell plc.

Most relevant ancillary positions: chairman of the Supervisory Board of Koninklijke Philips N.V. (listed company). Member of the Supervisory Board of Het Concertgebouw N.V. Chairman of the Supervisory Council of the Technical University of Delft.

J.C.L. (Joost) Kuiper (vice-chairman)
(Born 1947, Dutch nationality, male; appointed in 2011, term expires in 2015)

Former member of the Executive Board of ABN AMRO Bank N.V.

Most relevant ancillary positions: Chairman of the Supervisory Board of IMC B.V. Chairman of the Board of Stichting Administratiekantoor Koninklijke Brill.

E.F.C.B. (Eric) Boyer de la Giroday
(Born 1952, Belgian nationality, male: appointed in 2014, term expires in 2018)

Former vice-chairman Management Board Banking ING Group N.V. and ING Bank N.V.

Most relevant ancillary positions: Chairman of the Board of Directors ING Belgium S.A./N.V.

H.W. (Henk) Breukink
(Born 1950, Dutch nationality, male; appointed in 2007, term expires in 2015)

Former managing director of F&C and country head for F&C Netherlands (asset management firm).

Most relevant ancillary positions: Chairman of the Supervisory Board of NSI N.V. (real estate fund) (listed company). Non-executive director of Brink Groep B.V. Chairman of the Supervisory Board of Inholland University.

I. (Isabel) Martín Castellá
(Born 1947, Spanish nationality, female; appointed in 2013, term expires in 2017)

Former Vice-President and member of the Management Committee of the European Investment Bank.

Most relevant ancillary positions: Honary Vice-President of the European Investment Bank.

C.W. (Carin) Gorter
(Born 1963, Dutch nationality, female; appointed in 2013, term expires in 2017)

Former Senior Executive Vice-President Compliance, Legal and Security ABN AMRO Bank N.V. and member of the Monitoring Committee Dutch Banking Code.

Most relevant ancillary positions: member of the Supervisory Board Cooperation of VGZ UA and Cooperation TVM U.A. Member of the Supervisory Council of CBR (driving license agency).

H.J.M. (Hermann-Josef) Lamberti
(Born 1956, German nationality, male; appointed in 2013, term expires in 2017)

Former chief operating officer of Deutsche Bank AG.

Most relevant ancillary positions: member of the Board of Airbus Group N.V. (formerly European Aeronautic Defense and Space Company N.V.). Member of the Supervisory Board Open-Xchange AG.

R.W.P. (Robert) Reibestein
(Born 1956, Dutch nationality, male; appointed in 2012 as an observer, full member as of 2013, term expires in 2017)

Former senior partner of McKinsey & Company.

Most relevant ancillary positions: member of the Supervisory Board of IMC B.V. Member of the Supervisory Board of Stichting World Wildlife Fund. Vice Chairman of VVD (Dutch political party).

Dutch Banking Code

The Dutch Banking Code 2010 (“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 to be incorporated by reference in the Annual Report of ING Bank N.V. ING Bank's 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, 16 March 2015
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 Executive Board, 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. 2014 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; and
- the ING Bank N.V. 2014 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 2014 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, 16 March 2015
the Management Board Banking

R.A.J.G. (Ralph) Hamers
CEO, chairman and a.i. CEO Challengers & Growth Countries
J.V. (Koos) Timmermans
vice-chairman and CEO of Market Leaders
P.G. (Patrick) Flynn
CFO
R.M.M. (Roel) Louwhoff
COO
W.F. (Wilfred) Nagel
CRO
W.L.A. (Bill) Connelly
CEO Commercial Banking

Report of the Supervisory Board

General meetings

The Supervisory Board met 10 times in 2014 of which nine meetings were regular meetings. On average, 96% of the Supervisory board members were present at the meetings. This attendance rate illustrates that the members of the Supervisory Board are engaged in ING and have sufficient time available to devote the required attention to ING's affairs. The Executive Board was present at each Supervisory Board meeting but each Supervisory Board meeting, was preceded by a session with only the Supervisory Board members present. Members of the Supervisory Board and senior management also had contacts and meetings outside the regularly scheduled Supervisory Board meetings.

Apart from closely monitoring the financial results in 2014, the Supervisory Board's main focus during 2014 was the launch of the new Think Forward strategy of ING Bank. The repayment of the outstanding core Tier 1 securities to the Dutch State also remained an important topic throughout the year. In this context the capital strategy of ING was also regularly discussed.

In 2014, the Audit Committee met five times to discuss the quarterly results, the interim and annual accounts and key audit matters. On average, 97.2% of the Audit Committee members were present at the scheduled meetings.

The Audit Committee regularly discussed, amongst others, financial reporting, auditor's independence, internal controls over financial reporting, the reports from the external auditor, capital management and regulatory matters.

The Risk Committee met five times in 2014. On average, 94.4% of the Risk Committee members were present at the scheduled meetings. All relevant issues discussed in the Risk Committee were reported to the Supervisory Board.

In the first half year of 2014, the financial risk and the non-financial risk reports for banking were discussed in detail in each Risk Committee meeting. At almost every meeting the Risk Committee was updated on the developments regarding the implementation of the Bank Recovery and Resolution Directive. This was also the case for the Asset Quality Review and the stress test, that were executed for DNB and ECB. Various stress test scenarios for ING Bank were discussed. The annual risk appetite statements for Banking were reviewed and supported. The Recovery Plan for ING Bank was discussed and supported by the Risk Committee. The Risk Committee closely monitored the developments in Russia and Ukraine and the possible risks for ING. Each meeting ended with a general discussion on possible future risks. More information on risk related topics is provided in the Risk section of the Annual Report and the Annual Accounts.

The Nomination Committee met 10 times in 2014 with no absentees. Following the new Banking strategy the Nomination Committee devoted considerable time to senior executive succession planning for ING Bank. The nomination Committee supported the nomination of a COO for ING Bank. The Nomination Committee also discussed the future composition and potential candidates for the Management Board Banking, taking into account that two Management Board Banking members, Eli Leenaars and Hans van der Noordaa, had left ING to pursue their careers elsewhere. The future composition of the Supervisory Board for ING Group/Bank was also discussed as two Supervisory Board members would step down to join the future Supervisory Board of NN Group. The Nomination Committee requested an executive recruitment firm to search for Supervisory Board candidates with financial expertise, taking into account ING's ambition of having at least 30% female Supervisory Board members. Several candidates were interviewed by members of the Nomination Committee in the second half of 2014 whereby the Nomination Committee advised to nominate a candidate for the Supervisory Board at the 2015 AGM.

In 2014, the Remuneration Committee met seven times with no absentees. The annual review of the remuneration framework for ING Bank took place as well as the annual risk analysis of the remuneration policy. The Identified Staff selection criteria and the list of Identified Staff for ING Bank was reviewed and approved. Later in 2014, an additional assessment of the Identified Staff selection took place under CRD IV regulation. Throughout the year the Remuneration Committee approved Identified Staff related remuneration matters, based upon the governance framework.

The Remuneration Committee reviewed the thresholds above which the pool for variable remuneration becomes available. It discussed the variable remuneration pool and reviewed the performance assessment for the Executive Board and the Management Board Banking, as well as the variable remuneration proposals for the Management Board Banking. The remuneration proposals for Identified Staff were also reviewed, including potential cases for holdback of deferred compensation by way of malus. The proposed 2014 performance objectives for the CEO and the Banking Board members and the proposed hurdles for the 2014 capital test were supported. The Remuneration Committee agreed to table an adjusted Executive Board and Management Board Banking pension scheme for the 2014 AGM.

Composition of the executive and the Management Board

At the Annual General Meeting of Shareholders on 12 May 2014, no changes to the Executive Board were proposed.

Changes in the composition of the Supervisory Board

At the Annual General Shareholders' Meeting on 12 May 2014, Tineke Bahlmann (State nominee) decided to resign from the Supervisory Board since the corporate governance arrangements between ING and the Dutch State had expired as a result of the unwinding of the Illiquid Assets Back-up Facility and the repayment of more than 75% of the remaining core Tier 1 securities. Peter Elverding decided to resign from the Supervisory Board because of his desire to reduce his board commitments. Luc Vandewalle retired from the Supervisory Board having reached the statutory age of 70. Eric Boyer de la Giroday was appointed to the Supervisory Board on 12 May 2014 at the Annual General Meeting.

Following the 2014 Annual General Meeting, Eric Boyer de la Giroday joined the Risk Committee and the Audit Committee. Hermann Lamberti succeeded Joost Kuiper as chairman of the Audit Committee. Joost Kuiper succeeded Peter Elverding as vice-chairman and became chairman of the Remuneration Committee and member of the Nomination Committee. In January 2015 Joost Kuiper decided for health reasons to step down as chairman of the Remuneration Committee to be able to reduce his commitments. He was succeeded by Henk Breukink. Isabel Martin Castella became a member of the Nomination Committee and stepped down from the Risk Committee.

Currently, only one Supervisory Board member, Eric Boyer de la Giroday qualifies as 'non-independent' as defined in best practice provision III.2.2 of the Dutch Corporate Governance Code. Mr. Boyer de la Giroday is considered not independent because of his position as Chairman of the Board of Directors of ING Belgium S.A./N.V. and his former positions as member of the Executive Board of ING Group and Vice-Chairman of Management Board Banking of ING Bank N.V.

Annual Accounts and dividend

The Management Board Banking has prepared the Annual Accounts and discussed these with the Supervisory Board. The Annual Accounts will be submitted for adoption at the 2015 Annual General Meeting as part of the Annual Report. In 2014, from Retained Earnings, a dividend was paid to ING Group N.V. amounting to EUR 1,225 million to facilitate repayment to the Dutch State.

Appreciation for the Management Board and ING employees

The Supervisory Board would like to thank the members of the Executive Board and the Management Board Banking for their hard work in 2014. At the end of March the Think Forward strategy was launched marking the end of a long and intense process that ING can be proud of. 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, 16 March 2015
the Supervisory Board

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Consolidated balance sheet of ING Bank

as at 31 December

amounts in millions of euros	2014	2013	2012
Assets			
Cash and balances with central banks 2	12,222	11,920	15,447
Amounts due from banks 3	37,122	42,996	39,053
Financial assets at fair value through profit and loss 4			
– trading assets	136,964	113,537	114,320
– non-trading derivatives	4,303	5,731	9,075
– designated as at fair value through profit and loss	2,756	2,308	2,768
Investments 5			
– available-for-sale	95,401	76,883	74,279
– held-to-maturity	2,239	3,098	6,545
Loans and advances to customers 6	518,119	508,329	541,527
Investments in associates and joint ventures 7	861	937	1,055
Real estate investments 8	80	55	153
Property and equipment 9	2,100	2,282	2,336
Intangible assets 10	1,655	1,606	1,778
Assets held for sale 11	729		6,781
Other assets 12	14,051	17,884	19,205
Total assets	828,602	787,566	834,322
Equity 13			
Shareholder's equity (parent)	38,064	32,805	34,964
Minority interests	622	955	843
Total equity	38,686	33,760	35,807
Liabilities			
Subordinated loans 14	16,599	14,776	16,407
Debt securities in issue 15	120,959	122,299	134,689
Amounts due to banks 16	30,003	27,200	38,704
Customer deposits and other funds on deposit 17	489,281	474,775	460,290
Financial liabilities at fair value through profit and loss 18			
– trading liabilities	97,091	73,491	83,652
– non-trading derivatives	6,357	9,676	15,919
– designated as at fair value through profit and loss	13,551	13,855	13,399
Liabilities held for sale 11			14,244
Other liabilities 19	16,075	17,734	21,211
Total liabilities	789,916	753,806	798,515
Total equity and liabilities	828,602	787,566	834,322

Amounts for 2013 and 2012 have been restated to reflect the changes in accounting policies as disclosed in the section 'Changes in accounting policies in 2014' on page 26.

References relate to the notes starting on page 26. 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	2014	2014	2013	2013	2012	2012
Interest income	**48,370**		51,574		60,271	
Interest expense	**–35,764**		–39,610		–48,023	
Interest result 20		**12,606**		11,964		12,248
Investment income 21		**213**		305		595
Result on disposals of group companies 22		**195**		26		1,605
Gross commission income	**3,314**		3,345		3,109	
Commission expense	**–1,023**		–1,105		–976	
Commission income 23		**2,291**		2,240		2,133
Valuation results on non-trading derivatives 24		**–370**		281		–950
Net trading income 25		**561**		485		1,101
Share of profit from associates and joint ventures 7		**76**		22		22
Other income 26		**102**		4		–456
Total income		**15,674**		15,327		16,298
Addition to loan loss provisions 6		**1,594**		2,289		2,125
Intangible amortisation and other impairments 27		**88**		136		211
Staff expenses 28		**5,783**		4,914		4,708
Other operating expenses 29		**4,354**		3,755		4,711
Total expenses		**11,819**		11,094		11,755
Result before tax		**3,855**		4,233		4,543
Taxation 36		**1,032**		1,080		1,171
Net result (before minority interests)		**2,823**		3,153		3,372
Attributable to:						
Shareholder of the parent		**2,744**		3,063		3,281
Minority interests		**79**		90		91
		2,823		3,153		3,372

	2014	2013	2012
Dividend per ordinary share (in euros)	**2.63**	6.35	4.57
Total amount of dividend paid (in millions of euros)	**1,225**	2,955	2,125

Amounts for 2013 and 2012 have been restated to reflect the changes in accounting policies as disclosed in the section 'Changes in accounting policies in 2014' on page 26.

References relate to the notes starting on page 26. 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	2014	2013	2012
Net result	**2,823**	3,153	3,372
Other comprehensive income			
Items that will not be reclassified to the profit and loss account:			
Remeasurement of the net defined benefit asset/liability 35	**–88**	–811	–2,309
Unrealised revaluations property in own use	**–29**	–7	–9
Items that may be reclassified subsequently to the profit and loss account:			
Unrealised revaluations available-for-sale investments and other	**1,878**	–363	1,972
Realised gains/losses transferred to the profit and loss account	**–121**	–145	–473
Changes in cash flow hedge reserve	**1,714**	–25	79
Share of other comprehensive income of associates and joint ventures	**35**	–35	24
Exchange rate differences and other	**369**	–1,038	–313
Total comprehensive income	**6,581**	729	2,343
Comprehensive income attributable to:			
Shareholder of the parent	**6,429**	738	2,178
Minority interests	**152**	–9	165
	6,581	729	2,343

Amounts for 2013 and 2012 have been restated to reflect the changes in accounting policies as disclosed in the section 'Changes in accounting policies in 2014' on page 26.

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.

References relate to the notes starting on page 26. These from an integral part of the consolidated annual accounts.

Consolidated statement of cash flows of ING Bank

for the years ended 31 December

amounts in millions of euros		2014	2013	2012
Result before tax		**3,855**	4,233	4,543
Adjusted for	– depreciation	**594**	624	606
	– addition to loan loss provisions	**1,594**	2,289	2,125
	– other	**2,249**	734	1,641
Taxation paid		**–887**	–1,487	–1,091
Changes in	– amounts due from banks, not available on demand	**3,361**	–9,400	5,272
	– trading assets	**–23,802**	783	7,448
	– non-trading derivatives	**–2,260**	–1,421	–2,191
	– other financial assets at fair value through profit and loss	**–614**	–225	–104
	– loans and advances to customers	**–12,935**	8,514	1,130
	– other assets	**–366**	1,362	–1,323
	– amounts due to banks, not payable on demand	**3,353**	–10,266	–26,459
	– customer deposits and other funds on deposit	**17,803**	24,387	21,334
	– trading liabilities	**23,855**	–10,172	–24,031
	– other financial liabilities at fair value through profit and loss	**–524**	646	214
	– other liabilities	**1,337**	–6,817	–637
Net cash flow from (used in) operating activities		**16,613**	3,784	–11,523
Investments and advances	– group companies			
	– associates and joint ventures	**–31**	–20	–20
	– available-for-sale investments	**–73,348**	–78,654	–71,323
	– real estate investments			–4
	– held-to-maturity investments	**–315**		
	– property and equipment	**–355**	–353	–363
	– assets subject to operating leases	**–34**	–82	
	– loans			–1,117
	– other investments	**–257**	–271	–284
Disposals and redemptions	– group companies (including cash in company disposed)	**–398**	–7,163	–7,868
	– associates and joint ventures	**187**	139	29
	– available-for-sale investments	**60,098**	72,221	73,441
	– held-to-maturity investments	**1,172**	3,439	2,308
	– real estate investments		36	219
	– property and equipment	**54**	58	53
	– assets subject to operating leases	**3**		
	– loans	**2,382**	8,810	7,268
	– other investments	**2**	–1	2
Net cash flow from (used in) investing activities 30		**–10,840**	–1,841	2,341
Proceeds from issuance of subordinated loans		**3,266**	4,212	1,318
Repayments of subordinated loans		**–2,788**	–4,936	–2,919
Proceeds from borrowed funds and debt securities		**135,318**	138,883	298,557
Repayments of borrowed funds and debt securities		**–142,996**	–144,958	–296,419
Dividends paid		**–1,225**	–2,955	–2,125
Net cash flow from (used in) financing activities		**–8,425**	–9,754	–1,588
Net cash flow 31		**–2,652**	–7,811	–10,770
Cash and cash equivalents at beginning of year		**13,509**	20,612	31,197
Effect of exchange rate changes on cash and cash equivalents		**6**	708	185
Cash and cash equivalents at end of year 32		**10,863**	13,509	20,612

Amounts for 2013 and 2012 have been restated to reflect the changes in accounting policies as disclosed in the section 'Changes in accounting policies in 2014' on page 26.

As at 31 December 2014 Cash and cash equivalents includes Cash and balances with central banks of EUR 12,222 million (2013: EUR 11,920 million; 2012: EUR 15,447 million). Reference is made to Note 32 'Cash and cash equivalents'.

References relate to the notes starting on page 26. 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 2012	525	16,542	17,738	34,805	693	35,498
Remeasurement of the net defined benefit asset/liability			–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 and joint ventures			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
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 and joint ventures			–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

Amounts for 2013 and 2012 have been restated to reflect the changes in accounting policies as disclosed in the section 'Changes in accounting policies in 2014' on page 26.

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 2014	525	16,542	15,738	32,805	955	33,760
Remeasurement of the net defined benefit asset/liability 35			–88	–88		–88
Unrealised revaluations property in own use			–29	–29		–29
Unrealised revaluations available-for-sale investments and other			1,866	1,866	12	1,878
Realised gains/losses transferred to the profit and loss account			–121	–121		–121
Changes in cash flow hedge reserve			1,651	1,651	63	1,714
Share of other comprehensive income of associates and joint ventures			35	35		35
Exchange rate differences and other			371	371	–2	369
Total amount recognised directly in equity (other comprehensive income)			3,685	3,685	73	3,758
Net result			2,744	2,744	79	2,823
Total comprehensive income			6,429	6,429	152	6,581
Employee stock options and share plans			55	55		55
Changes in the composition of the group and other					–451	–451
Dividends			–1,225	–1,225	–34	–1,259
Balance as at 31 December 2014	525	16,542	20,997	38,064	622	38,686

Changes in individual components are presented in Note 13 ‘Equity’.

Notes to the consolidated annual accounts of ING Bank

AUTHORISATION OF ANNUAL ACCOUNTS

The consolidated annual accounts of ING Bank N.V. for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Management Board on 16 March 2015. 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'. IFRS requires the consistent application of accounting policies. 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; and
- 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.

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 2014

Changes in IFRS-EU

The following new IFRS-EU standards were implemented by ING Bank on 1 January 2014:

- 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';
- Amendments to IAS 36 'Recoverable amount disclosures for non-financial assets; and
- IFRIC 21 'Levies'.

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.

Changes in accounting policies in 2014: Impact on balance sheet

	2013	2012
Assets held for sale		
Assets – other	–78	–111
Impact on Total assets	–78	–111
Liabilities held for sale		
Liabilities – other	–78	–111
Impact on Total liabilities	–78	–111
Impact on Total equity	0	0

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on ING, since ING Bank does not qualify as an investment entity under IFRS 10.

Amendments to IAS 32 'Presentation – Offsetting Financial Assets and Financial Liabilities'
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. There is no impact on Total equity, Net result and/or Other comprehensive income as ING already applied these principles.

Amendments to IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting'
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. There is no impact on Total equity, Net result and/or Other comprehensive income as ING already applied these principles.

Amendments to IAS 36 'Recoverable amount disclosed for non-financial assets'
This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. There is no impact on Total equity, Net result and/or Other comprehensive income.

IFRIC 21 'Levies'
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be provided for before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on ING as ING applied the recognition principles under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' which is consistent with the requirements of IFRIC 21.

The significant upcoming changes in IFRS-EU in 2014 are explained below.

OTHER SIGNIFICANT CHANGES IN 2014

The comparison of balance sheet items between 31 December 2014 and 31 December 2013 is impacted by the deconsolidation of Vysya and the classification of Vysya as held for sale and the disposal of companies. Reference is made to Note 46 'Companies and businesses acquired and divested', Note 11 'Assets and liabilities held for sale' and Note 51 'Other events'. 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.

SIGNIFICANT UPCOMING OTHER CHANGES IN IFRS-EU AFTER 2014

IFRS 15 'Revenue from Contracts with Customers'
In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. IFRS 15 is not yet endorsed by the EU. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue as and when the agreed performance obligations are satisfied. The standard should in principle be applied retrospectively, with certain exceptions. ING is currently assessing the impact of this standard.

IFRS 9 'Financial Instruments'
IFRS 9 'Financial Instruments' was issued by the IASB in July 2014. The new requirements become effective as of 2018. IFRS 9 is not yet endorsed by the EU. IFRS 9 is replacing IAS 39 'Financial Instruments: Recognition and Measurement', and includes

requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement
The classification and measurement of financial assets will depend on the entity's business model for their management and their contractual cash flow characteristics and result in financial assets being recognised at amortised cost, fair value through OCI ('FVOCI') or fair value through profit and loss. In many instances, the classification and measurement outcomes will be similar to IAS 39, although certain differences will arise. The classification of financial liabilities is essentially the same. Except for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in OCI.

Impairment
The recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. The impairment requirements apply to financial assets measured at amortised cost, FVOCI, lease receivables, and certain loan commitments and financial guarantee contracts. Initially, a provision is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12 month ECL'). In the event of a significant increase in credit risk, a provision is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

Hedge accounting
The hedge accounting requirements of IFRS 9 aims to simplify general hedge accounting requirements. Furthermore, IFRS 9 aims to create a stronger link between financial accounting and the risk management strategy and permits a greater variety of hedging instruments and risks. The standard does not address macro hedge account strategies, which are being considered in a separate project for which a discussion paper was issued in April 2014.

Application
The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at 1 January 2018, with no requirement to restate comparative periods. Hedge accounting is applied prospectively from that date.

Expected impact
ING is currently assessing the impact of this standard. The implementation of IFRS 9, if and when 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 and impairments. 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, or are valued at the price within the bid-offer spread that is most representative of fair value in the circumstances. In some cases where positions are marked at mid-market prices, a fair value adjustment is calculated.

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 value of financial instruments and related sensitivities.

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. To address the risk associated with the illiquid nature of the derivative portfolio, ING applies an additional 'liquidity valuation adjustment'. The adjustment is based on the market price of funding liquidity and is applied to the uncollateralised derivatives. This additional discounting is taken into account in both the credit and debit valuation adjustments.

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.

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.

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.

Control exists if ING Bank is exposed to variable returns and having the ability to affect those returns through power over the investee.

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.

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 its 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. 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.

Changes in assets and liabilities as a result of classification as held for sale are included in the notes in the line 'Changes in composition of the group and other changes'.

Associates held for sale
Associates held for sale are measured at the lower of the carrying value and fair value less costs to sell. The carrying value of the associate is the market value at the date of deconsolidation. Any subsequent decrease in fair value below this carrying amount will be recognised in the profit and loss account as part of Net result from discontinued operations. Subsequent increases in fair value will only be recognised to the extent that these are a reversal of previously recognised decreases in fair value. Changes in fair value include both changes in market value of the listed shares and the related foreign currency impact. Any dividend received is recognised as income in the profit and loss account if and when declared.

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.

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.

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.

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.

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 AND JOINT VENTURES

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.

Joint ventures are entities over which the Bank has joint control. Joint control is the contractually agreed sharing of control over an arrangement or entity, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint control means that no party to the agreement is able to act unilaterally to control the activity of the entity. The parties to the agreement must act together to control the entity and therefore exercise the joint control.

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

ING Bank's investment in associates and joint ventures (net of any accumulated impairment loss) includes goodwill identified on acquisition. ING Bank's share of its associates and joint ventures' 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 or joint venture equals or exceeds its interest in the associate or joint venture, 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 or joint venture.

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

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.

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.

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.

Uncertain tax positions are assessed continually by ING Group and in case it is probable that there will be a cash outflow; a current tax liability is recognised.

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.

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.

PARENT COMPANY PROFIT AND LOSS ACCOUNT

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.

NOTES TO THE CONSOLIDATED BALANCE SHEET

ASSETS

2 CASH AND BALANCES WITH CENTRAL BANKS

Cash and balances with central banks

	2014	2013
Amounts held at central banks	**10,548**	10,270
Cash and bank balances	**1,674**	1,650
	12,222	11,920

In 2014, the change in Cash and balances with central banks includes EUR –398 million related to the deconsolidation of ING Vysya. Reference is made to Note 11 'Assets and liabilities held for sale' and Note 51 'Other events'.

Amounts held at central banks reflect the demand balances.

Reference is made to Note 41 'Assets not freely disposable' for restrictions on Cash balances with central banks.

3 AMOUNTS DUE FROM BANKS

Amounts due from banks

		Netherlands		International		Total
	2014	2013	2014	2013	2014	2013
Loans and advances to banks	**11,833**	10,895	**24,183**	30,011	**36,016**	40,906
Cash advances, overdrafts and other balances	**617**	1,634	**495**	475	**1,112**	2,109
	12,450	12,529	**24,678**	30,486	**37,128**	43,015
Loan loss provision			**–6**	–19	**–6**	–19
	12,450	12,529	**24,672**	30,467	**37,122**	42,996

In 2014, the change in Amounts due from banks includes EUR –575 million related to deconsolidation of ING Vysya. Reference is made to Note 11 'Assets and liabilities held for sale' and Note 51 'Other events'.

Loans and advances to banks includes balances (mainly short-term deposits) with central banks amounting to EUR 3,105 million (2013: EUR 5,393 million).

As at 31 December 2014, Amounts due from banks includes receivables with regard to securities, which have been acquired in reverse repurchase transactions amounting to EUR 4,162 million (2013: EUR 5,137 million), and receivables related to finance lease contracts amounting to EUR 59 million (2013: EUR 73 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 2014, the non-subordinated receivables amounts to EUR 37,062 million (2013: EUR 42,995 million) and the subordinated receivables amounts to EUR 60 million (2013: EUR 1 million).

Reference is made to Note 41 'Assets not freely disposable' for restrictions on Amounts due from banks.

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

	2014	2013
Trading assets	**136,964**	113,537
Non-trading derivatives	**4,303**	5,731
Designated as at fair value through profit and loss	**2,756**	2,308
	144,023	121,576

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	2014	2013
Equity securities	17,193	12,921
Debt securities	21,584	18,878
Derivatives	46,613	31,433
Loans and receivables	51,574	50,305
	136,964	113,537

In 2014, the change in trading assets includes EUR –366 million related to deconsolidation of ING Vysya. Reference is made to Note 11 'Assets and liabilities held for sale' and Note 51 'Other events'.

As at 31 December 2014, Trading assets includes receivables of EUR 50,692 million (2013: EUR 48,690 million) with regard to reverse repurchase transactions.

In 2014, the increase in trading equity securities are mainly due to new trades. The increase in the trading derivatives is mainly due to changes in fair value resulting from market interest rates. The increase is substantially mitigated by a similar increase in Trading derivative liabilities.

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	2014	2013
Derivatives used in		
– fair value hedges	1,223	991
– cash flow hedges	1,255	3,090
– hedges of net investments in foreign operations	111	138
Other non-trading derivatives	1,714	1,512
	4,303	5,731

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	2014	2013
Equity securities	9	10
Debt securities	1,124	1,246
Loans and receivables	1,623	1,052
	2,756	2,308

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 83 million (2013: EUR 111 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 –10 million (2013: EUR –4 million) and the change for the current year is EUR –6 million (2013: EUR 2 million).

As at 31 December 2014, Loans and receivables designated as at fair value through profit and loss includes EUR 1,112 million (2013: nil) with regard to reverse repurchase transactions.

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.

5 INVESTMENTS

Investments by type

	2014	2013
Available-for-sale		
– equity securities	2,718	1,645
– debt securities	92,683	75,238
	95,401	76,883
Held-to-maturity		
– debt securities	2,239	3,098
	2,239	3,098
	97,640	79,981

Equity securities in 2014 include EUR 210 million (2013: EUR 194 million) shares in third party managed investment funds.

In 2014 the increase in debt securities is EUR 17,445 million and is mainly due to investments of high-quality liquid assets ahead of the introduction of the liquidity coverage ratio. The increase in Investments available for sale is partly compensated by the deconsolidation of ING Vysya with EUR -1,681 million. Reference is made to Note 11 ‘Assets and liabilities held for sale’ and Note 51 ‘Other events’

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

Debt securities

	2014	2013
Available-for-sale investments	92,683	75,238
Held-to-maturity investments	2,239	3,098
Loans and advances to customers	10,579	15,435
Amounts due from banks	2,584	3,059
Available-for-sale investments and Assets at amortised cost	108,085	96,830
Trading assets	21,584	18,878
Designated as at fair value through profit and loss	1,124	1,246
Financial assets at fair value through profit and loss	22,708	20,124
	130,793	116,954

ING Bank’s total exposure to debt securities included in available-for-sale investments and assets at amortised cost of EUR 108,085 million (2013: EUR 96,830 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	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Government bonds	**68,198**	52,629	**315**	50	**1,146**	3,654			**69,659**	56,333
Covered bonds	**10,828**	8,216	**1,567**	2,563	**2,810**	4,559	**2,526**	3,059	**17,731**	18,397
Corporate bonds	**1,935**	1,576			**919**	805			**2,854**	2,381
Financial institution bonds	**11,022**	11,855		130	**386**	81	**58**		**11,466**	12,066
Bond portfolio (excluding ABS)	**91,983**	74,276	**1,882**	2,743	**5,261**	9,099	**2,584**	3,059	**101,710**	89,177
US agency RMBS	**319**	334							**319**	334
US prime RMBS	**10**	12							**10**	12
US Alt-A RMBS	**42**	84							**42**	84
US subprime RMBS	**14**	13							**14**	13
Non-US RMBS	**119**	185			**3,505**	4,493			**3,624**	4,678
CDO/CLO	**8**	20							**8**	20
Other ABS	**176**	296	**357**	355	**1,806**	1,739			**2,339**	2,390
CMBS	**12**	18			**7**	104			**19**	122
ABS portfolio	**700**	962	**357**	355	**5,318**	6,336			**6,375**	7,653
	92,683	75,238	**2,239**	3,098	**10,579**	15,435	**2,584**	3,059	**108,085**	96,830

Approximately 90% (2013: 90%) of the exposure in the ABS portfolio is externally rated AAA, AA or A.

The Dutch Government Debt Securities (related to the restructured Illiquid Assets Back-Up Facility (IABF) was classified as Loans and advances to customers until repaid by the Dutch Government in early 2014 (2013: EUR 2.5 billion (USD 3.4 billion)). Reference is made to Note 50 ‘Transactions with the Dutch State and the European Commission Restructuring Plan’.

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	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Opening balance	**1,645**	2,634	**75,238**	71,645	**3,098**	6,545	**79,981**	80,824
Additions	**176**	46	**73,275**	78,663	**315**		**73,766**	78,709
Amortisation			**–238**	–69	**1**	–6	**–237**	–75
Transfers and reclassifications	**3**			–282			**3**	–282
Changes in unrealised revaluations	**1,020**	–235	**5,581**	–1,265	**–2**	–1	**6,599**	–1,501
Impairments	**–14**	–3		–1			**–14**	–4
Reversal of impairments			**1**	2			**1**	2
Disposals and redemptions	**–129**	–781	**–59,968**	–71,440	**–1,173**	–3,439	**–61,270**	–75,660
Exchange rate differences	**19**	–12	**438**	–2,001			**457**	–2,013
Changes in the composition of the group and other changes	**–2**	–4	**–1,644**	–14		–1	**–1,646**	–19
Closing balance	**2,718**	1,645	**92,683**	75,238	**2,239**	3,098	**97,640**	79,981

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

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	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
To/from loans and advances to customers / amounts due from banks				–282				–282
To/from Investment in associates	**3**						**3**	
	3			–282			**3**	–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.

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:		
2014		
Carrying value as at 31 December	**5,936**	**361**
Fair value as at 31 December	**5,982**	**426**
Unrealised fair value losses recognised in shareholder's equity (before tax) as at 31 December	**-98**	**0**
Effect on shareholder's equity (before tax) as at 31 December if reclassification had not been made	**46**	**65**
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)	**182**	**19**
Recognised impairments (before tax)	**nil**	**nil**
Recognised provision for credit losses (before tax)	**nil**	**nil**
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

Reclassifications to Loans and advances to customers and Amounts due from banks (continued)

	Q1 2009	Q4 2008
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
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

	2014	2013
Listed	**2,224**	1,134
Unlisted	**494**	511
	2,718	1,645

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 (2013: nil).

6 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers analysed by type

	Netherlands		International		Total	
	2014	2013	**2014**	2013	**2014**	2013
Loans to, or guaranteed by, public authorities	**26,504**	29,132	**18,894**	15,119	**45,398**	44,251
Loans secured by mortgages	**138,438**	144,161	**149,379**	147,764	**287,817**	291,925
Loans guaranteed by credit institutions	**2**	776	**1,995**	3,367	**1,997**	4,143
Personal lending	**4,852**	4,848	**23,541**	21,904	**28,393**	26,752
Asset backed securities			**5,318**	6,336	**5,318**	6,336
Corporate loans	**39,655**	41,192	**115,530**	99,865	**155,185**	141,057
	209,451	220,109	**314,657**	294,355	**524,108**	514,464
Loan loss provisions	**–3,058**	–2,970	**–2,931**	–3,165	**–5,989**	–6,135
	206,393	217,139	**311,726**	291,190	**518,119**	508,329

In 2014, the change in Loans and advances to customers includes EUR –4,388 million related to the deconsolidation of ING Vysya. Reference is made to Note 11 ‘Assets and liabilities held for sale’ and Note 51 ’Other events’. This overall change is offset by an increase in Loans and advances to customers mainly due to increased business and consumer lending and foreign currency developments.

In 2014, the change in Loans to, or guaranteed by, public authorities includes the repayment of EUR 2.7 billion by the Dutch State on the IABF loan. In 2013, EUR 5.1 billion was repaid by the Dutch State on the IABF loan.

In 2013, 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’.

Loans and advances to customers analysed by subordination

	2014	2013
Non-subordinated	**517,590**	507,833
Subordinated	**529**	496
	518,119	508,329

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 2014, Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 1,779 million (2013: EUR 810 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 and are detailed as follows:

Finance lease receivables

	2014	2013
Maturities of gross investment in finance lease receivables		
– within 1 year	3,108	3,924
– more than 1 year but less than 5 years	6,147	7,239
– more than 5 years	4,337	4,949
	13,592	16,112
Unearned future finance income on finance leases	–1,748	–2,364
Net investment in finance leases	11,844	13,748
Maturities of net investment in finance lease receivables		
– within 1 year	2,741	3,424
– more than 1 year but less than 5 years	5,299	6,283
– more than 5 years	3,804	4,041
	11,844	13,748
Included in		
– Amounts due from banks	59	73
– Loans and advances to customers	11,785	13,675
	11,844	13,748

The allowance for uncollectable finance lease receivables includes in the loan loss provisions an amount of EUR 269 million as at 31 December 2014 (2013: EUR 344 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.

Loan loss provisions analysed by type

		Netherlands		International		Total
	2014	2013	2014	2013	2014	2013
Loans to, or guaranteed by, public authorities			2	2	2	2
Loans secured by mortgages	1,069	1,265	793	631	1,862	1,896
Loans guaranteed by credit institutions			8	21	8	21
Personal lending	169	139	701	672	870	811
Asset backed securities			2	142	2	142
Corporate loans	1,820	1,566	1,431	1,716	3,251	3,282
	3,058	2,970	2,937	3,184	5,995	6,154
Included in						
– Amounts due from banks			6	19	6	19
– Loans and advances to customers	3,058	2,970	2,931	3,165	5,989	6,135
	3,058	2,970	2,937	3,184	5,995	6,154

Changes in the loan loss provisions

	2014	2013
Opening balance	6,154	5,505
Write-offs	–1,729	–1,609
Recoveries	104	116
Increase in loan loss provisions	1,594	2,289
Exchange rate differences	37	–109
Changes in the composition of the group and other changes	–165	–38
Closing balance	5,995	6,154

In 2014, Changes in the composition of the group and other changes includes EUR –170 million related to the deconsolidation of ING Vysya. Reference is made to Note 7 ‘Investments in associates and joint ventures’, Note 11 ‘Assets and liabilities held for sale’ and Note 51 ‘Other events’.

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 AND JOINT VENTURES

Investments in associates and joint ventures

2014	Interest held (%)	Fair value of listed investment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	25	801	558	19,208	17,564	545	341
Appia Group	30		35	626	497		
Ontwikkelingscombinatie Overhoeks C.V.	70		36	53	2	10	9
Ivy Retail SRL	50		33	122	57	2	2
Other investments in associates and joint ventures			199				
			861				

In 2014, the 2013 comparatives were adjusted due to the implementation of IFRS 11. Reference is made to Note 1 section ‘Changes in accounting policies in 2014’.

TMB Public Company Limited
TMB Public Company Limited (‘TMB’), is a public listed retail bank in Thailand.

Other
The other associates and joint ventures are mainly real estate investments funds or vehicles operating predominately in Europe.

Other investments in associates and joint ventures
ING Bank does not hold any interests in Investments in Associates and joint ventures that are individually significant to ING Bank.

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

Accumulated impairments of EUR 24 million (2013: EUR 25 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. 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.

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

Significant influence for associates in which the interest held is below 20%, is based on the combination on ING Bank’s financial interest and other arrangements, such as participation in the Board of Directors.

The associates and joint ventures 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 and joint ventures operate. In addition, the associates and joint ventures 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 and joint ventures

2013	Interest held (%)	Fair value of listed investment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	25	501	458	16397	15068	464	358
Allee Center Kft	50		94	158	5	12	
Ontwikkelingscombinatie Overhoeks C.V.	70		41	60	110	1	
ING Real Estate Asia Value Fund	24		34	242	96	18	
ING National-Nederlanden PTE	20		33	172	5	89	30
Appia Group Ltd	29		32	544	432		
Ivy Retail SRL	50		30	47	50	2	
Other investments in associates and joint ventures			215				
			937				

Changes in investments in associates and joint ventures

	2014	2013
Opening balance	**937**	1,055
Additions	**31**	32
Transfers to and from Investments	**–3**	
Revaluations	**15**	51
Share of results	**76**	22
Dividends received	**–37**	–21
Disposals	**–178**	–145
Exchange rate differences	**122**	–69
Changes in the composition of the group and other changes	**–102**	12
Closing balance	**861**	937

ING Vysya Bank Limited
ING Vysya Bank Limited (‘ING Vysya’) is a private bank with retail and wholesale activities. Following the deconsolidation of ING Vysya in the first quarter of 2014, ING Vysya was recognised as an associate during the year. The remaining interest in ING Vysya is presented as an associate held for sale at 31 December 2014. These transactions are included in Changes in the composition of the group and other changes. Reference is made to Note 11 ‘Assets and liabilities held for sale’, Note 22 ‘Result on disposal of group companies’ and Note 51 ‘Other events’.

Revaluations
In 2014, Revaluations includes EUR 10 million relating to Vysya (2013: nil) and nil relating to TMB (2013: EUR –2 million).

Share of results
In 2014, Share of results of EUR 76 million (2013: EUR 22 million) and Impairments of nil (2013: nil) are presented in the profit and loss account in Share of results from associates and joint ventures for EUR 76 million (2013: EUR 22 million).

In 2014, Share of results includes EUR 17 million relating to Vysya (2013: nil) and EUR 47 million (2013: EUR 24 million) relating to TMB.

Exchange rate differences
In 2014, Exchange rate differences includes EUR 47 million relating to Vysya (2013: nil) and EUR 63 million (2013: EUR –54 million) relating to TMB.

Changes in the composition of the group and other changes.
In 2014, Changes in the composition of the group and other changes includes EUR –67 million related to the recognition as associate and transfer of ING Vysya to held for sale. Reference is made to Note 11 ‘Assets and liabilities held for sale’ and Note 51 ‘Other events’.

Investments in associates and joint ventures

2012	Interest held (%)	Fair value of listed investment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	25	506	499	16474	15118	433	339
ING Real Estate Asia Retail Fund Ltd	26		107	475	50	62	1
Allee Center Kft	50		74	152	4	12	
Ontwikkelingscombinatie Overhoeks C.V.	70		46	69	3	–15	
Appia Group Ltd	29		33	649	521	202	195
Ivy Retail SRL	50		32	109	44	4	
ING Real Estate Asia Value Fund LP	23		31	271	134	10	1
ING National-Nederlanden PTE	20		28	148	7	87	33
Other investments in associates and joint ventures			205				
			1,055				

8 REAL ESTATE INVESTMENTS

Changes in real estate investments

	2014	2013
Opening balance	**55**	153
Transfers to and from Property in own use	**26**	
Transfers to and from Other assets	**–4**	–60
Fair value gains/(losses)	**3**	
Disposals		–36
Exchange rate differences		–2
Closing balance	**80**	55

The total amount of rental income recognised in profit and loss for the year ended 31 December 2014 is EUR 9 million (2013: EUR 74 million). The total amount of contingent rent recognised in the profit and loss account for the year ended 31 December 2014 is nil (2013: 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 2014 is EUR 4 million (2013: EUR 45 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 2014 is nil (2013: EUR 7 million).

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

in percentages	2014	2013
Most recent appraisal in the current year	**84**	100
Most recent appraisal one year ago	**16**	
	100	100

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

Real estate exposure

	2014	2013
Real estate investments	**80**	55
Investments in associates and joint ventures	**177**	322
Other assets – property development and obtained from foreclosures	**405**	743
Property and equipment – property in own use	**1,020**	1,143
Investments – available-for-sale	**99**	137
	1,781	2,400

Furthermore, the exposure is impacted by third party interests, leverage in funds and off-balance commitments, resulting in an overall exposure of EUR 1.7 billion (2013: EUR 2.5 billion). Reference is made to the section 'Risk management'.

9 PROPERTY AND EQUIPMENT

Property and equipment by type

	2014	2013
Property in own use	1,020	1,143
Equipment	998	1,070
Assets under operating leases	82	69
	2,100	2,282

Changes in property in own use

	2014	2013
Opening balance	1,143	1,203
Additions	63	34
Transfers to and from Real estate investments	–26	
Transfers to and from Other assets		–2
Depreciation	–18	–22
Revaluations	–44	11
Impairments	–36	–30
Reversal of impairments	5	6
Disposals	–28	–33
Exchange rate differences	1	–24
Changes in the composition of the group and other changes	–40	
Closing balance	1,020	1,143
Gross carrying amount as at 31 December	1,840	1,996
Accumulated depreciation as at 31 December	–612	–667
Accumulated impairments as at 31 December	–208	–186
Net carrying value as at 31 December	1,020	1,143
Revaluation surplus		
Opening balance	440	443
Revaluation in year	–74	–3
Closing balance	366	440

In 2014, changes in the composition of the group and other changes includes EUR –40 million related to the deconsolidation of ING Vysya.

The cost or the purchase price amounted to EUR 1,474 million (2013: EUR 1,556 million). Cost or the purchase price less accumulated depreciation and impairments would have been EUR 654 million (2013: EUR 703 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	2014	2013
Most recent appraisal in the current year	57	59
Most recent appraisal one year ago	14	18
Most recent appraisal two years ago	18	12
Most recent appraisal three years ago	4	4
Most recent appraisal four years ago	7	7
	100	100

Changes in equipment	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2014	2013	**2014**	2013	**2014**	2013
Opening balance	**289**	287	**781**	841	**1,070**	1,128
Additions	**124**	159	**168**	160	**292**	319
Disposals	**–13**	–17	**–13**	–8	**–26**	–25
Depreciation	**–122**	–135	**–185**	–188	**–307**	–323
Impairments	**–4**		**–3**		**–7**	
Reversal of impairments						
Exchange rate differences	**1**	–9	**1**	–12	**2**	–21
Changes in the composition of the group and other changes	**–10**	4	**–16**	–12	**–26**	–8
Closing balance	**265**	289	**733**	781	**998**	1,070
Gross carrying amount as at 31 December	**1,052**	1,262	**2,368**	2,321	**3,420**	3,583
Accumulated depreciation as at 31 December	**–786**	–972	**–1,635**	–1,540	**–2,421**	–2,512
Accumulated impairments as at 31 December	**–1**	–1			**–1**	–1
Net carrying value as at 31 December	**265**	289	**733**	781	**998**	1,070

10 INTANGIBLE ASSETS

Changes in intangible assets	Goodwill		Software		Other		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Opening balance	**1,035**	1,188	**538**	526	**33**	64	**1,606**	1,778
Capitalised expenses			**127**	144			**127**	144
Additions			**130**	127			**130**	127
Disposals			**–2**				**–2**	
Amortisation			**–237**	–234	**–13**	–27	**–250**	–261
Impairments			**–1**	–7			**–1**	–7
Changes in the composition of the group and other changes			**20**	–14			**20**	–14
Exchange rate differences	**26**	–153	**–1**	–4		–4	**25**	–161
Closing balance	**1,061**	1,035	**574**	538	**20**	33	**1,655**	1,606
Gross carrying amount as at 31 December	**1,061**	1,035	**1,579**	1,425	**24**	188	**2,664**	2,648
Accumulated amortisation as at 31 December			**–1,002**	–874	**–2**	–153	**–1,004**	–1,027
Accumulated impairments as at 31 December			**–3**	–13	**–2**	–2	**–5**	–15
Net carrying value as at 31 December	**1,061**	1,035	**574**	538	**20**	33	**1,655**	1,606

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 2014 (2013: nil).

Allocation of Goodwill to reporting units
Goodwill is allocated to reporting units as follows:

Goodwill allocation to reporting units

	2014	2013
Retail Banking Netherlands		1
Retail Banking Belgium	50	50
Retail Banking Germany	349	349
Retail Banking Central Europe	638	611
Commercial Banking	24	24
	1,061	1,035

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 book 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 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.

In both 2014 and 2013, the first step as described above indicates that there is a significant excess of recoverable amount over book value for both reporting units to which goodwill is allocated. As a result, a second step was not necessary and there is no significant exposure of goodwill impairment for sensitivities in the underlying assumptions.

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 2014, Assets and liabilities held for sale relates to the associates ING Vysya Bank and to ING Nationale Nederlanden PTE Polska, SA. As at 31 December 2014, the Investment in associate of 43% in ING Vysya amounts to EUR 704 million.

As at 31 December 2013 there are no businesses that are classified as held for sale. 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

	2014
Investment in associate ING Vysya Bank	704
Investment in associate ING Nationale Nederlanden PTE Polska, SA	25
Investment in associates and joint ventures	729

Shareholders' equity
Included in Shareholders' equity is cumulative other comprehensive income of nil (2013: nil) related to Assets and liabilities held for sale.

Goodwill
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 2014.

12 OTHER ASSETS

Other assets by type

	2014	2013	2012
Net defined benefit assets	589	624	919
Deferred tax assets	1,126	1,305	2,139
Property development and obtained from foreclosures	405	743	961
Income tax receivable	289	459	514
Accrued interest and rents	6,887	8,054	9,665
Other accrued assets	590	687	502
Other	4,165	6,012	4,505
	14,051	17,884	19,205

In 2014, the change in other assets includes EUR –195 million related to the deconsolidation of ING Vysya. Reference is made to Note 11 'Assets and liabilities held for sale' and Note 51 'Other events'.

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

	2014	2013
Property under development	1	14
Property developed	319	658
Property obtained from foreclosures	85	71
	405	743
Gross carrying amount as at 31 December	887	1,534
Accumulated impairments as at 31 December	–482	–791
Net carrying value	405	743

The total amount of borrowing costs relating to Property development and obtained from foreclosures, capitalised in 2014 is nil (2013: nil).

Accrued interest and rents
Accrued interest and rents includes EUR 3,191 million (2013: EUR 3,269 million) accrued interest on assets measured at amortised cost under the IAS 39 classification Loans and receivables.

Other
Other includes EUR 2,144 million (2013: EUR 3,400 million) related to transactions still to be settled at balance sheet date.

EQUITY

13 EQUITY

Total equity

	2014	2013	2012
Share capital	525	525	525
Share premium	16,542	16,542	16,542
Revaluation reserve	4,781	1,414	2,216
Currency translation reserve	–609	–989	–263
Net defined benefit asset/liability remeasurement reserve	–370	–2,671	–1,860
Other reserves	17,195	17,984	17,804
Shareholder's equity (parent)	38,064	32,805	34,964
Minority interest	622	955	843
Total equity	38,686	33,760	35,807

The following equity components cannot be freely distributed: Revaluation reserve, Share of associates reserve (included in Other reserves), Currency translation reserve, Net defined benefit asset/liability remeasurement 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 2014, an amount of EUR 1,070 million (2013: EUR 987 million; 2012: EUR 911 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	
	2014	2013	2014	2013	2014	2013	2014	2013
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 2014, 2013 and 2012.

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 general meeting 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 2014

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.

Revaluation reserve

Changes in revaluation reserve

2014	Property in own use reserve	Available-for-sale reserve and other	Cash flow hedge reserve	Total
Opening balance	320	1,870	–776	1,414
Unrealised revaluations	–29	1,866		1,837
Realised gains/losses transferred to profit and loss		–121		–121
Changes in cash flow hedge reserve			1,651	1,651
Closing balance	291	3,615	875	4,781

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

Currency translation reserve

Changes in currency translation reserve

	2014	2013	2012
Opening balance	**-989**	–263	209
Unrealised revaluations	**–6**	302	–116
Exchange rate differences	**386**	–1,028	–356
Closing balance	**–609**	–989	–263

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
The change in the Net defined benefit asset/liability remeasurement reserve relates mainly 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 35 'Pension and other post-employment benefits'.

Other reserves

Changes in other reserves

2014	**Retained earnings**	**Share of associates and joint ventures reserve**	**Treasury shares**	**Other reserves**	**Total**
Opening balance	**16,416**	**328**		**1,240**	**17,984**
Result for the year	**2,661**			**83**	**2,744**
Dividend	**–1,225**				**–1,225**
Employee stock options and share plans	**55**				**55**
Transfer from net defined benefit asset/liability in the remeasurement reserve	**–2,389**				**–2,389**
Changes in the composition of the group and other changes		**35**		**–9**	**26**
Closing balance	**15,518**	**363**		**1,314**	**17,195**

Transfer from net defined benefit asset/liability in the remeasurement reserve includes a decrease of EUR 2,235 million in Retained earnings as result of the realisation of part of the Net defined benefit asset/liability remeasurement reserve due to the financial independence of the Dutch ING Pension Fund.

Changes in other reserves

2013	Retained earnings	Share of associates and joint ventures 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

Changes in other reserves

2012	Retained earnings	Share of associates and joint ventures 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	–34	24		22	12
Closing balance	16,288	363		1,153	17,804

Minority interest

In 2014, the decrease of EUR 333 million in minority interest is mainly due to the deconsolidation of Vysya Bank (EUR –432 million). Reference is made to Note 51 ‘Other events’.

Following the deconsolidation of ING Vysya in 2014 there are no remaining minority interest relating to ING Vysya. These and other equity movements are disclosed in the consolidated statement of changes in equity.

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 5,727 million (2013: EUR 5,123 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 4.5% (2013: 4.7%). The interest expense during the year 2014 was EUR 716 million (2013: EUR 707 million).

ING Bank redeemed the EUR 1.1 billion 8% ING Perpetual Hybrid Capital Securities per the call date of 18 April 2014. The Tier 1 hybrid was replaced by the EUR 1.5 billion 3.625% CRD-IV eligible Tier 2 securities that were successfully issued by ING Bank in February 2014.

The subordinated loans increased in 2014 with USD 1.3 billion for CRD IV compliancy purposes. A new subordinated loan of USD 1.5 billion was obtained from ING Group.

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.

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

	2014	2013
Fixed rate debt securities		
Within 1 year	**42,621**	37,249
More than 1 year but less than 2 years	**9,164**	9,668
More than 2 years but less than 3 years	**5,793**	8,727
More than 3 years but less than 4 years	**7,872**	5,411
More than 4 years but less than 5 years	**5,952**	7,836
More than 5 years	**23,153**	23,781
Total fixed rate debt securities	**94,555**	92,672
Floating rate debt securities		
Within 1 year	**9,330**	12,642
More than 1 year but less than 2 years	**6,169**	4,038
More than 2 years but less than 3 years	**3,220**	1,867
More than 3 years but less than 4 years	**380**	1,591
More than 4 years but less than 5 years	**1,793**	338
More than 5 years	**5,512**	9,151
Total floating rate debt securities	**26,404**	29,627
Total debt securities	**120,959**	122,299

As at 31 December 2014, ING Bank had unused lines of credit available including the payment of commercial paper borrowings relating to debt securities in issue of EUR 11,532 million (2013: EUR 8,081 million).

Dutch government guaranteed notes

The following bonds were issued under the Credit Guarantee Scheme of the Dutch State. These bonds were fully repaid in 2014. ING paid 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 was a remaining amount of approximately EUR 2.72 billion outstanding on these bonds. These bonds were repaid on 3 March 2014;
- 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 was a remaining amount of approximately USD 1.26 billion outstanding on these bonds. These bonds were repaid on 19 March 2014; 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. These bonds were repaid 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) was 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 which were 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) was 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 was 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	
	2014	2013	**2014**	2013	**2014**	2013
Non-interest bearing	**205**	1,536	**691**	620	**896**	2,156
Interest bearing	**9,572**	5,750	**19,535**	19,294	**29,107**	25,044
	9,777	7,286	**20,226**	19,914	**30,003**	27,200

In 2014, the change in Amounts due to Banks includes EUR –1,683 million related to the deconsolidation of ING Vysya. Reference is made to Note 11 'Assets and liabilities held for sale' and Note 51 'Other events'.

In 2014, ING participated in the targeted longer-term refinancing operations ('TLTRO') of the European central bank for an amount of EUR 5.7 billion. The TLTRO aims to stimulate lending to the real economy in the Eurozone. The interest rate on the TLTRO's is fixed over the life of each operation at 15 bps (i.e. MRO level prevailing at the time of allotment of 5 bps plus a fixed spread of 10 basis points). Starting 24 months after each TLTRO, ING has the option to repay any part of the amounts allotted in that TLTRO at a semi-annual frequency. Parties that utilised the TLTRO's, but whose eligible net lending in the period from 1 May 2014 to 30 April 2016 is below the benchmark, will be required to repay the TLTRO's in September 2016.

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

	2014	2013
Savings accounts	**295,532**	284,069
Credit balances on customer accounts	**140,707**	130,067
Corporate deposits	**51,501**	59,767
Other	**1,541**	872
	489,281	474,775

Customer deposits and other funds on deposit by type

	Netherlands		International		Total	
	2014	2013	**2014**	2013	**2014**	2013
Non-interest bearing	**13,059**	12,277	**10,417**	9,589	**23,476**	21,866
Interest bearing	**149,706**	150,858	**316,099**	302,051	**465,805**	452,909
	162,765	163,135	**326,516**	311,640	**489,281**	474,775

In 2014, the change in Customer deposits and other funds on deposit includes EUR –3,817 million related to the deconsolidation of ING Vysya. Reference is made to Note 11 ‘Assets and liabilities held for sale’ and Note 51 ’Other events’. This overall change is offset by an increase in interest bearing customer deposits and other funds on deposit mainly relates to increased savings and current accounts compensated by a decrease in corporate deposits.

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

	2014	2013
Trading liabilities	**97,091**	73,491
Non-trading derivatives	**6,357**	9,676
Designated as at fair value through profit and loss	**13,551**	13,855
	116,999	97,022

In 2014, the change in Financial liabilities at fair value through profit and loss includes EUR –248 million related to the deconsolidation of ING Vysya. Reference is made to Note 11 ‘Assets and liabilities held for sale’ and Note 51 ’Other events’.

The increase in Financial liabilities at fair value through profit and loss mainly relates to an increase in the fair value of derivatives due to a decrease in long-term interest rates and to an increase in repurchase funding.

Trading liabilities by type

	2014	2013
Equity securities	**4,658**	3,713
Debt securities	**6,661**	7,396
Funds on deposit	**37,753**	32,880
Derivatives	**48,019**	29,502
	97,091	73,491

In 2014, the increase in trading equity securities are mainly due to new trades. The increase in the trading derivatives is mainly due to changes in fair value resulting from market interest rates. The increase is substantially mitigated by a similar increase in Trading derivative assets. 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	2014	2013
Derivatives used in		
– fair value hedges	**3,210**	4,063
– cash flow hedges	**1,663**	4,091
– hedges of net investments in foreign operations	**100**	43
Other non-trading derivatives	**1,384**	1,479
	6,357	9,676

Designated as at fair value through profit and loss by type	2014	2013
Debt securities	**12,417**	12,415
Funds entrusted	**409**	536
Subordinated liabilities	**725**	904
	13,551	13,855

In 2014, 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 -98 million (2013: EUR –129 million) and EUR –282 million (2013: –167 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 12,568 million (2013: EUR 13,427 million).

19 OTHER LIABILITIES

Other liabilities by type	2014	2013	2012
Deferred tax liabilities	**872**	334	1,571
Income tax payable	**442**	342	809
Net defined benefit liability	**607**	285	133
Other post-employment benefits	**101**	96	143
Other staff-related liabilities	**408**	411	396
Other taxation and social security contributions	**584**	657	817
Accrued interest	**5,652**	7,055	9,616
Costs payable	**1,713**	1,417	1,458
Reorganisation provisions	**728**	420	644
Other provisions	**289**	314	558
Prepayments received for Property under development			21
Amounts to be settled	**2,475**	3,493	2,145
Other	**2,204**	2,910	2,900
	16,075	17,734	21,211

In 2014, the change in Other liabilities includes EUR –266 million related to the deconsolidation of ING Vysya. Reference is made to Note 11 ‘Assets and liabilities held for sale’ and Note 51 ’Other events’.

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 include vacation leave provisions, variable compensation provisions, jubilee provisions and disability/illness provisions.

Reorganisation provisions

Changes in reorganisation provision	2014	2013
Opening balance	**420**	644
Additions	**487**	252
Interest		1
Releases	**–18**	–30
Charges	**–161**	–438
Exchange rate differences	**5**	–4
Changes in the composition of the group and other changes	**–5**	–5
Closing balance	**728**	420

In 2014, the increase in Reorganisation provisions mainly includes a reorganisation provision of EUR 349 million recognised in the segment Retail Netherlands relating to an expected reduction of the workforce of around 1,700 FTE's over the next three years. In addition, ING will reduce the number of positions employed by external suppliers by 1,075.

In 2013, a reorganisation provision of EUR 167 million was 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 was recognised in ING Belgium related to an expected reduction of the workforce of around 1,100 FTEs over a period of two 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

		Litigation		Other		Total
	2014	2013	2014	2013	2014	2013
Opening balance	**175**	198	**139**	360	**314**	558
Additions	**30**	20	**5**	13	**35**	33
Releases	**–16**	–40	**–51**	–23	**–67**	–63
Charges	**–11**	–2	**–1**	–224	**–12**	–226
Exchange rate differences	**1**	–5	**1**	–12	**2**	–17
Changes in the composition of the group and other changes	**11**	4	**6**	25	**17**	29
Closing balance	**190**	175	**99**	139	**289**	314

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

	2014	2013	2012
Interest income on loans	**20,191**	21,534	24,752
Interest income on impaired loans	**1**	15	41
Total interest income on loans	**20,192**	21,549	24,793
Interest income on available-for-sale securities	**2,009**	2,071	2,507
Interest income on held-to-maturity securities	**83**	158	297
Interest income on trading portfolio	**18,327**	19,882	24,616
Interest income on non-trading derivatives (no hedge accounting)	**1,684**	1,175	1,578
Interest income on non-trading derivatives (hedge accounting)	**5,977**	6,675	6,297
Other interest income	**98**	64	183
Total interest income	**48,370**	51,574	60,271
Interest expense on deposits by banks	**338**	440	623
Interest expense on customer deposits and other funds on deposit	**5,356**	6,618	9,140
Interest expense on debt securities	**2,593**	3,009	3,576
Interest expense on subordinated loans	**716**	707	742
Interest expense on trading liabilities	**17,716**	19,368	24,047
Interest expense on non-trading derivatives (no hedge accounting)	**1,512**	1,205	1,528
Interest expense on non-trading derivatives (hedge accounting)	**7,123**	7,874	7,905
Other interest expense	**410**	389	462
Total interest expense	**35,764**	39,610	48,023
Interest result	**12,606**	11,964	12,248

Interest margin

In percentages	2014	2013	2012
Interest margin	**1.53**	1.44	1.34

In 2014, the decrease in total average assets, partly attributable to the deconsolidation of ING Vysya Bank and the additional transfers of assets of WestlandUtrecht Bank to NN Group, leads to an decrease of EUR 154 million in the interest result. In addition, an improvement of the interest margin of 9 basis points led to an EUR 797 million increase in the interest result.

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 2014, total interest income and total interest expense for items not valued at fair value through profit and loss were EUR 28,307 million and EUR 16,204 million respectively (2013: EUR 30,438 million and EUR 18,726 million; 2012: EUR 33,919 million and EUR 22,082 million).

21 INVESTMENT INCOME

Investment income

	2014	2013	2012
Income from real estate investments	6	23	16
Dividend income	36	94	64
	42	117	80
Realised gains/losses on disposal of debt securities	142	129	198
Impairments of available-for-sale debt securities		–1	–16
Reversal of impairments of available-for-sale debt securities	1	2	
Realised gains/losses and impairments on debt securities	143	130	182
Realised gains/losses on disposal of equity securities	39	61	367
Impairments of available-for-sale equity securities	–14	–3	–22
Realised gains/losses and impairments on equity securities	25	58	345
Change in fair value of real estate investments	3		–12
Investment income	213	305	595

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’.

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		
	2014	2013	2012	2014	2013	2012
Retail Belgium			–1			
Commercial Banking	–14	–3	–26	1	2	
Corporate Line Banking		–1	–11			
	–14	–4	–38	1	2	

22 RESULT ON DISPOSALS OF GROUP COMPANIES

Result on disposals of group companies

	2014	2013	2012
ING Vysya	202		
ING Direct USA		5	743
ING Direct Canada		1	1,124
ING Direct UK		10	–260
Other	–7	10	–2
	195	26	1,605

In 2014, Result of disposal of group companies includes EUR 202 million profit on the deconsolidation of ING Vysya. Reference is made to Note 7 ‘Investments in associates and joint ventures’, Note 11 ‘Assets and liabilities held for sale’ and Note 51 ‘Other events’.

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

23 COMMISSION INCOME

Gross fee and commission income

	2014	2013	2012
Funds transfer	**1,006**	982	956
Securities business	**538**	529	511
Asset management fees	**163**	155	132
Brokerage and advisory fees	**370**	334	337
Insurance broking	**172**	152	164
Other	**1,065**	1,193	1,009
	3,314	3,345	3,109

Other includes commission fees of EUR 163 million (2013: EUR 215 million; 2012: EUR 230 million) in respect of bank guarantees and commission fees of EUR 23 million (2013: EUR 27 million; 2012: EUR 17 million) in respect of underwriting syndication loans.

Fees and commission expenses

	2014	2013	2012
Funds transfer	**355**	365	336
Securities business	**151**	111	98
Asset management fees	**6**	29	10
Brokerage and advisory fees	**87**	82	86
Insurance broking	**14**	8	2
Other	**410**	510	444
	1,023	1,105	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

	2014	2013	2012
Change in fair value of derivatives relating to			
– fair value hedges	**–486**	1,180	–470
– cash flow hedges (ineffective portion)	**35**	4	17
– other non-trading derivatives	**128**	422	25
Net result on non-trading derivatives	**–323**	1,606	–428
Change in fair value of assets and liabilities (hedged items)	**536**	–1,272	579
Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading)	**–583**	–53	–1,101
Net valuation results	**–370**	281	–950

Included in the Valuation results on non-trading derivatives are the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. The fair value movements on the derivatives are influenced by changes in the market conditions, such as stock prices, interest rates and currency exchange rates.

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 2014 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 632 million negative (2013: EUR 136 million negative), of which DVA adjustment on own issued notes in 2014 amounted to EUR 98 million negative (2013: EUR 129 million negative).

25 NET TRADING INCOME

Net trading income

	2014	2013	2012
Securities trading results	**673**	129	252
Foreign exchange transactions results	**–521**	–137	–162
Derivatives trading results	**425**	412	898
Other	**–16**	81	113
	561	485	1,101

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 2014 amounts to EUR –18 million (2013: EUR –105 million; 2012: EUR 118 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 2014 Net trading income – Derivatives trading results includes EUR 205 million negative CVA/DVA adjustments on trading derivatives, compared with EUR 243 million positive CVA/DVA adjustment in 2013.

In 2014, Net trading income includes EUR –521 million (2013: EUR –137 million) foreign exchange results.

26 OTHER INCOME

Other Income

	2014	2013	2012
Net operating lease income	**5**	1	1
Income from real estate development projects		32	22
Other	**97**	–29	–479
	102	4	–456

Net operating lease income comprises income of EUR 23 million (2013: EUR 18 million; 2012: EUR 2 million) and depreciation of EUR 18 million (2013: EUR 17 million; 2012: EUR 1 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 50 'Transactions with the Dutch state and the European Commission restructuring plan'.

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

27 INTANGIBLE AMORTISATION AND OTHER IMPAIRMENTS

Intangible amortisation and (reversals of) impairments

	Impairment losses			Reversals of impairments			Total		
	2014	2013	2012	**2014**	2013	2012	**2014**	2013	2012
Property and equipment	**43**	30	24	**–5**	–6	–7	**38**	24	17
Property development	**36**	84	161		–6		**36**	78	161
Software and other intangible assets	**1**	7	4				**1**	7	4
(Reversals of) other impairments	**80**	121	189	**–5**	–12	–7	**75**	109	182
Amortisation of other intangible assets							**13**	27	29
							88	136	211

In 2014, EUR 36 million impairments are recognised on Property development relating to real estate development projects and properties obtained from foreclosures.

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.

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

	2014	2013	2012
Salaries	**3,149**	3,248	3,419
Pension costs	**1,209**	255	–249
Other staff-related benefit costs	**9**	–24	9
Social security costs	**514**	512	532
Share-based compensation arrangements	**55**	58	106
External employees	**623**	636	625
Education	**57**	60	63
Other staff costs	**167**	169	203
	5,783	4,914	4,708

In 2014, a charge of EUR 871 million is recognised in Pensions costs related to the Dutch defined benefit plan settlement. Reference is made to Note 35 ‘Pension and other post-employment benefits’ for information on pensions.

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 nil (2013: EUR 15.7 million; 2012: EUR 16.1 million), which is included in the table above.

Number of employees

	Netherlands			International			Total		
	2014	2013	2012	**2014**	2013	2012	**2014**	2013	2012
Average number of employees at full time equivalent basis [1]	**15,209**	16,155	18,072	**40,736**	48,218	48,807	**55,945**	64,373	66,879

[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 55 million (2013: EUR 58 million; 2012: EUR 106 million) relating to equity-settled share-based payment arrangements and nil (2013: nil; 2012: 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'.

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 2014 no share awards (2013: nil; 2012: nil) were granted to the members of the Executive Board of ING Groep N.V., 125,383 share awards (2013: 159,988; 2012: 134,091) were granted to the Management Board of ING Bank. To senior management and other employees of ING Bank 5,342,269 share awards (2013: 8,089,093; 2012: 10,296,631) 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 2014, ING Group holds no own shares (2013: nil; 2012: 26,429,948) in order to fulfil its obligations with regard to the existing stock 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)		
	2014	2013	2012	**2014**	2013	2012
Opening balance	**41,354,477**	51,371,539	63,948,687	**15.98**	14.82	15.53
Exercised or transferred	**–2,765,824**	–2,924,484	–1,497,290	**4.83**	3.65	3.40
Forfeited	**–350,831**	–625,828	–459,740	**15.98**	11.32	11.98
Expired	**–6,091,175**	–6,466,750	–10,620,118	**16.54**	12.80	20.97
Closing balance	**32,146,647**	41,354,477	51,371,539	**16.84**	15.98	14.82

The weighted average share price at the date of exercise for options exercised in 2014 is EUR 10.60 (2013: EUR 8.24; 2012: EUR 6.15).

Changes in option rights non-vested

	Options non-vested (in numbers)			Weighted average grant date fair value (in euros)		
	2014	2013	2012	**2014**	2013	2012
Opening balance	**0**	9,535,407	18,254,509	**0.00**	3.26	2.68
Vested or transferred		–9,230,828	–8,481,339		3.26	2.02
Forfeited		–304,579	–237,763		3.21	2.70
Closing balance	**0**	0	9,535,407	**0.00**	0.00	3.26

Summary of stock options outstanding and exercisable

2014 Range of exercise price in euros	**Options outstanding as at 31 December 2014**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options exercisable as at 31 December 2014**	**Weighted average remaining contractual life**	**Weighted average exercise price**
0.00 – 5.00	**2,874,797**	**3.46**	**2.87**	**2,874,797**	**3.46**	**2.87**
5.00 – 10.00	**5,595,047**	**5.20**	**7.39**	**5,595,047**	**5.20**	**7.39**
10.00 – 15.00	**103,135**	**3.71**	**14.35**	**103,135**	**3.71**	**14.35**
15.00 – 20.00	**12,838,282**	**1.46**	**17.35**	**12,838,282**	**1.46**	**17.35**
20.00 – 25.00	**4,733,530**	**1.51**	**24.57**	**4,733,530**	**1.51**	**24.57**
25.00 – 30.00	**6,001,856**	**1.33**	**25.19**	**6,001,856**	**1.33**	**25.19**
	32,146,647			**32,146,647**		

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		

As at 31 December 2014, the aggregate intrinsic values of options outstanding and exercisable are EUR 42 million (2013: EUR 49 million) and EUR 42 million (2013: EUR 49 million) respectively.

As at 31 December 2014, total unrecognised compensation costs related to stock options amounted to nil (2013: nil; 2012: EUR 2 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% - 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

	2014	2013	2012
Depreciation of property and equipment	**325**	345	362
Amortisation of software	**237**	234	214
Computer costs	**705**	695	725
Office expenses	**620**	649	713
Travel and accommodation expenses	**140**	146	157
Advertising and public relations	**405**	404	495
External advisory fees	**225**	223	253
Postal charges	**59**	79	80
Addition/(releases) of provision for reorganisations and relocations	**469**	222	457
Other	**1,169**	758	1,255
	4,354	3,755	4,711

Other operating expenses include lease and sublease payments in respect of operating leases of EUR 239 million (2013: EUR 206 million; 2012: EUR 234 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.

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 2014, Other operating expenses – Other include EUR 304 million related to the SNS Reaal one-time levy, and includes EUR 138 million (2013: EUR 149 million) related to the Netherlands bank tax.

In 2012, Other operating expenses – Other included the settlement with US authorities of EUR 473 million and the Netherlands bank tax of EUR 175 million.

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

	2014	2013	2012
Interest received	**49,537**	53,186	61,789
Interest paid	**–37,174**	–42,171	–48,958
	12,363	11,015	12,831
Dividend received	**70**	111	97
Dividend paid	**–1,225**	–2,955	–2,125

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

	2014	2013	2012
Treasury bills and other eligible bills	**677**	574	518
Amounts due from/to banks	**–2,036**	1,015	4,633
Cash and balances with central banks	**12,222**	11,920	15,447
Cash and cash equivalents at end of year	**10,863**	13,509	20,612

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

	2014	2013	2012
Treasury bills and other eligible bills included in trading assets	**457**	489	79
Treasury bills and other eligible bills included in available-for-sale investments	**220**	85	439
	677	574	518

Amounts due to/from banks

	2014	2013	2012
Included in cash and cash equivalents			
– amounts due to banks	**–11,825**	–11,451	–12,147
– amounts due from banks	**9,789**	12,466	16,780
	–2,036	1,015	4,633
Not included in cash and cash equivalents			
– amounts due to banks	**–18,178**	–15,749	–26,557
– amounts due from banks	**27,333**	30,530	22,273
	9,155	14,781	–4,284
Total as included in balance sheet			
– amounts due to banks	**–30,003**	–27,200	–38,704
– amounts due from banks	**37,122**	42,996	39,053
	7,119	15,796	349

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.

SEGMENT REPORTING

33 SEGMENTS

ING Bank's segments are based on the internal reporting structure by lines of business.

The following table specifies 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.

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.

As of 1 January 2014, certain changes were made with regard to the allocation of costs to the various segments. These changes were made to reflect reporting changes with respect to funding costs and Dutch banking tax. ING has transferred the results treasury activities within Commercial Banking to Corporate Line Banking to isolate the costs for replacing short-term with long-term funding, which mainly consists of negative interest results. Additionally, in order to allocate the Dutch Banking tax, these costs will be transferred from Corporate Line Banking to the relevant business lines from 2014 onwards. The comparatives were adjusted to reflect the new segment structure.

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 Underlying result is 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.

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.

Segments

2014	Retail Netherlands	Retail Belgium	Retail Germany	Retail Rest of World	Commercial Banking	Corporate line Banking	Total
Underlying income							
- Net interest result	3,818	1,974	1,519	1,792	3,473	30	12,606
- Commission income	469	377	143	344	960	–2	2,290
- Total investment and other income	–36	139	–41	188	494	–169	574
Total underlying income	4,250	2,490	1,621	2,324	4,927	–141	15,471
Underlying expenditure							
- Operating expenses	2,621	1,502	774	1,499	2,393	88	8,877
- Additions to loan loss provision	714	142	72	165	500		1,594
- Other impairments*	27	2		9	37	14	88
Total underlying expenses	3,362	1,646	846	1,673	2,930	102	10,559
Underlying result before taxation	888	844	775	651	1,997	–243	4,912
Taxation	231	243	250	142	458	–53	1,271
Minority interests		1	1	51	26		79
Underlying net result	657	600	524	458	1,513	–190	3,562
Divestments				202			202
Special items	–63					-957	–1,021
Net result	594	600	524	660	1,513	–1,147	2,744

* Analysed as part of operating expenses

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

2014	Income	Expenses	Net result
Underlying	15,471	10,559	3,562
Divestments	202		202
Special items		1,259	–1,021
IFRS-EU	15,674	11,818	2,744

Divestments in 2014 reflect the result on the deconsolidation of ING Vysya Bank following changes to the governance structure.

Special items in 2014 include the impact (after tax) of the charges for making the Dutch Defined Benefit pension fund financially independent, the levy related to the SNS Reaal nationalisation and additional charges related to the restructuring programme in Retail Netherlands announced before 2013.

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	3,292	205	11,980
Commission income	463	346	114	361	964	-9	2,239
Total investment and other income	42	158	–40	235	1,156	–434	1,117
Total underlying income	4,079	2,321	1,388	2,374	5,412	–238	15,337
Underlying expenditure							
Operating expenses	2,344	1,471	709	1,628	2,308	87	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	3,245	1,658	791	1,911	3,252	114	10,971
Underlying result before taxation	834	663	598	464	2,160	–352	4,365
Taxation	221	196	188	111	520	–147	1,088
Minority interests		–4	1	66	27		90
Underlying net result	613	470	409	287	1,613	–206	3,187
Divestments				–42			–42
Special items	–107					25	–82
Net result	506	470	409	245	1,613	–181	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

Divestments in 2013 related to the sale of ING Direct UK.

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.

Segments

2012	Retail Netherlands	Retail Belgium	Retail Germany	Retail Rest of World	Commercial Banking	Corporate line Banking	Total
Underlying income							
Net interest result	3,377	1,723	1,141	1,740	3,655	307	11,944
Commission income	485	335	87	339	907	6	2,160
Total investment and other income	35	136	–36	–273	637	-94	406
Total underlying income	3,897	2,194	1,193	1,807	5,200	219	14,510
Underlying expenditure							
Operating expenses	2,280	1,419	669	1,626	2,299	133	8,427
Additions to loan loss provision	665	168	83	250	955		2,121
Other impairments*	13	6			162	29	211
Total underlying expenses	2,958	1,593	752	1,877	3,416	162	10,759
Underlying result before taxation	939	601	441	–70	1,784	57	3,751
Taxation	244	168	161	33	491	–35	1,063
Minority interests			1	66	23		91
Underlying net result	695	433	278	–170	1,269	92	2,597
Divestments				1,278			1,278
Special items	–284	–22			–129	–160	–595
Net result	411	411	278	1,109	1,140	–69	3,281

* Analysed as part of operating expenses

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	16,299	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.

Interest income and interest expenses breakdown by segments

2014	**Retail Netherlands**	**Retail Belgium**	**Retail Germany**	**Retail Rest of World**	**Commercial Banking**	**Corporate line Banking**	**Total external**
Interest income	**7,496**	**2,444**	**3,597**	**4,059**	**29,227**	**1,548**	**48,370**
Interest expense	**1,186**	**661**	**2,269**	**2,340**	**25,988**	**3,320**	**35,764**
	6,310	**1,783**	**1,328**	**1,719**	**3,239**	**–1,773**	**12,606**

Interest income and interest expenses breakdown by segments

2013	Retail Netherlands	Retail Belgium	Retail Germany	Retail Rest of World	Commercial 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 Netherlands	Retail Belgium	Retail Germany	Retail Rest of World	Commercial 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
	6,033	1,687	1,063	1,980	2,875	–1,389	12,248

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

2014	**Netherlands**	**Belgium**	**Rest of Europe**	**North America**	**Latin America**	**Asia**	**Australia**	**Other**	**Eliminations**	**Total**
Total income	**4,889**	**3,191**	**5,623**	**531**	**45**	**634**	**512**	**241**	**9**	**15,674**
Total assets	**479,145**	**170,113**	**358,269**	**60,243**	**1,342**	**45,008**	**35,607**	**711**	**–321,836**	**828,602**

Geographical areas

2013	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Other	Eliminations	Total
Total income	4,815	3,297	5,287	575	60	836	449		9	15,327
Total assets	444,134	153,016	327,688	55,430	1,966	42,651	34,420	301	–272,040	787,566

Geographical areas

2012	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Other	Eliminations	Total
Total income	7,009	3,020	4,047	1,007	64	766	453		–68	16,299
Total assets	498,886	171,669	327,763	51,592	2,051	42,807	41,734	220	–302,401	834,321

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.

The table below provides additional information for the year 2014 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	Result before tax	Taxation	Public Subsi-dies (2)
Netherlands	Netherlands	ING Bank NV	Commercial banking/ Retail banking	15,209	4,889	299,259	–1,137	–124	
Belgium	Belgium	ING België N.V.	Commercial banking/ Retail banking	9,906	3,191	132,103	1,253	345	
	Luxemburg	ING Luxembourg S.A.	Commercial banking/ Retail banking	762	219	6,894	99	8	
Rest of Europe	Poland	ING Bank Slaski S.A.	Commercial banking/ Retail banking	8,644	842	23,161	328	71	
	Turkey	ING Bank A.S.	Retail banking	6,033	567	14,724	150	32	
	Germany	ING DiBa A.G.	Retail banking	3,845	1,752	125,944	891	280	
	Romania	Branch of ING Bank N.V.	Retail banking	1,447	203	3,943	71	14	
	Spain	Branch of ING Bank N.V.	Retail banking	993	417	23,902	155	50	
	Italy	Branch of ING Bank N.V.	Commercial banking/ Retail banking	786	272	15,679		6	
	UK	Branch of ING Bank N.V.	Commercial banking	659	496	40,704	310	7	
	France	Branch of ING Bank N.V.	Commercial banking/ Retail banking	621	238	5,597	82	1	2
	Russia	ING Bank (Eurasia) Z.A.O.	Commercial banking	320	85	3,370	24	4	
	Czech Republic	Branch of ING Bank N.V.	Commercial banking	226	54	2,351	20	4	
	Hungary	Branch of ING Bank N.V.	Commercial banking	174	45	1,809	15	6	
	Slovakia	Branch of ING Bank N.V.	Commercial banking	159	13	482	4	1	
	Ukraine	PJSC ING Bank Ukraine	Commercial banking	138	52	696	30	6	
	Austria	Branch of ING DiBa A.G.	Retail banking	150	96	267	50	14	
	Bulgaria	Branch of ING Bank N.V.	Commercial banking	71	9	292	1		
	Ireland	Branch of ING Bank N.V.	Commercial banking	36	56	1,614	39	5	
	Portugal	Branch of ING België N.V.	Commercial banking	12	7	1,418	6	2	
	Switzerland	Branch of ING België N.V.	Commercial banking	155	201	8,627	147	38	
North America	USA	ING Financial Holdings	Commercial banking	486	531	42,384	326	82	
Latin America	Brazil	Branch of ING Bank N.V.	Commercial banking	49	41	1,329	24	6	
	Mexico	Negociaciones Mercantiles Especializidas, S.A. de C.V.	Commercial banking	8	4	9	1		
Asia	China	Branch of ING Bank N.V.	Commercial banking	50	56	2,329	41	8	
	Japan	Branch of ING Bank N.V.	Commercial banking	28	18	2,830	9	5	
	Singapore	Branch of ING Bank N.V.	Commercial banking	468	263	16,780	143	16	
	Hong Kong	Branch of ING Bank N.V.	Commercial banking	100	133	6,969	113	19	
	Philippines	Branch of ING Bank N.V.	Commercial banking	122	20	648	6		
	South Korea	Branch of ING Bank N.V.	Commercial banking	66	47	5,000	19	5	
	Taiwan	Branch of ING Bank N.V.	Commercial banking	31	29	2,478	21	4	
	Indonesia	PT ING Securities Indonesia	Commercial banking	6	1	6			
	Malaysia	Branch of ING Bank N.V.	Commercial banking	5	1	4			
	India	ING Vysya Bank Limited	Retail banking	3,209	67		28	10	
	United Arabic Emirates	Branch of ING Bank N.V.	Commercial banking	6			–1		
Australia	Australia	ING Bank (Australia) Ltd.	Retail banking	970	512	34,314	355	106	
Other	Mauritius/ Other	ING Mauritius Holdings	Investment management		252	682	233	3	
Total				**55,945**	**15,674**	**828,602**	**3,855**	**1,032**	**2**

(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.
(2) Public subsidies as defined in article 89 of the CRD IV.

The Netherlands has a low tax benefit on the loss, mainly due to non-deductible bank levies.

The UK and France have a low tax amount due to the use of previously unrecognised tax losses carried forward.

Mauritius has a lower tax amount, mainly due to an unrealised tax exempt result following the deconsolidation of ING Vysya.

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 banking	16,155	4,815	297,217
Belgium	Belgium	ING België N.V.	Commercial banking/ Retail banking	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 banking	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	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	Other	Branch of ING Bank N.V.			9	–183
Total				64,373	15,327	787,566

(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.

ADDITIONAL NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

35 PENSION AND OTHER POST-EMPLOYMENT BENEFITS

In 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 settle 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 made 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 paid 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 is released from all financial obligations arising out of the Dutch defined benefit plan. Accordingly, this plan is no longer accounted for as a defined benefit plan and, consequently, it has been removed from the balance sheet in 2014. The removal of the net pension asset related to the Dutch defined benefit pension fund from the balance sheet of EUR 770 million (EUR 578 million after tax), the payment to the Dutch ING Pension Fund of EUR 549 million (EUR 412 million after tax), the compensation for lower employee contribution of EUR 80 million (EUR 60 million after tax) and other impacts resulted in a charge of EUR 1,413 million (EUR 1,059 million after tax). EUR 871 million (EUR 653 million after tax) of this charge is allocated to ING Bank.

Balance sheet – Net defined benefit asset/liability

Summary of net defined benefit asset/liability

	2014	2013	2012
Fair value of plan assets	**3,108**	15,164	15,034
Defined benefit obligation	**3,126**	14,825	14,248
Funded status (Net defined benefit asset/(liability))	**–18**	339	786
Presented as:			
– Other assets	**589**	624	919
– Other liabilities	**–607**	–285	–133
	–18	339	786

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.

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 2014. 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 the fair value of plan assets for the period were as follows:

Changes in fair value of plan assets

	Fair value of plan assets	
	2014	2013
Opening balance	**15,164**	15,034
Interest Income	**172**	555
Remeasurements: Return on plan assets excluding amounts included in interest income	**1,009**	–746
Employer's contribution	**643**	838
Participants contributions	**7**	1
Benefits paid	**–178**	–369
Effect of curtailment or settlement	**–13,788**	
Exchange rate differences	**120**	–44
Changes in the composition of the group and other changes	**–41**	–105
Closing balance	**3,108**	15,164

2014 - Effect of curtailment or settlement
In 2014, EUR –13,788 is recognised in Effect of curtailment or settlement related to the Dutch defined benefit plan settlement as a result of the agreement that made the ING Pension Fund financially independent from ING.

Changes in composition of the group and other changes
In 2014, Changes in the composition of the group and other changes include EUR –47 million as a result of the deconsolidation of ING Vysya. Reference is made to Note 11 'Assets and liabilities held for sale' and Note 51 'Other events'.

In 2013, Changes in the composition of the group and other changes 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'.

Other
The actual return on the plan assets amounts to EUR 1,181 million (2013: EUR –191 million).

No plan assets are expected to be returned to ING Bank during 2015.

Changes in the present value of the defined benefit obligation and other post-employment benefits for the period was as follows:

Changes in defined benefit obligation and other post employment benefits

	Defined benefit obligation		Other post-employment benefits	
	2014	2013	**2014**	2013
Opening balance	**14,825**	14,248	**96**	114
Current service cost	**35**	268	**–6**	–18
Interest cost	**173**	515	**3**	2
Remeasurements: Actuarial gains and losses arising from changes in demographic assumptions	**7**	–12	**6**	
Remeasurements: Actuarial gains and losses arising from changes in financial assumptions	**1,198**	355		
Participants' contributions	**1**	1		
Benefits paid	**–181**	–372	**–2**	–1
Past service cost	**–3**	3		
Effect of curtailment or settlement	**–12,983**	–37		
Exchange rate differences	**101**	–38	**4**	–1
Changes in the composition of the group and other changes	**–47**	–106		
Closing balance	**3,126**	14,825	**101**	96

2014 - Effect of curtailment or settlement
In 2014, EUR –12,983 million is recognised in Effect of curtailment or settlement related to the Dutch defined benefit plan settlement as a result of the agreement that made the ING Pension Fund financially independent from ING.

In 2013, the Effect of curtailment or settlement included the curtailments of two minor pension plans in the Netherlands. These plans were closed for new pension rights and are replaced by defined contribution schemes.

Changes in composition of the group and other changes
In 2014, Changes in the composition of the group and other changes of the Defined benefit obligation include EUR –53 million related to the deconsolidation of ING Vysya. Reference is made to Note 11 'Assets and liabilities held for sale' and Note 51 'Other events'.

In 2013, Changes in the composition of the group and other changes 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'.

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

Changes in the net defined benefit assets/liability remeasurement reserve

	2014	2013
Opening balance	–2,671	–1,860
Remeasurement of plan assets	1,009	–746
Actuarial gains and losses arising from changes in demographic assumptions	–7	12
Actuarial gains and losses arising from changes in financial assumptions	–1,198	–355
Taxation	108	278
Total other comprehensive income movement for the year	–88	–811
Transfer to Other reserve (pension settlement)	2,389	
Closing balance	–370	–2,671

The amount of the remeasurement of the net defined benefit asset/liability in 2014 was mainly a result of the change in the high quality corporate bond rate. The weighted average discount rate as at 31 December 2014 was 2.6% (31 December 2013: 3.7%). The change in this rate impacts both Remeasurement of plan assets and Actuarial gains and losses arising from changes in financial assumptions.

In 2014, EUR 2,235 million is recognised in Transfer to Other reserves (pension settlement) related to the Dutch defined benefit plan settlement.

The accumulated amount of remeasurements recognised directly in Other comprehensive income (equity) is EUR –583 million (EUR –370 million after tax) as at 31 December 2014 (2013: EUR – 3,588 million, EUR – 2,671 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	
	2014	2013	2014	2013
The Netherlands	405	12,893	579	12,611
United States	132	101	218	144
United Kingdom	1,822	1,391	1,236	1,055
Belgium	614	599	811	725
Other countries	135	180	282	290
	3,108	15,164	3,126	14,825

As at 31 December 2014 the various defined benefit plans did not hold any investments in ING Groep N.V. (2013: nil).

The defined benefit plans in the United Kingdom and Belgium are not considered to be significant. Therefore, no more detailed information is disclosed.

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	
	2014	2013	**2014**	2013
Discount rates	**2.6**	3.7	**2.3**	2.9
Mortality rates	**0.7**	0.8	**1.0**	1.0
Expected rates of salary increases (excluding promotion increases)	**3.4**	2.2		2.0
Indexation	**2.6**	2.0	**2.0**	2.0

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 2.6% on 31 December 2014 (2013: 3.7%). The discount rate used by ING is based on AA-rated corporate bonds. 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. 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.

As at 31 December 2014, the actuarial assumption for Indexation for inflation is 2.6% (2013: 2.0%; 2012: 1.8%). The percentage for 2014 is mainly based on the expected inflation and the best estimate assumption for future indexation in the pension plans in the United Kingdom, Belgium and the Netherlands (before 2014 the percentage was based on the plan in the Netherlands).

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

	Financial impact of increase		Financial impact of decrease	
2014	**2014**	2013	**2014**	2013
Discount rates – increase/ decrease of 1%	**–403**	-927	**500**	1,035
Mortality – increase/ decrease of 1 year	**93**	460	**-93**	–465
Expected rates of salary increases (excluding promotion increases) – increase/ decrease of 0.25%	**29**	140	**–27**	–132
Indexation – increase/ decrease 0.25%	**93**	615	**–84**	–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 2015 the expected contributions to pension plans are EUR 41 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
2015	85	8
2016	92	8
2017	103	9
2018	119	9
2019	114	9
Years 2020 – 2024	427	29

The average duration of the benefit obligation at the end of the reporting period is 17 years (2013: 20 years). This number can be subdivided into the duration related to:

- active members: 12 years (2013: 25 years);
- inactive members: 24 years (2013: 22 years); and
- retired members: 13 years (2013: 11 years).

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		
	2014	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012
Current service cost	**37**	268	181	**–6**	–18	–2	**20**	–11	14	**51**	239	193
Past service cost	**–3**	3	–2					–16		**–3**	–13	–2
Net Interest cost	**2**	–41	–161	**3**	2	4	**4**	6	6	**9**	–33	–151
Effect of curtailment or settlement	**871**	–37	–335							**871**	–37	–335
Other							**–12**	13	–13	**–12**	13	–13
Defined benefit plans	**907**	193	–317	**–3**	–16	2	**12**	–8	7	**916**	169	–308
Defined contribution plans										**302**	62	68
										1,218	231	–240

Defined benefit plans
In 2014, a charge of EUR 871 million is recognised in Effect of curtailment or settlement related to the Dutch defined benefit plan settlement.

In 2012, ING reached final agreement on a new pension scheme for employees in the Netherlands. Two new separate pension funds were created, one for banking and one for NN Group. The new schemes took effect on 1 January 2014 and qualifies as a defined contribution scheme under IFRS-EU and replaced the existing defined scheme in the Netherlands. As of the start of the new defined contribution plan, the defined benefit plan stopped accruing new pension benefits. Accruals built up under the defined benefit plan remain valid. The change to the new pension scheme represented a curtailment under IFRS-EU and resulted in a release of provisions previously taken by ING to cover estimated future liabilities in the existing defined benefit plan which are no longer required. This release amounted to a one-off after tax gain of EUR 251 million (EUR 335 million before tax) and was recognised in 2012.

Defined contribution plans
The increase in Pension costs for Defined contribution plans in 2014 is as a result of the new defined contribution pension scheme for employees in the Netherlands which took effect on 1 January 2014.

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 in 2013 was a plan in the Netherlands (81% of total DBO in 2013).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.

The primary financial objective of the closed defined benefit plan in the Netherlands (the plan) is to secure accumulated participant retirement benefits. From 1 January 2014 the plan is closed for new pension accruals and no premiums will be paid into the Plan.

Before 2014, the plan in the Netherlands typically exposed ING to risks such as: investment risk, interest rate risk and longevity risk. ING decided 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 was lower than 105% at year-end, ING was 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 was lower than 110% but higher than 105% at year-end, ING was required to pay the plan an additional lump sum contribution in accordance with a pre-defined formula. When the coverage ratio was higher than 140%, ING received a premium reduction in future periods.

In 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 made the Dutch ING Pension Fund financially independent. This agreement resulted in the removal of the net pension asset related to the Dutch defined benefit pension fund from ING Bank's balance sheet in 2014.

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

	Fair value of plan assets					
	Quoted price		Other		Total	
	2014	2013	**2014**	2013	**2014**	2013
Investment portfolio of the pension fund						
Debt securities (fixed income investments)						
– Governments bonds		6,119				6,119
– Corporate bonds		945				945
– Other bonds (developing markets)		611				611
Total fixed income investments		7,675				7,675
Equity security investments						
– Equity securities in developed markets		2,344				2,344
– Equity securities in developing markets		685				685
Total equity security investments		3,029				3,029
Real estate investments						
– Listed		114				114
– Not listed				569		569
Total real estate investments		114		569		683
Alternative investments						
– Private equity				235		235
– Hedge funds				115		115
Total alternative investments				350		350
Other assets and liabilities (including accrued interest)				173		173
Derivatives [1]		371				371
Cash and cash equivalents				297		297
Total Assets of the pension fund	**0**	11,189	**0**	1,389	**0**	12,578

(1) Derivatives are presented net.

The table above relates to the defined benefit pension fund in the Netherlands that was closed for new pension rights as of 1 January 2014. The agreement reached to make the Dutch ING Pension Fund financially independent resulted in the removal of the plan assets related to the Dutch defined benefit pension fund from ING Bank's balance sheet in 2014. As a result the major categories of plan assets for this plan is no longer disclosed above.

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 (+) Net asset (-) 2013	Change through equity	Change through net result	Exchange rate differences	Changes in the composition of the group and other changes	Net liability (+) Net asset (-) 2014
Investments	445	293	316	–10	20	1,064
Real estate investments	2					2
Financial assets and liabilities at fair value through profit and loss	–795		–321	12	–8	–1,112
Depreciation	38		5	5	–2	46
Receivables	–49		–205	–4		–258
Loans and advances to customers	–244	5	334		41	136
Cash flow hedges	–316	554		–5		233
Pension and post-employment benefits	–50	–103	–54	–6		–213
Other provisions	–43		11	–4	–6	–42
Unused tax losses carried forward	–103		–224	–8	5	–330
Other	144	–6	68	12	2	220
	–971	743	–70	–8	52	–254
Presented in the balance sheet as:						
– deferred tax liabilities	334					872
– deferred tax assets	–1,305					–1,126
	–971					–254

In 2014, Changes in composition of the group and other changes includes EUR 61 million as a result of the deconsolidation of ING Vysya. Reference is made to Note 11 ‘Assets and liabilities held for sale’ and Note 51 ‘Other events’.

Changes in deferred tax

	Net liability (+) Net asset (-) 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	–7	445
Real estate investments	2					2
Financial assets and liabilities at fair value through profit and loss	–1,063		274	–3	–3	–795
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				–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	11	144
	–568	–508	45	23	37	–971
Presented in the balance sheet as:						
– deferred tax liabilities	1,571					334
– deferred tax assets	–2,139					–1,305
	–568					–971

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

Deferred tax in connection with unused tax losses carried forward

	2014	2013
Total unused tax losses carried forward	**2,456**	1,412
Unused tax losses carried forward not recognised as a deferred tax asset	**1,127**	911
Unused tax losses carried forward recognised as a deferred tax asset	**1,329**	501
Average tax rate	**24.8%**	20.6%
Deferred tax asset	**330**	103

In 2014 the change in Total unused tax losses carried forward is mainly due to the impact of the pension settlement and restructuring charges in the Netherlands.

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	
	2014	2013	**2014**	2013
Within 1 year		18		2
More than 1 year but less than 5 years	**145**	269	**4**	77
More than 5 years but less than 10 years	**48**	97		
More than 10 years but less than 20 years	**347**	338	**6**	
Unlimited	**587**	189	**1,319**	422
	1,127	911	**1,329**	501

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.

Breakdown of certain net deferred tax asset positions by jurisdiction

	2014	2013
Australia		2
France		65
Great Britain		122
Italy	**62**	160
Luxembourg	**17**	9
Spain		46
Slovakia	**2**	3
Belgium	**1**	
Netherlands	**358**	
	440	407

The table above includes a breakdown of certain net deferred tax asset positions by jurisdiction 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. In 2014, the aggregate amount for the most significant entities is EUR 440 million (2013: EUR 407 million).

In 2014, the Netherlands is included in the table above mainly due to the impact of the pension settlement and restructuring charges on the result. The three year medium term plan was used to substantiate the deferred tax assets in the Netherlands.

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 2014 and 31 December 2013, 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		
	2014	2013	2012	**2014**	2013	2012	**2014**	2013	2012
Current taxation	**3**	3	4	**1,099**	1,032	1,066	**1,102**	1,035	1,070
Deferred taxation	**–127**	73	–34	**57**	–28	135	**–70**	45	101
	–124	76	–30	**1,156**	1,004	1,201	**1,032**	1,080	1,171

For the year 2014 the tax charge in the Netherlands decreased with EUR 200 million to negative EUR 124 million caused by lower results.

For the year 2013, the tax charge in the Netherlands increased with EUR 106 million to EUR 76 million, due to higher tax profits.

Reconciliation of the weighted average statutory income tax rate to ING Bank's effective income tax rate

	2014	2013	2012
Result before tax	**3,855**	4,233	4,543
Weighted average statutory tax rate	**29.4%**	29.8%	28.0%
Weighted average statutory tax amount	**1,132**	1,263	1,274
Associates exemption	**–44**	–36	–441
Other income not subject to tax	**–169**	–165	–96
Expenses not deductible for tax purposes	**185**	114	95
Impact on deferred tax from change in tax rates	**–2**		25
Deferred tax benefit from previously unrecognised amounts	**38**	–22	
Current tax benefit from previously unrecognised amounts	**–58**	–24	–30
Write-off/reversal of deferred tax assets	**1**	40	382
Adjustment to prior periods	**–51**	–90	–38
Effective tax amount	**1,032**	1,080	1,171
Effective tax rate	**26.8%**	25.5%	25.8 %

The weighted average statutory tax rate in 2014 compared to 2013 does not differ significantly.

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

The effective tax rate in 2014 is lower than the weighted average statutory tax rate. This is mainly caused by non taxable income, the recognition of tax benefits from previously unrecognised amounts and prior year adjustments which are only partly offset by non-deductible items.

The effective tax rate in 2013 was lower than the weighted average statutory tax rate. This was 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.

Adjustments to prior periods in 2014 relates mainly to a true up of tax positions.

Adjustment to prior periods in 2013 related 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

	2014	2013	2012
Remeasurement of the net defined benefit asset/liability	**103**	278	738
Unrealised revaluations available-for-sale investments and other	**–293**	185	–774
Realised gains/losses transferred to profit and loss (reclassifications from equity to profit and loss)	**49**	40	58
Changes in cash flow hedge reserve	**–554**	30	9
Exchange rate differences and other	**–48**	–25	–50
Total income tax related to components of other comprehensive income	**–743**	508	–19

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	
	2014	2013	**2014**	2013
Financial assets				
Cash and balances with central banks	**12,222**	11,920	**12,222**	11,920
Amounts due from banks	**37,223**	43,173	**37,122**	42,996
Financial assets at fair value through profit and loss				
– trading assets	**136,964**	113,537	**136,964**	113,537
– non-trading derivatives	**4,303**	5,731	**4,303**	5,731
– designated as at fair value through profit and loss	**2,756**	2,308	**2,756**	2,308
Investments				
– available-for-sale	**95,401**	76,883	**95,401**	76,883
– held-to-maturity	**2,277**	3,153	**2,239**	3,098
Loans and advances to customers	**529,342**	516,825	**518,119**	508,329
Other assets (1)	**11,641**	14,784	**11,641**	14,784
	832,129	788,314	**820,767**	779,586
Financial liabilities				
Subordinated loans	**17,111**	14,882	**16,599**	14,776
Debt securities in issue	**125,565**	125,736	**120,959**	122,299
Amounts due to banks	**30,688**	27,732	**30,003**	27,200
Customer deposits and other funds on deposit	**490,329**	474,479	**489,281**	474,775
Financial liabilities at fair value through profit and loss				
– trading liabilities	**97,091**	73,491	**97,091**	73,491
– non-trading derivatives	**6,357**	9,676	**6,357**	9,676
– designated as at fair value through profit and loss	**13,551**	13,855	**13,551**	13,855
Other liabilities (2)	**12,043**	14,897	**12,043**	14,897
	792,735	754,748	**785,884**	750,969

(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 for 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 the fair value. The fair value of other loans is estimated by discounting expected future cash flows using a discount rate that reflects credit risk, liquidity and other current market conditions. The fair value of mortgage loans is estimated by taking into account prepayment behaviour. Loans with similar characteristics are aggregated for calculation purposes.

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.

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) and asset backed securities for which there is no active market and a wide dispersion in quoted prices.

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

2014	Level 1	Level 2	Level 3	Total
Financial Assets				
Trading assets	35,965	100,189	810	136,964
Non-trading derivatives		4,173	130	4,303
Financial assets designated as at fair value through profit and loss	346	2,320	90	2,756
Available-for-sale investments	89,101	5,727	573	95,401
	125,412	112,409	1,603	239,424
Financial liabilities				
Trading liabilities	11,204	84,890	997	97,091
Designated as at fair value through profit and loss	1,719	11,509	323	13,551
Non-trading derivatives		6,341	16	6,357
	12,923	102,740	1,336	116,999

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

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'.

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 investments are included in the Revaluation reserve – Available-for-sale reserve and other. Unrealised gains and losses on Property in own use are also included in the Revaluation reserve – Property in own use reserve.

Changes in Level 3 Financial assets

2014	Trading assets	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	1,299	62	198	1,042	2,601
Amounts recognised in profit and loss account during the year	–368	68	–67	20	–347
Revaluation recognised in equity during the year				7	7
Purchase of assets	270		49	97	416
Sale of assets	–219		–45	–143	–407
Maturity/settlement	–76		–45	–448	–569
Transfers into Level 3	69		48	3	120
Transfers out of Level 3	–174		–48		–222
Changes in the composition of the group and other changes				–19	–19
Exchange rate differences	9			14	23
Closing balance	810	130	90	573	1,603

Main changes in fair value hierarchy in 2014
In 2014, the change in Available-for-sale investments (level 1) is due to an increase in Government bonds to strengthen the liquidity of the Bank. Ahead of the introduction of the liquidity coverage ratio in 2015 and matured bonds (level 2 in 2013) are re-invested in Government bonds (level 1).

As at 31 December 2014, ING Direct Australia reclassified EUR 2.6 billion Government and Semi-Government debt securities from level 2 to level 1 as the input is based on quoted prices in an active market.

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

Main changes in fair value hierarchy in 2013
There were no significant transfers between Level 1 and 2.

Changes in Level 3 Financial liabilities

2014	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit and loss	Total
Opening balance	1,105	1	343	1,449
Amounts recognised in profit and loss account during the year	–54	14	–81	–121
Issue of liabilities	418	2	172	592
Early repayment of liabilities	–371		–78	–449
Maturity/settlement	–68	–1	–66	–135
Transfers into Level 3	42		88	130
Transfers out of Level 3	–82		–55	–137
Changes in the composition of the group and other changes	7			7
Closing balance	997	16	323	1,336

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
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.

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

2014	Held at balance sheet date	Derecognised during the year	Total
Financial assets			
Trading assets	–368		–368
Non-trading derivatives	68		68
Financial assets designated as at fair value through profit and loss	–67		–67
Available-for-sale investments	–11	31	20
	–378	31	–347
Financial liabilities			
Trading liabilities	–54		–54
Non-trading derivatives	14		14
Financial liabilities designated as at fair value through profit and loss	–81		–81
	–121		–121

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

Level 3 Financial assets and liabilities
Financial assets measured at fair value in the balance sheet as at 31 December 2014 of EUR 240 billion include an amount of EUR 1.6 billion (0.7%) which is classified as Level 3 (31 December 2013: EUR 5.7 billion, being 1.9%). Changes in Level 3 from 31 December 2013 to 31 December 2014 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 2014 of EUR 117 billion include an amount of EUR 1.3 billion (1.1 %) which is classified as Level 3 (31 December 2013: EUR 1.4 billion, being 1.4%). Changes in Level 3 from 31 December 2013 to 31 December 2014 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 2014 of EUR 1.6 billion, an amount of EUR 0.8 billion (50%) 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 assets includes approximately EUR 0.1 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 0.7 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 2014 of EUR 1.3 billion, an amount of EUR 0.7 billion (54%) 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 EUR 0.2 billion 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 0.4 billion of the fair value classified in Level 3 financial liabilities is established using valuation techniques that incorporates certain inputs that are unobservable.

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. The lower and upper range mentioned in the overview represent the lowest and highest variance of the respective valuation input as actually used in the valuation of the different financial instruments.

Amounts and percentages stated are unweighted. The range could change from period to period subject to market movements and change in Level 3 position.

Lower and upper bounds reflect the variability of Level 3 positions and their underlying valuation inputs in the portfolio, but do not adequately reflect their level of valuation uncertainty. For valuation uncertainty assessment, please refer to section below 'Sensitivity analysis of unobservable inputs'.

Valuation techniques and range of unobservable inputs (Level 3) – ING Bank

2014	Assets	Liabilities	Valuation techniques	Significant unobservable inputs	Lower range	Upper range
At fair value through profit and loss						
Debt securities	161	5	Price based	Price (%)	0%	114%
			Net asset value	Price (%)	59%	101%
Loans and advances	55	12	Price based	Price (%)	0%	100%
Structured notes		323	Price based	Price (%)	0%	115%
			Net asset value	Price (%)	100%	100%
			Option pricing model	Equity volatility (%)	17%	94%
				Equity/Equity correlation	0.0	0.8
				Equity/FX correlation	-0.8	0.2
				Dividend yield (%)	0%	9%
				Interest rate volatility (%)	18%	58%
			Present value techniques	Implied correlation	0.7	0.9
Derivatives						
– Rates	375	471	Option pricing model	Interest rate volatility (%)	18%	58%
				Interest rate correlation	0.9	0.9
				IR/INF correlation	0.5	0.5
			Present value techniques	Reset spread	3%	3%
				Inflation rate (%)	1%	3%
– FX	306	258	Present value techniques	Inflation rate (%)	0%	2%
– Credit	43	45	Present value techniques	Credit spread (bps)	1	1,362
				Implied correlation	0.6	1.0
– Equity	84	221	Option pricing model	Equity volatility (%)	0%	107%
				Equity/Equity correlation	-0.1	1.0
				Equity/FX correlation	–1.0	1.0
				Dividend yield (%)	0%	23%
– Other	6	1	Option pricing model	Commodity volatility (%)	9%	75%
				Dividend yield (%)	n.a.	n.a.
				Com/Com correlation	0.0	0.9
				Com/FX correlation	-0.8	0.7
Available for sale						
– Debt	78		Price based	Price (%)	3%	100%
			Present value techniques	Credit spread (bps)	97	300
– Equity	495		Discounted cash flow	Financial statements	n.a.	n.a.
			Multiplier method	Observable market factors	n.a.	n.a.
			Comparable transactions		n.a.	n.a.
Total	1,603	1,336				

Valuation techniques and range of unobservable inputs (Level 3) – ING Bank

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	388	Option pricing model	Interest rate volatility (%)	11%	69%
				Interest rate correlation	0.9	0.9
			Present value techniques	Inflation rate (%)	0%	4%
				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
Other	8					
Available for sale						
– Debt	655					
– Equity	509					
Total	2,601	1,449				

Non-listed equity investments
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. For equity securities best market practice will be applied using the most relevant valuation method.

All non-listed equity investments, including investments in private equity funds, are subject to a standard review framework which ensures that valuations reflect fair values.

Price
For securities where market prices are not available fair value is measured by comparison with observable pricing data from similar instruments. Prices of 0% are distressed to the point that no recovery is expected, while prices significantly in excess of 100% or par are expected to pay a good yield.

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. The minimum level of volatility is 0% and there is no theoretical maximum.

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 repay their mortgages early, 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.

Dividend yield
Dividend yield is an important input for equity option pricing models showing how much dividends a company pays out each year relative to its share price. Dividend yields are generally expressed as an annualised percentage of share price.

Sensitivity analysis of unobservable inputs (Level 3)
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 date may be drawn from a range of reasonably possible alternatives. In line with market practice the upper and lower bounds of the range of alternative input values reflect a 90% level of valuation certainty. The actual levels chosen for the unobservable inputs in preparing the financial statements are consistent with the valuation methodology used for fair valued financial instruments .

If ING had used input values from the upper and lower bound of this range of reasonable possible alternative input values when valuing these instruments as of 31 December 2014 then the impact would have been higher or lower as indicated below. The purpose of this disclosure is to present the possible impact of a change of unobservable inputs in the fair value of financial instruments where unobservable inputs are significant to the valuation.

As ING has chosen to apply a 90% confidence level already for its IFRS valuation of fair valued financial instruments as of end of 2014, the downward valuation uncertainty has become immaterial, whereas the potential upward valuation uncertainty, reflecting a potential profit, has increased. Specifically for the AFS Equity positions the upward valuation uncertainty decreased.

For more detail on the valuation of fair valued instruments, refer to the section Risk Management, paragraph Fair values of financial assets and liabilities in this document.

Valuation uncertainty in practice is measured and managed per exposure to individual valuation inputs (i.e. risk factors) at portfolio level across different product categories. Where the disclosure looks at individual level 3 inputs the actual valuation adjustments may also reflect the benefits of portfolio offsets.

Because of the approach taken, the valuation uncertainty in the table below is broken down by related risk class rather than by product.

In reality some valuation inputs are interrelated and it would be unlikely that all unobservable inputs would ever be simultaneously at the limits of their respective ranges of reasonably possible alternatives. Therefore it can be assumed that 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 move. The numbers in isolation give limited information as in most cases these level 3 assets and liabilities should be seen in combination with other instruments (for example as a hedge) that are classified as level 2.

Sensitivity analysis of level 3 instruments

2014	**Positive fair value movements from using reasonable possible alternatives**	**Negative fair value movements from using reasonable possible alternatives**
Fair value through profit and loss		
Equity (equity derivatives, structured notes)	**106**	
Interest rates (Rates derivatives, FX derivatives)	**115**	
Credit (Debt securities, Loans, structured notes, credit derivatives)	**21**	
Available-for-sale		
Equity	**19**	**28**
Credits	**11**	
	272	**28**

Breakdown of the sensitivity analysis by type of instrument (Level 3)

2013	Positive fair value movements from using reasonable possible alternatives	Negative fair value movements from using reasonable possible alternatives
Fair value through profit and loss		
Equity (equity derivatives, structured notes)	42	9
Interest rates (Rates derivatives, FX derivatives)	36	32
Credit (Debt securities, Loans, structured notes, credit derivatives)	24	17
Available-for-sale		
Equity	103	108
Credits	14	23
	219	189

Asset backed security portfolio

Fair value hierarchy of certain ABS bonds

2014	**Level 1**	**Level 2**	**Level 3**	**Total**
US Subprime RMBS		**14**		**14**
US Alt-A RMBS		**45**		**45**
CDO/CLOs			**12**	**12**
CMBS		**12**		**12**
Total		**71**	**12**	**83**

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

Other financial instruments

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:

Methods applied in determining fair values of financial assets and liabilities

2014	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances with central banks	12,222			12,222
Amounts due from banks	4,605	22,747	9,871	37,223
Held-to-maturity investments	580	1,615	82	2,277
Loans and advances to customers	4,060	29,278	496,004	529,342
	21,467	53,640	505,957	581,064
Financial liabilities				
Subordinated loans	11,114	5,915	82	17,111
Debt securities in issue	51,579	32,273	41,713	125,565
Amounts due to banks	4,643	17,781	8,264	30,688
Customer deposits and other funds on deposit	387,482	47,162	55,685	490,329
	454,818	103,131	105,744	663,693

As at 31 December 2014, it was assessed that certain loan portfolios were classified as level 3, as more than an insignificant part of the inputs, in terms of the overall valuation were determined not to be market observable. Certain comparative figures were adjusted from level 2 to level 3.

As at 31 December 2014, Customer deposits and other funds on deposit which are payable on demand are classified as level 1, as their fair value equals their carrying value. Certain comparative figures were adjusted from level 3 to level 1.

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	5,103	27,306	484,416	516,825
	23,078	59,577	492,416	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	361,414	64,000	49,065	474,479
	427,163	127,842	87,824	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

2014	Estimated fair value	Balance sheet value
Real estate investments	80	80
Property in own use	1,020	1,020
	1,100	1,100

Fair value of non-financial assets

2013	Estimated fair value	Balance sheet value
Real estate investments	55	55
Property in own use	1,143	1,143
	1,198	1,198

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

2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Real estate investments			**80**	**80**
Property in own use			**1,020**	**1,020**
			1,100	**1,100**

Methods applied in determining fair values of non-financial assets

2013	Level 1	Level 2	Level 3	Total
Real estate investments			55	55
Property in own use			1,143	1,143
			1,198	1,198

Changes in Level 3 Non-financial assets

2014	**Real estate investments**	**Property in own use**	**Total non-financial assets**
Opening balance	**55**	**1,143**	**1,198**
Amounts recognised in the profit and loss account during the year	**3**	**–80**	**–77**
Revaluation recognised in equity during the year		**–13**	**–13**
Purchase of assets		**63**	**63**
Sale of assets		**–28**	**–28**
Reclassifications	**22**	**–26**	**–4**
Exchange rate differences		**1**	**1**
Changes in the composition of the group and other changes		**–40**	**–40**
Closing balance	**80**	**1,020**	**1,100**

Changes in Level 3 Non-financial assets

2013	Real estate investments	Property in own use	Total non-financial assets
Opening balance	153	1,203	1,356
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	–1	–24	–25
Closing balance	55	1,143	1,198

Amounts recognised in the profit and loss account

2014	**Held at balance sheet date**	**Derecognised during the year**	**Total**
Non-financial assets			
Real estate investments	**3**		**3**
Property in own use	**–58**	**–22**	**–80**
	–55	**–22**	**–77**

Amounts recognised in the profit and loss account

2013	Held at balance sheet date	Derecognised 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.

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 2014, ING Bank recognised EUR –486 million (2013: EUR 1,180 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 536 million (2013: EUR –1,272 million) fair value changes recognised on hedged items. This resulted in EUR 50 million net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2014 the fair values of outstanding derivatives designated under fair value hedge accounting was EUR –1,987 million (2013: EUR –3,072 million), presented in the balance sheet as EUR 1,223 million (2013: EUR 991 million) positive fair values under assets and EUR 3,210 million (2013: EUR 4,063 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 2014, ING Bank recognised EUR 1,651 million (2013: EUR –15 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 2014 was EUR 1,108 million (2013: EUR –1,092 million) gross and EUR 875 million (2013: EUR –776 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 29 years, with the largest concentration in the range of 3 year to 9 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in a gain of EUR 35 million (2013: EUR 4 million gain), that was recognised in the profit and loss account.

As at 31 December 2014, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR –408 million (2013: EUR –1,001 million), presented in the balance sheet as EUR 1,255 million (2013: EUR 3,090 million) positive fair values under assets and EUR 1,663 million (2013: EUR 4,091 million) negative fair values under liabilities.

As at 31 December 2014 the fair value of outstanding non-derivatives designated as hedging instruments for cash flow hedge accounting purposes was nil (2013: EUR –299 million).

Included in Interest income and interest expense on non-trading derivatives is EUR 2,644 million (2013: EUR 3,176 million) and EUR 2,261 million (2013: EUR 3,185 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.

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 2014, the fair values of outstanding derivatives designated under net investment hedge accounting was EUR 11 million (2013: EUR 94 million), presented in the balance sheet as EUR 111 million (2013: EUR 138 million) positive fair values under assets and EUR 100 million (2013: EUR 43 million) negative fair values under liabilities.

As at 31 December 2014, there were EUR 1,306 million (2013: EUR 491 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 2014 on derivatives and non-derivatives designated under net investment hedge accounting was nil (2013: 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

2014	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	12,222						12,222
Amounts due from banks	20,866	6,754	4,581	4,313	608		37,122
Financial assets at fair value through profit and loss							
– trading assets	47,925	17,676	21,458	22,836	27,069		136,964
– non-trading derivatives	222	137	198	1,142	2,604		4,303
– designated as at fair value through profit and loss	656	580	736	448	336		2,756
Investments							
– available-for-sale	1,246	3,501	6,394	38,482	43,060	2,718	95,401
– held-to-maturity	90	883	251	658	357		2,239
Loans and advances to customers	60,469	14,648	33,204	135,725	274,073		518,119
Intangible assets			191	383		1,081	1,655
Assets held for sale [2]			729				729
Other assets	7,008	1,551	3,108	951	1,433		14,051
Remaining assets (for which maturities are not applicable) [3]						3,041	3,041
Total assets	150,704	45,730	70,850	204,938	349,540	6,840	828,602

[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.

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	5,637	4,361	364		42,996
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	120,872	275,265		508,329
Intangible assets			179	359		1,068	1,606
Other assets	9,708	1,687	4,070	1,492	927		17,884
Remaining assets (for which maturities are not applicable) [2]						3,274	3,274
Total assets	167,920	35,977	67,510	182,993	327,179	5,987	787,566

[1] Includes assets on demand.
[2] 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.

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

2014	Less than 1 month [1]	1–3 months	3–12 months	1–5 years	Over 5 years	Adjustment [2]	Total
Subordinated loans			889	860	14,362	488	16,599
Debt securities in issue	3,304	26,487	22,161	40,343	25,180	3,484	120,959
Amounts due to banks	15,063	1,984	1,490	7,180	4,286		30,003
Customer deposits and other funds on deposit	425,841	27,995	23,806	9,195	2,406	38	489,281
Financial liabilities at fair value through profit and loss							
– other trading liabilities	33,363	6,746	2,503	1,789	3,490	1,181	49,072
– trading derivatives	3,330	3,300	8,119	18,897	18,796	–4,423	48,019
– non-trading derivatives	473	171	1,101	3,283	1,975	–646	6,357
– designated as at fair value through profit and loss	368	549	1,250	5,110	5,979	295	13,551
Financial liabilities	481,742	67,232	61,319	86,657	76,474	417	773,841
Other liabilities	6,915	1,960	4,365	1,393	1,442		16,075
Non-financial liabilities	6,915	1,960	4,365	1,393	1,442		16,075
Total liabilities	488,657	69,192	65,684	88,050	77,916	417	789,916
Coupon interest due on financial liabilities	976	1,139	4,155	11,874	46,742		64,886

(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).

Liabilities by maturity

2013	Less than 1 month [(1)]	1–3 months	3–12 months	1–5 years	Over 5 years	Adjustment [(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	16,248	1,834	1,755	2,891	4,472		27,200
Customer deposits and other funds on deposit	413,794	27,067	25,311	6,212	2,090	301	474,775
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	469,236	59,288	56,726	79,598	72,148	-924	736,072
Other liabilities	9,360	2,051	4,957	766	600		17,734
Non-financial liabilities	9,373	2,051	4,957	766	600		17,734
Total liabilities	478,596	61,339	61,683	80,364	72,748	-924	753,806
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).

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

2014	2014	2013
Investments	723	653
Loans and advances to customers	71,637	60,439
Banks	10,555	12,877
Other assets	767	1,105
	83,682	75,074

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 52.0 billion (2013: EUR 45.9 billion), in Germany to EUR 13.0 billion (2013: EUR 8.4 billion), in Belgium EUR 4.0 billion (2013: EUR 2.5 billion) and Australia to EUR 3.0 billion (2013: nil) .

The loan to the Dutch State in connection with the Illiquid Assets Back-Up Facility agreement as disclosed in Note 49 'Related parties' was included in Loans and advances to customers until full repayment in 2014 (2013: EUR 2.7 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	
2014	**Equity**	**Debt**	**Equity**	**Debt**
Transferred assets at carrying amount				
Financial assets at fair value through profit and loss	**2,202**	**22**	**6,465**	**3,684**
Investments				**3,594**
Associated liabilities at carrying amount				
Financial liabilities at fair value through profit and loss	**2,202**	**22**	**6,414**	**6,422**

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				345
Financial assets at fair value through profit and loss	1,238	102	3,087	315
Investments				9,111
Loans and advances to customers				200
Associated liabilities at carrying amount				
Financial liabilities at fair value through profit and loss	1,053	102	3,463	13,090

In 2014, the carrying amount of transferred assets under repurchase agreements and securities lending that do not qualify for derecognition are included in the table above, whereas in 2013, the receivables from reverse repurchase agreements were included. The 2013 comparatives were adjusted accordingly.

In 2013 the tables above did not include assets relating to the Illiquid Assets Back-up Facility that ING has agreed with the Dutch State. In 2014, the IABF was unwound. Reference is made to Note 50 'Transactions with the Dutch state and the European Commission restructuring plan'.

The table above does not include assets transferred to consolidated securitisation entities as the related asset remain recognised in the consolidated balance sheet.

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 2014 amounted to EUR 33.7 million (2013: EUR 62.3 million); fair value changes on this swap recognised in the profit and loss account in 2014 were EUR 28.6 million (2013: EUR 4.7 million). Fee income recognised in the profit and loss account in 2014 amounted to EUR 0.5 million (2013: EUR 1.2 million).

In 2014, ING sold financial assets (mortgages) for an amount of approximately EUR 990 million in the Australian market. The transaction resulted in full derecognition of the financial assets from ING's balance sheet. This equates to a profit of EUR 17.5 million. Following this transfer ING continues to have an on-going involvement in the transferred assets as servicer of the transferred assets for a term of 4 years.

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

2014					Related amounts not offset in the balance sheet		
		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	Financial instru-ments	Cash and financial instru-ments received as collateral	Net amount
BALANCE SHEET LINE ITEM	**FINANCIAL INSTRUMENT**						
Amounts due from banks							
	Reverse repurchase, securities borrowing and similar agreements	3,061		3,061	313	2,733	15
	Other	4	–3	1			1
		3,065	–3	3,062	313	2,733	16
Financial assets at fair value through profit and loss							
Trading assets	Derivatives	31,459	-907	30,552	26,359	1,644	2,549
	Reverse repurchase, securities borrowing and similar agreements	58,676	–18,860	39,816	543	30,395	8,878
	Other	1,905	–3	1,902			1,902
		92,040	–19,770	72,270	26,902	32,039	13,329
Non-trading derivatives	Derivatives	87,457	–85,024	2,433	2,159		274
		87,457	–85,024	2,433	2,159		274
Loans and advances to customers							
	Reverse repurchase, securities borrowing and similar agreements	925		925	300	625	
	Other	195,489	–188,629	6,860	1	657	6,202
		196,414	–188,629	7,785	301	1,282	6,202
Other items where offsetting is applied in the balance sheet		4,230	–4,002	228	52		176
Impact of enforceable master netting arrangements or similar arrangements[1]	Derivatives				–7,656	2,838	4,818
	Other				–15		15
					–7,671	2,838	4,833
Total financial assets		383,206	–297,428	85,778	22,056	38,892	24,830

[1] The line ‘Impact of enforceable master netting agreements or similar arrangements’ contains derivative positions under the same master netting arrangements being presented in different balance sheet line items.

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

2014		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	676		676	313	363	
	Other	4	–3	1			1
		680	–3	677	313	363	1
Customer deposits and other funds on deposit							
	Repurchase, securities lending and similar agreements	326		326	300	26	
	Corporate deposits	24,242	–20,450	3,792			3,792
	Other	180,250	–168,179	12,071		104	11,967
		204,818	–188,629	16,189	300	130	15,759
Financial liabilities at fair value through profit and loss							
Trading liabilities	Derivatives	33,568	–1,429	32,139	30,927	1,078	134
	Repurchase, securities lending and similar agreements	50,543	–18,860	31,683	543	20,374	10,766
	Other	3	–3				
		84,114	–20,292	63,822	31,470	21,452	10,900
Non-trading derivatives	Derivatives	90,593	–87,154	3,439	3,013	249	177
		90,593	–87,154	3,439	3,013	249	177
Other items where offsetting is applied in the balance sheet		1,501	–1,350	151	113		38
Impact of enforceable master netting arrangements or similar arrangements[1]	Derivatives				–13,146	6,335	6,811
	Other				–7		7
					–13,153	6,335	6,818
Total financial liabilities		381,706	–297,428	84,278	22,056	28,529	33,693

[1] The line ‘Impact of enforceable master netting agreements or similar arrangements’ contains derivative positions under the same master netting arrangements being presented in different balance sheet line items.

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 instru-ments	Related amounts not offset in the balance sheet: Cash and financial instru-ments 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	9,388
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[1]	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

[1] The line ‘Impact of enforceable master netting agreements or similar arrangements’ contains derivative positions under the same master netting arrangements being presented in different balance sheet line items.

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 instru-ments	Related amounts not offset in the balance sheet: Cash and financial instru-ments 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[1]	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

(1) The line ‘Impact of enforceable master netting agreements or similar arrangements’ contains derivative positions under the same master netting arrangements being presented in different balance sheet line items.

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

2014	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Contingent liabilities in respect of						
– guarantees	16,433	556	698	981	3,728	22,396
– irrevocable letters of credit	6,627	3,856	1,356	333	6	12,178
– other	364	13	40	8		425
	23,424	4,425	2,094	1,322	3,734	34,999
Irrevocable facilities	39,371	7,673	5,090	25,328	4,884	82,346
	62,795	12,098	7,184	26,650	8,618	117,345

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

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.

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	2013
2014		239
2015	**281**	179
2016	**169**	150
2017	**117**	107
2018	**94**	78
Years after 2018	**384**	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 U.S., involving claims by and against them which arise in the ordinary course of their businesses, including in connection with their activities as lenders, broker-dealers, underwriters, issuers of securities and investors and their position as employers 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 Bank may be subject to tax audits in numerous jurisdictions at any point in time. Although ING Bank 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 District Court's decision dismissing all claims. The plaintiffs have petitioned the Court for an en banc review of that decision by the entire Court. The request for en banc review has been denied. The plaintiffs have filed an appeal with the U.S. Supreme Court. At this moment it is not practicable to provide an estimate of the (potential) financial effect.

A complaint has been filed against ING Bank in January 2015 in the New York District Court by Alfredo and Gustavo Villoldo and the executor of their father's estate ("Villoldo"). Villoldo holds two judgments against the Cuban government and other Cuban entities in the aggregate amount of USD 2.9 billion. Those judgments remain outstanding and uncollected. The complaint against ING Bank alleges that if ING Bank had complied with the applicable US sanction laws, Cuba assets would have been frozen by OFAC and available for execution and seizure by Villoldo. The complaint alleges that the acts set out in ING's settlement with OFAC in 2012 constitute wire fraud, money laundering and fraudulent transfer and that Villoldo is therefore entitled to actual damages in the amount to be believed no less than USD 1.654 billion and treble damages of not less than USD 4.962 billion. At this moment it is not practicable to provide an estimate of the (potential) financial effect.

In the state aid related proceedings between the EC, the Dutch State and ING before the European Union Courts, the Court of Justice rendered a final judgment on 3 April 2014 and dismissed the EC's appeal against the General Court ruling of March 2012. As earlier agreed in November 2012 between ING, the Dutch State and the EC, the outcome of this appeal will not affect the EC approval of ING's Amended Restructuring Plan. However, if ING does not fulfill any divestment commitment or does not meet any of the so called '2015 NN Bank-related commitments', or in case of other material non-compliance with the Restructuring Plan, the Dutch State will re-notify the recapitalisation measure to the EC. In such event the EC may open a (legal) procedure against ING, require additional restructuring measures and/or take enforcement actions.

In January 2011, the Dutch Association of Stockholders (Vereniging van Effectenbezitters, "VEB") 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 N.V., 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 sub-prime crisis for Fortis and Fortis' liquidity position were reflected incorrectly in the prospectus. The VEB requests a declaratory decision stating that the summoned parties acted wrongfully and are therefore responsible for the damages suffered by the investors in Fortis. The amount of damages of EUR 18 billion has yet to be substantiated. ING is defending itself against this claim; at this time ING is not able to assess the 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 by 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. On 15 April 2014, the Amsterdam Court of Justice dismissed claimants' appeal against the decision of the District Court of Amsterdam.

In July 2011, 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 District 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 December 2005, Interadvies N.V., at the time a subsidiary of ING Bank N.V., 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 it incorrectly of 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 in order to make a final judgement. Parties have reached a full and final agreement in August 2014, and the court case has been cancelled.

46 COMPANIES AND BUSINESSES ACQUIRED AND DIVESTED

Acquisitions and Divestments effective in 2014

There were no significant acquisitions or divestments in 2014.

Partial divestments effective in 2014

For details on the (expected) transactions with regard to ING's interest in ING Vysya Bank reference is made to Note 11 ‘Assets and liabilities held for sale’ and Note 51 ‘Other events’.

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 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.

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. For each of the subsidiaries listed below, the voting rights held equal the proportion of ownership interest and consolidation by ING is based on the majority of ownership.

Principal subsidiaries

		Proportion of ownership and interest held by the Bank	
Subsidiary	**Country**	**2014**	2013
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%
ING Bank A.S.	Turkey	**100%**	100%
ING Direct N.V.[1]	Spain, Italy	**–**	100%
ING Bank (Australia) Ltd	Australia	**100%**	100%
ING Bank (Eurasia) Z.A.O.	Russia	**100%**	100%

(1) In 2014 ING Direct N.V. merged with ING Bank N.V.

In 2013, the consolidation of ING Vysya Bank Limited (Vysya) was based on the combination of ownership interest and additional agreements that, amongst others, provide ability to nominate the majority of the board of directors. In 2014, ING reduced the number of directors appointed by ING in ING Vysya Bank's Board of Directors to be proportionate to its shareholding. Although ING Bank's economic interest of approximately 43% remains unchanged, ING Bank no longer has a majority representation in the Board of Directors and influence on ING Vysya's operations are aligned with its shareholding interest. As a result, ING Bank no longer has effective control over ING Vysya and, therefore, ING Vysya is deconsolidated in 2014 and accounted for as held for sale. Reference is made to Note 11 'Assets and liabilities held for sale' and Note 51 'Other events'.

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; and
6) 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

2014	2014	2013
Loans to small and medium-sized enterprises	**0**	426
	0	426

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 was only one such programme remaining. As at 31 December 2014 there are no remaining Credit management securitisation programmes. The last programme ended in 2014 on the scheduled termination date.

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 2014 approximately EUR 74 billion (2013: EUR 76 billion) of AAA rated notes and subordinated notes, of which approximately EUR 5.6 billion (2013: EUR 6.7 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.

In 2014, 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 4.8 billion (2013: EUR 5.2 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	
	2014	2013	**2014**	2013
ING Covered Bond Company B.V. ('CBC')	**42,157**	43,173	**0**	2,282
	42,157	43,173	**0**	2,282

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 1,143 million (2013: EUR 1,728 million). The drawn liquidity amount is nil as at 31 December 2014 (2013: EUR 159 million).

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 2014 amounted to EUR 33.7 million (2013: EUR 62.3 million); fair value changes on this swap recognised in the profit and loss account in 2014 were EUR 28.6 million (2013: EUR 4.7 million). Fee income recognised in the profit and loss account in 2014 amounted to EUR 0.5 million (2013: EUR 1.2 million).

6) 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.

ING Bank offers various investment fund products to its clients. ING Bank does not invest in these investment funds for its own account nor acts as the fund manager.

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, Associates and joint ventures, key management personnel 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.

On 7 November 2014, ING Bank made the final repayment on the Core Tier 1 securities of EUR 1.025 billion to the Dutch State. Including this final payment, the total amount paid to the Dutch State is EUR 13.5 billion, containing EUR 10 billion in principal and EUR 3.5 billion in interest and premiums, giving the Dutch State and annualised return of 12.7%. During 2014, the Dutch State was fully repaid. As per 8 November 2014, the Dutch state is no longer a related party of ING Bank. All other transactions between ING Bank and the Dutch State are of a normal business nature and at arm's length. For information on the non-voting equity securities, the Illiquid Assets Back-up Facility and the European Commission Restructuring Plan, refer to Note 50 'Transactions with the Dutch State and the European Commission Restructuring Plan'.

Transactions with associates and joint ventures

	Associates and joint ventures	
	2014	2013
Assets	**2**	1
Liabilities	**42**	28
Income received	**0**	3

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 changes in Transactions with associates and joint ventures', reference is made to Note 7 'Investments in associates and joint ventures' and Note 51 'Other events'.

Transactions with ING Groep N.V. and NN Group N.V.

	ING Groep N.V.		NN Group N.V.	
	2014	2013	**2014**	2013
Assets	**133**	1,060	**748**	961
Liabilities	**9,944**	5,351	**1,679**	6,388
Guarantees issued in favour of				
Income received	**162**	210	**57**	100
Expenses paid	**507**	757	**49**	36

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.

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. There were no changes during 2014.

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'.

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 expired on 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 2014 nil (2013: EUR 1.9 billion; 2012: EUR 1.9 billion) ING Bank mortgages were sold through the NN Group intermediary sales agents.

During 2013, due to the partial transfer of WestlandUtrecht Bank, certain assets and liabilities were transferred from ING Bank to NN Group. Reference is made to Note 46 “Companies and businesses acquired and divested”. In addition, during 2014 and 2013 a further EUR 1.2 billion and EUR 4.2 billion respectively Dutch mortgages were transferred from WestlandUtrecht Bank to NN Group. The transfers have been made at an arm’s length price.

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’.

In 2014, 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)

2014 amounts in thousands of euros	**Executive Board of ING Groep N.V.** (1)	**Management Board of ING Bank N.V.** (1), (2), (3), (4)	**Total**
Fixed Compensation			
– Base salary	**2,814**	**3,480**	**6,294**
– Pension costs	**575**	**920**	**1,495**
– Severance benefits		**765**	**765**
Variable compensation			
– Upfront cash		**544**	**544**
– Upfront shares		**544**	**544**
– Deferred cash		**816**	**816**
– Deferred shares		**816**	**816**
Total compensation	**3,389**	**7,885**	**11,274**

(1) Includes their compensation earned in the capacity as Executive Board members.
(2) Excluding members that are also members of the Executive Board of ING Groep N.V.
(3) In 2014, two members stepped down from the Management Board of ING Bank and one new member joined.
(4) Next to compensation in the capacity as a Board member, one new Management Board member received a ‘sign on award’ consisting of a cash amount and shares with a total value of EUR 250.000 at the grant date. The award vests in the years 2014 – 2017, of which EUR 100.000 in 2014 and EUR 150.000 in the years 2015 – 2017.

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
– Severance benefits			
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.
(2) Excluding members that are also members of the Executive Board of ING Groep N.V.

In 2013, 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 was charged to the company and did not affect the remuneration of involved staff. The tax imposed on ING for relevant members of the Executive Board and Management Board amounted to nil for 2014 (2013: EUR 1.1 million) and was not included in the figures in the table above.

Key management personnel compensation (Supervisory Board)

amounts in thousands of euros	2014	2013
Total compensation	971	1,074

The table above shows the fixed remuneration, expense allowances and attendance fees for the Supervisory Board for 2014 and 2013.

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
	2014	2013	2014	2013	2014	2013
Executive Board members ING	2,999	3,347	2.4%	2.7%	348	500
Management Board members of ING Bank N.V.	250	380	3.4%	4.6%		
Supervisory Board members	0	0				
Total	3,249	3,727			348	500

The disclosures relating to remuneration of the Supervisory Board reflect the amounts relating to ING Group as a whole.

In 2014, the total remuneration costs amounted to EUR 3.4 million (2013: EUR EUR 3.9 million) for members and former members of the Executive Board, of these remuneration costs EUR 2.6 million (2013: EUR 1.9 million) was allocated to ING Bank. The total remuneration costs amounted EUR 1.0 million (2013: EUR 1.1 million) for members and former members of the Supervisory Board, of these remuneration costs EUR 0.7 million (2013: EUR 0.5 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 2014: EUR 11.3 million) includes all variable remuneration related to the performance year 2014. 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 2014, and therefore included in Total expenses in 2014, relating to the fixed expenses of 2014 and the vesting of variable remuneration of earlier performance years, is EUR 10.4 million.

50 TRANSACTIONS WITH THE DUTCH STATE AND THE EUROPEAN COMMISSION RESTRUCTURING PLAN

Following a number of transactions, as disclosed in this note, the Dutch State was a related party of ING Group. During 2014 the Dutch state was fully repaid. As per 8 November 2014, the Dutch state is no longer a related party of ING Group. All other transactions between ING Group 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 last State Nominee remained in office until 12 May 2014.

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 IABF covered the Alt-A portfolios of both ING Direct USA and Voya (formerly ING Insurance US), with a par value of approximately EUR 30 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 remained payable by the Dutch State to ING and was redeemed over the remaining life. Furthermore, under the IABF ING paid a guarantee fee to the Dutch State and received 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 was retained by ING.

Under the terms of the transaction as agreed on 26 January 2009, the overall sales proceeds amounted to EUR 22.4 billion at the transaction date. The amortised cost (after prior impairments) at the transaction date was also approximately EUR 22.4 billion. The transaction resulted in a loss in 2009 of EUR 109 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 15.2 billion.

In order to obtain approval from the European Commission ('EC') on ING Group's Restructuring Plan (see below), ING agreed to make additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the EC 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 in 2009.

The difference between the total sales proceeds of EUR 21.1 billion (EUR 22.4 billion -/- adjustment of EUR 1.3 billion) and the fair value under IFRS-EU of EUR 15.2 billion 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 4.6 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 reached an agreement with the Dutch State to adjust the structure of the 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 (formerly ING Insurance) restructured the IABF to effectively de-link Voya from the IABF. Voya 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, Voya continued to own 20% of the Alt-A portfolio (the portion for which the economic ownership and investment risk remained for the risk of ING), but had the right to sell these securities, subject to a right of first refusal granted to ING Bank. ING committed to the Dutch State that it would 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 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 were no longer applicable. Furthermore, under the agreement, the Dutch State committed to sell the Alt-A securities in the market. 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.

The first tranche of the divestment of securities was executed in December 2013. All the remaining securities held by the Dutch State as at 31 December 2013 were sold in January and early February 2014.

The Dutch State used all repayments and net fees received to pay off the loan from ING. The loan was fully repaid in January 2014.

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.

It was agreed that these restrictions would 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 EC 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 EC. The EC 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 increased 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 had 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 Voya has to be completed by year-end 2013, more than 50% had to be divested by year-end 2014, with the remaining interest to be 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 Interadvies (at that point in time named WestlandUtrecht Bank). However, due to market circumstances and changing regulatory requirements, a divestment of WestlandUtrecht had 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.

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. In addition, during the second half of 2013 a further EUR 4.2 billion Dutch mortgages were transferred from WestlandUtrecht Bank to NN Group. In 2014, a further EUR 1.2 billion Dutch mortgages were transferred from WestlandUtrecht Bank to NN Group. These transfers were made at arm's length prices.

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 and investment management 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 continued to be proposed for authorisation to the European Commission on a case by case basis until the full repayment of 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. With full the repayment of the core Tier 1 securities to the Dutch State on 7 November 2014, this restrictions has ended as of this date.

The 2012 amended Restructuring Plan included 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’. As indicated, on 7 November 2014 the repayment of the core Tier 1 securities to the Dutch State was completed.

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 EC continued with its appeal against the General Court ruling of March 2012. However, as part of the agreement of 19 November 2012, ING, the Dutch State and the EC agreed that the outcome of this appeal would not affect the EC approval of the 2012 amended Restructuring Plan. The EU Court of Justice rendered a final judgment on 3 April 2014 and dismissed the EC’s appeal against the General Court ruling of March 2012.

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 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 2013. 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 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 year-end 2016.

The amendments to the restructuring plan of 2013 were formally approved by the European Commission by decision of 5 November 2013.

Status of the European Commission Restructuring Plan
ING has completed most commitments of the restructuring plan. . As at 31 December 2014, the following were still in progress:

- Divestment US Insurance and investment management activities (‘Voya’): The November sale of Voya shares reduced ING’s stake in Voya to 18.9%. In March 2015, ING Group sold its remaining 18.9% stake in Voya. As agreed, ING Group divested its remaining stake before year-end 2016; and
- Divestment European and Japanese insurance and investment management activities (NN Group N.V.): ING Group needs to bring its current stake of 54.6% below 50% and deconsolidate NN Group before year-end 2015 and divest 100% of NN Group by year-end 2016.

These divestments will also ensure that ING Group completes two other commitments: the required reduction of its balance sheet and the elimination of its double leverage.

Creation and Divestment of Nationale-Nederlanden Bank (NN Bank): ING Group has committed to create NN Bank – as part of NN Group – as a viable, stand-alone and competitive business with a broad product portfolio and a growth path to become a mid-sized player in the Dutch market. Several detailed commitments need to be met, including targets for mortgage production and consumer credit production as well as the commitment that NN Bank should be sufficiently capitalised to execute its long-term growth plan and in any case to ensure growth to about 2016, which includes a commitment to make available to NN Bank additional capital up to an amount of EUR 120 million if and when needed but ultimately just before the date on which ING Group has deconsolidated NN Group (if the Basel III leverage ratio becomes mandatory or when NN Bank needs capital to execute its business plan).

- Acquisition and Price Leadership bans: With the repayment of the Core Tier 1 Securities now complete, part of the acquisition ban has ended: ING Group is no longer restricted from acquiring non-financial institutions. However, the ban on acquiring (parts of) financial institutions still applies, This ban continues to apply until ING Group has deconsolidated NN Group, or until 18 November 2015, whichever comes first. These deadlines also apply to the price leadership ban.

Reference is made to Note 11 ‘Assets and liabilities held for sale’, Note 46 ‘Companies and businesses acquired and divested’ and Note 51 ‘Other events’.

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 paid a fee of 84 basis points over the issued bonds to the Dutch State to participate in the Credit Guarantee Scheme. In 2014, all these bonds were fully repaid. Reference is made to Note 15 'Debt securities in issue'.

51 OTHER EVENTS

Deconsolidation of ING Vysya Bank
In 2014, changes to the governance structure of ING Vysya Bank Limited (‘ING Vysya’) were implemented in order to better align with prevailing regulations. The regulatory requirements necessitated some governance changes. As part of that, ING has reduced the number of directors appointed by ING in ING Vysya Bank’s Board of Directors to be proportionate to its shareholding. Although ING Bank’s economic interest of approximately 43% remains unchanged, as a result of these governance changes, ING Bank no longer has a majority representation in the Board of Directors and influence on ING Vysya’s operations are aligned with its shareholding interest. As a result, ING Bank no longer has effective control over ING Vysya and, therefore, as of 31 March 2014 ING Vysya was deconsolidated and accounted for as an associate under equity accounting. Before the changes in the governance structure ING Bank had substantial additional powers, including the majority in the Board of Directors and power over operational decision making; as a result, ING Vysya was consolidated by ING. After the deconsolidation, the investment in ING Vysya is recognised as an Investment in associates at its fair value at 31 March 2014 of EUR 617 million. The profit and loss account of 2014 includes the consolidated result of ING Vysya until the deconsolidation and the result upon deconsolidation of EUR 202 million. The result upon deconsolidation is recognised in Other income – Result on disposal of group companies.

ING Vysya Bank to merge with Kotak Mahindra Bank
In November 2014, ING Vysya Bank (Vysya) and Kotak Mahindra Bank (Kotak) announced their intention to merge their respective businesses. With a current shareholding of 42.7%, ING is the largest shareholder in Vysya. ING has indicated its support for the proposed transaction to Vysya and Kotak. In the proposed transaction, Vysya will be merged into Kotak. Shareholders of Vysya will receive 0.725 shares in Kotak for each Vysya share. Upon completion of the merger, ING would hold a stake of approximately 7% in the combined company, which will operate under the Kotak brand. ING's holding in the combined company will be subject to a 1 year lock-up period from the closing of the transaction. The proposed transaction is expected to result in a pro-forma net profit for ING of approximately EUR 313 million to be recognised at the closing. The shareholders of Kotak and Vysya approved this transaction in January 2015. The proposed transaction is subject to customary regulatory approvals. The transaction is expected to close in the second half of 2015. As at 31 December 2014, Vysya is presented as held-for-sale. Reference is made to Note 11 ‘Assets and liabilities held for sale’.

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 were required to pay a one-time levy of EUR 1 billion in 2014. For ING this resulted in a total charge of EUR 304 million in 2014 in the line Other operating expenses - Other. In accordance with the relevant legislation the levy was charged in three equal quarterly instalments.

Poland pension Fund (2015)
NN Group reached an agreement with ING Bank Slaski to acquire the remaining 20% stake in the Polish Pension fund, Powszechne Towarzystwo Emerytalne S.A (ING PTE) in which NN Group currently holds 80% of the shares for a consideration of PLN 210 million (approximately EUR 48 million at current exchange rates). As previously announced, the parties entered into a non-binding agreement in May 2014, in line with the EC restructuring plan which requires ING Group to divest its insurance and investment management businesses. The purchase price is supported by a fairness opinion and is subject to adjustments for dividends paid before closing the transaction. The transaction is subject to regulatory approval and is expected to close by the second or third quarter of 2015.

Risk management

Contents

ING BANK 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 its 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 External Auditors as being part of the notes to the consolidated financial statements. Pillar III information is from a regulatory perspective largely based on internal modelled risk metrics under the Basel rules and not addressed for verification to the External 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 Bank 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, and credit risk.

As ING Bank strives to generate the same high-quality and transparent description of its risk, it immediately supported the EDTF principles and recommendations and largely implemented them to further fine-tune its practice on risk disclosures. For 2014 ING Bank further enhanced its disclosures following the EDTF progress report by implementing additional recommendations. 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 III section. An overview of all the EDTF recommendations and how they are followed-up can also be found in the Pillar III section.

The table below provides clear cross-referencing between the Risk management and Pillar III 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.

Risk management index

Credit risk

Market risk

Funding and Liquidity risk

	Subjects	Risk Management	Pillar III
Liquidity risk is the risk not to meet its financial liabilities when they come to be due, at reasonable cost and in a timely manner.	Governance	194	
	Liquidity risk management framework	195	
	Liquidity risk appetite	195	
	Funding	195	
	Liquidity buffers	196	262
	Asset encumbrance		263
	Liquidity risk transfer and pricing	197	
	Contingency funding plan	197	
	Regulatory developments	197	

Non-financial risk

	Subjects	Risk Management	Pillar III
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	198	
	Framework	198	
	Operational risk and main developments	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.	Compliance risk and main developments	199	

Business risk

	Subjects	Risk Management	Pillar III
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	201	

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 specifically on 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 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 ambition of ING Bank to be the preferred bank for our customers, by safeguarding ING's current and future financial strength. 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 align the risk profile with the defined strategy and risk appetite;
- Products and portfolios are structured, underwritten, priced, approved and managed appropriately and compliance with internal and external rules and guidelines is monitored;
- Delegated authorities are consistent with the overall Bank strategy and risk appetite; and
- Transparent communication to internal and external stakeholders on risk management and value creation.

Risk management benefits ING Bank and its stakeholders directly by providing more efficient capitalisation and less volatile 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.

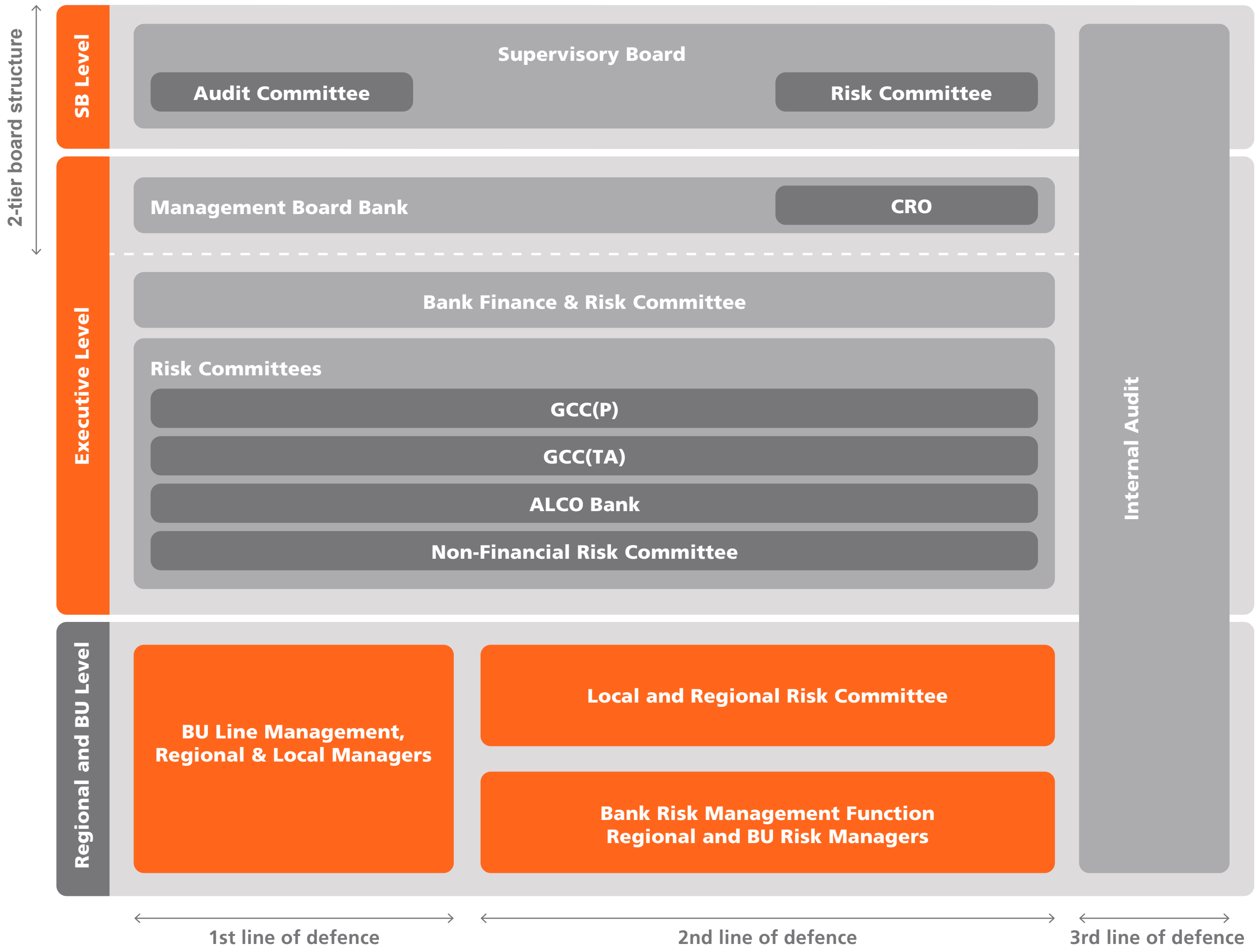
RISK GOVERNANCE

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 proposed by the Management Board Bank (MBB), approved 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 of 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 head-office and business-unit level, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to keep the risk profile within the set risk appetite.

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



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

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

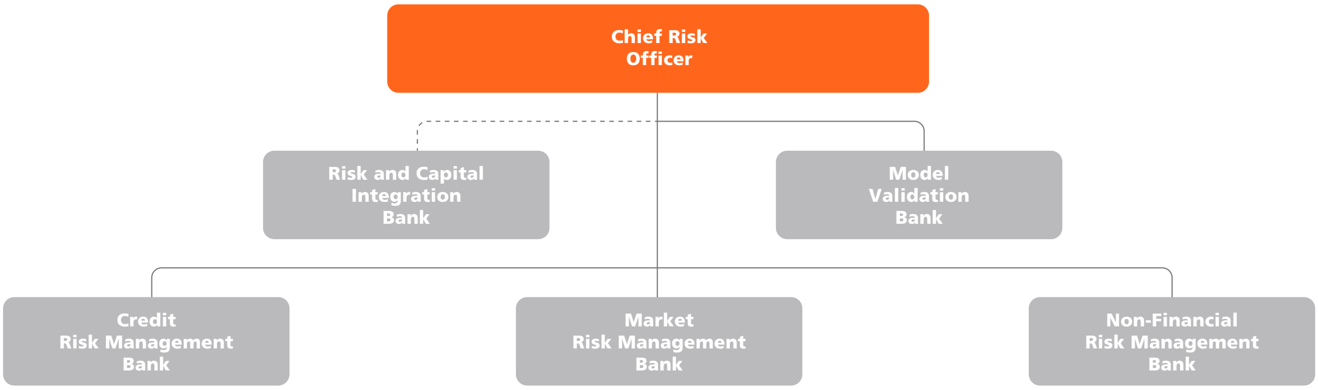
- The MBB is responsible for managing risks associated with the activities of ING Bank. The MBB's responsibilities include ensuring that internal risk management and control systems are effective and that ING Bank complies with relevant legislation and regulations. On a regular basis, the MBB reports on these issues and discusses the internal risk management and control systems with the SB. On a quarterly basis, the MBB reports on the Bank's risk profile versus its risk appetite to the Risk Committee, explaining changes in the risk profile.

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

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

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

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



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

In addition, two staff departments report to the CRO:

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

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 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 Bank. 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 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 the supervisor.

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 backtesting of all existing risk models. In addition to evaluating the underlying model parameters, ensuring continued applicability of the models for the relevant portfolios, and discussing the model performance with front office and risk users of the models, 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, predominantly 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 historical markets of the Benelux, ING Bank 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 to better match assets and liabilities across the Bank and limit growth and risk of the balance sheet.
- Remain financially healthy through improving cost efficiency and good risk management. Additionally, new regulatory requirements have to be met with focus on strong capital, funding and liquidity management.
- Build on the ambition to be a predominantly European Bank with growth engines elsewhere.

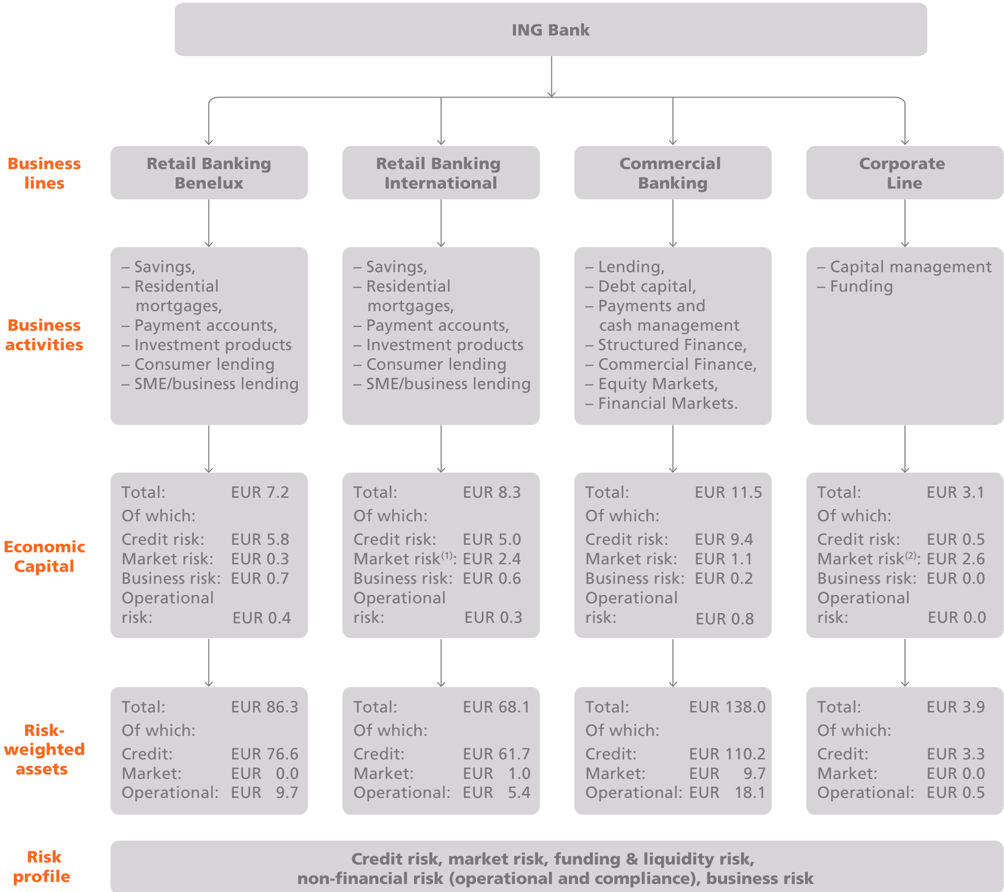
Key risks
ING Bank recognises the following key risks (financial as well as non-financial risks) that are associated with its business activities.

Financial risks:
- Credit risk: the risk of potential loss due to default and/or credit rating deterioration 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.

The chart below provides, in EUR billions, high level information on the risks arising from the Bank's business activities.



(1) EC market risk: Mainly held for the price risk embedded in equity investments.
(2) EC market risk: Mainly held for the interest rate risk embedded in the long-term investment of ING's capital (investment of own funds). In this overview the replication of capital is presented in line with the regulatory prudential approach and therefore capital itself is classified as an overnight interest rate position;

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 Bank 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 Bank 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 is at all levels 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 that can occur in day-to-day business, which can be specific to the sector, the region or the clients ING Bank 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 that cannot be reached overnight. Therefore, ING Bank 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 Bank employees. The role of the Executive Board in the oversight of corporate culture and successful implementation of the risk culture change is essential in this process.

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

Compensation
Due to economic and financial turmoil, concerns were raised in different countries following the bailout of different financial and industrial companies. The link between risk taken and compensation policies 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. For further information with regards to ING's compensation policies please refer to the remuneration report in the corporate governance section of the Annual Report and Pillar III remuneration details as published on the corporate website ing.com.

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 are arising, known risks are changing, assessed risk levels are changing, or control measures are not 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. In case of material internal or external change, an additional ad-hoc risk identification can be performed.

Risk assessment and control

Each identified risk is assessed to determine the importance, or risk level, of the risk for the ING Bank 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 materialises 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 lower 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 Bank 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.

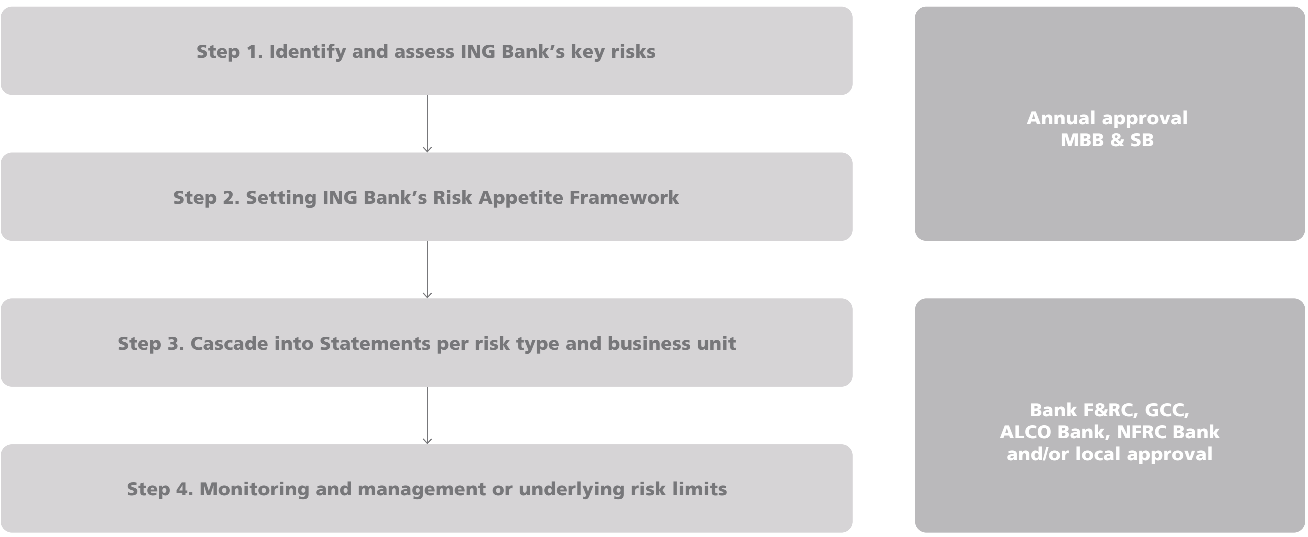
The Executive Board and the Supervisory Board of ING Group have approved the ING Whistleblower Procedure. The ING Whistleblower Procedure provides the opportunity for every employee to make his or her complaint, including anonymous complaints, to an independent Reporting Officer in order for the responsible 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 Banking 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 by the SB 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 capital and liquidity levels and ambitions, the regulatory environment and the economic context. The process is set up according to the following steps:



Step 1. Identify & assess ING Bank's key risks
Setting the Risk Appetite Framework starts with a multi-dimensional step to identify & assess the risks ING Bank is facing when executing its strategy. This step includes the following actions that are performed on an annual basis:

- detect unidentified risks that are not yet controlled within ING Bank's risk management function & assess their potential impact,
- benchmark current risk framework versus regulatory developments,
- re-assess known risks to confirm risk level or detect potential changes,
- reflect on the current set of Risk Appetite Statements.

This annual Risk Assessment serves as input when defining the global risk appetite which - in line with its business model and risk ambition - is currently formulated as follows:

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 has the following targets:

- Rating: have a rating ambition which is in line with the strongest among its peer group;
- 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 Framework
Based on ING Bank's risk assessment and risk ambition, specific targets are set for both financial and non-financial risks:

Financial risk
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 (CET1 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 includes the potential impact of a standardised and pre-determined 1-in-10-year 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 with 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 risk
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.

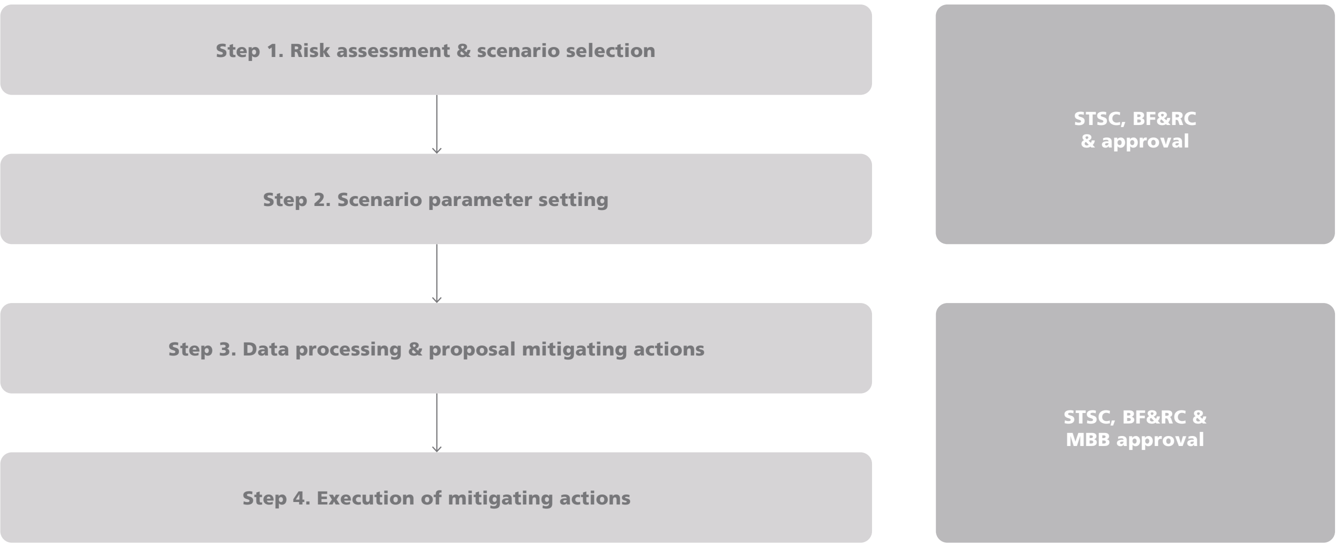
The non-financial risk appetite framework that is described under the previous step is cascaded down into the organisation without any need to make specific adjustments for each of the reporting solo entity.

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 Bank reports its risk positions vis-à-vis its limits on a regular basis towards senior management committees. The Risk and Capital Management Report reflecting the exposure of ING Bank against the risk appetite targets is submitted quarterly to the MBB and to the (Risk Committee of the) SB.

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

Types of stress tests
Within ING Bank, various different types of stress tests are performed. The most comprehensive type of stress tests are the firm-wide scenario analyses, which involve setting scenario assumptions for the relevant macro-economic and market variables in all countries where ING Bank is active. These assumptions are usually complemented by a narrative that provides background for the scenario. In addition 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 scenario 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.

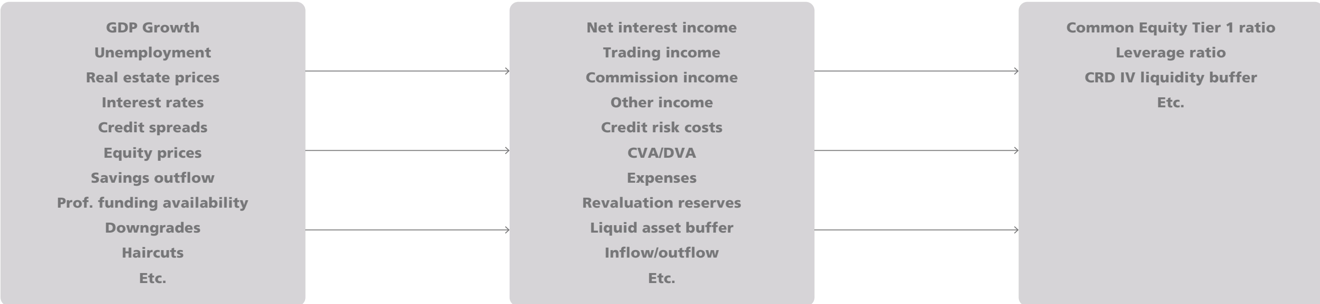


Step 1. Risk assessment & scenario selection
ING Bank formally determines its main risks based on the current economic situation, political and regulatory developments and developments in portfolios on an annual basis. Senior management, business representatives and risk specialists are involved in this 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 CET1 ratio, the leverage ratio and the CRD IV liquidity buffer.



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

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

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

ECONOMIC CAPITAL

Model disclosure
This model disclosure section explains the methodologies and models used to determine economic capital (EC). The risk models for the EC calculations are reviewed on a periodic basis and validated by the internal Model Validation department. The Economic Capital calculation is also used as part of the CRR/CRD IV Pillar II Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) that is performed regularly by the supervisor.

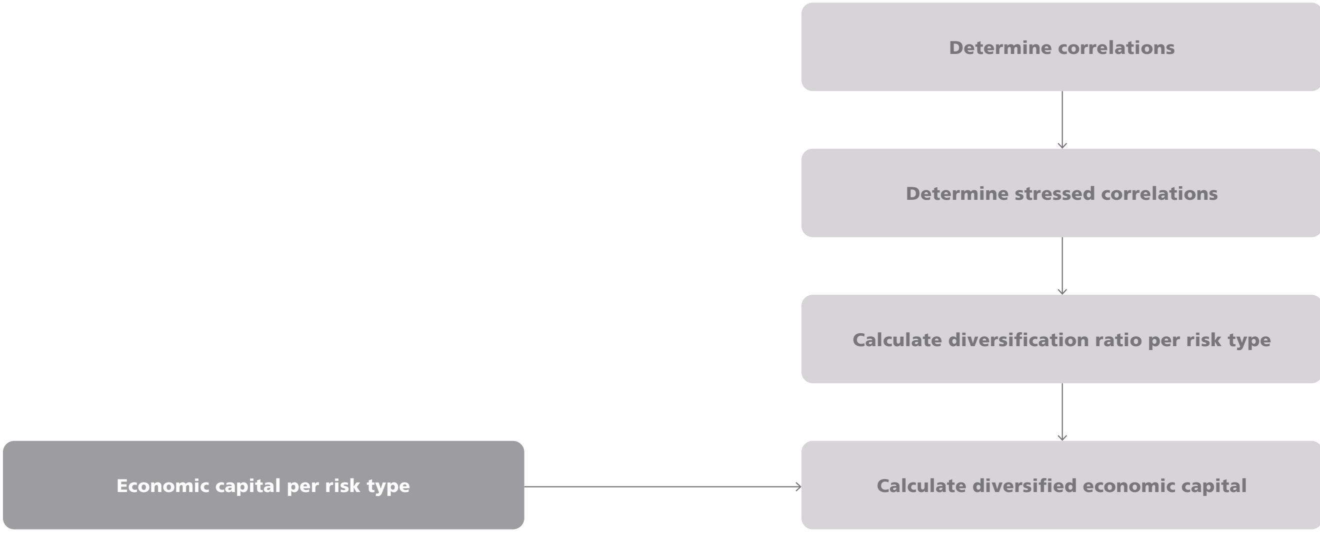
EC is defined as the amount of capital that a transaction or business unit requires in order to support the economic risks it takes. In general, EC is measured as the unexpected loss above the expected loss at a given confidence level. This economic capital definition is in line with the net market value (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 light grey boxes show the processes performed by the model while the dark grey 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 historical 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 that 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 behind its economic capital model, which may have an impact on the values of EC going forward.

The tables below provide ING Bank's EC and RC by risk type and business line. For 2014, the total RC increased compared to 2013, while the EC numbers decreased. Both are well below the total amounts of available capital of EUR 46,015 million based on CRD IV phased in rules. 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 decreased in 2014, due mainly to the impact of the Scaling Factors, which reflect the effects of using ING-specific correlations to calculate EC. The recalibration of the Scaling Factors in 4Q14, model updates, and rating migrations ensured that all the elements of last year's add-on have been fully incorporated in the INCAP methodology. More information on the Credit Risk EC can be found in the 'Credit Risk Capital and Measurement' section.
- For market risk, the reported EC numbers increased mainly due to an update of the model parameters and an increase of the equity investment positions. This especially applies for the largest contributors: interest rate risk in the banking books and equity investments. For more information on the Market Risk EC, please refer to the 'Economic capital for market risk' section.

- For operational risk, ING Bank obtained accreditation for the use of its enhanced Advanced Measurement Approach (AMA) in April 2013 and applies the model for regulatory reporting of capital requirements. The slight decrease in 2014 is mainly caused by deconsolidation. More information on the Operational Risk EC can be found in the 'Advanced Measurement Approach (AMA)' part of the Non-Financial Risk section.

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

	Economic capital		Regulatory capital	
	2014	2013	**2014**	2013
Credit risk	**20,722**	18,009	**20,148**	19,074
Add-on credit risk		6,431		
Market risk	**6,306**	4,729	**858**	704
Business risk	**1,561**	1,773		
Operational risk	**1,551**	1,571	**2,700**	2,822
Total banking operations	**30,139**	32,513	**23,706**	22,600

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

	Economic capital		Regulatory capital	
	2014	2013	**2014**	2013
Commercial Banking	**11,543**	8,156	**11,038**	10,174
Retail Banking Benelux	**7,206**	5,242	**6,907**	7,015
Retail Banking International	**8,249**	6,091	**5,450**	5,155
Corporate Line [1]	**3,141**	6,593	**310**	256
Unallocated		6,431		
Total banking operations	**30,139**	32,513	**23,706**	22,600

(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 higher than RC due to the fact that EC is defined based on 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 risk in the banking books in EC. In RC, only market risk in trading books is in scope. Furthermore, for Equity Investments the EC figures are reported under market risk, while the RC figures are reported under credit risk;
- 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.

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.

CRR/CRD IV

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 CET1 and Tier 1 capital, back-stops on a bank's leverage via a ratio that should become part of Pillar I 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 EBA and FSB requirements, ING Bank disclosed its 'Indicators of global systemic importance' via a separate document on the corporate website 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.

On 1 January 2014, the CRR/CRD IV officially entered into force with the Capital Requirement Directive currently being transposed into national law. 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. Although not all definitions and parameters of the CRR/CRD IV have been finalised, 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.

Single Supervisory Mechanism
In November 2014, the ECB took over supervisory powers for all banks in the Eurozone, establishing the Single Supervisory Mechanism (SSM). In preparation for this transition the ECB performed a yearlong and Europe wide Comprehensive Assessment, together with existing national regulators; ING Bank N.V. was one of the 130 banks that underwent this health check. The ECB objective was to foster transparency, to repair and to build confidence. The exercise ultimately aimed to provide details of any capital shortfalls and demand corrective measures. The ECB established quantitative benchmarks at various points in the process. Banks falling short of these benchmarks are required to raise additional capital in given time periods.

The Comprehensive Assessment, which included an asset quality review (AQR) and a stress test, commenced in November 2013 and concluded with the publication of results on 26th October 2014. ING Bank passed both the AQR and stress test reflecting ING's strong capital position and resilient balance sheet. The methodology used by the ECB to determine the AQR impact was non-IFRS based and consisted of a combination of a credit file review, extrapolations thereof, review of emergence periods used in collective provisioning, and a review of fair values.

After the publication of the CA, all participating Banks received a letter containing the ECB's main observations following the AQR. ING has taken this feedback seriously and has assessed the impact on the 2014 financial statements. Based on this assessment no impact has been identified relating to emergence periods used in collective provisioning. The assessment did result in some adjustments relating to provisioning for a few credit files and fair value of certain derivatives. The 2014 profit before tax was impacted by less than EUR 15 million by the AQR.

The AQR phase had 10 blocks of activities and focused on three main streams covering a number of these blocks; Banking Book, Fair Value Exposure, and Process Policies and Accounting (PP&A) Review. The AQR looked at both Credit and Market risk - the overall scope providing coverage for at least 50% of the Bank's risk-weighted assets and 40% of the balance sheet.

As the ECB assumes supervision of the consolidated ING Bank, including ING's subsidiaries in the Eurozone, the assessment was executed at consolidated level. This means that for ING Bank N.V., DNB was in the lead and liaised with local regulators on cross-border work. As an example of geographical coverage, the ING in scope Banking Book portfolios included Corporate and Retail portfolios in countries such as for example The Netherlands, Belgium and Germany. Regulators in these markets were also deeply involved in the ING assessment.

The execution of the AQR review process was both qualitative and quantitative; including extensive data integrity validation, onsite file reviews, collateral valuation and the recalculation of loan loss provisions. The ECB and national regulators engaged specialist consultants such as accounting firms, real estate appraisers, and financial modelling firms to undertake various aspects of the process. These external consultants reviewed and challenged ING Bank figures and processes.

The stress test phase, conducted in conjunction with the European Banking Authority (EBA), aimed to test the resilience of the participating banks to adverse macro-economic developments. In this exercise, the impact of both a baseline and adverse scenario for 2014-2016 on amongst others impairments, Net Interest Income and RWA had to be calculated. ING Bank used internal models for these estimations, which were checked and benchmarked by EBA and the ECB.

ING Bank executed the work largely with internal staff as the required expertise is available in house. This strategy also assisted ING Bank in building the knowledge required for a much more data-driven regulatory climate. Both the AQR and the stress test were good preparation to meet these future demands.

In December 2014, the ECB shared some qualitative and quantitative observations with ING that resulted from the Comprehensive Assessment process. Some of these observations have already been addressed in 2014 and the remaining ones have been analysed and there is an agreed upon action plan. This approach was confirmed to ECB in January 2015. ING has an internal tracking process for regulatory items and will continue working with ECB to address the observations.

The ECB Comprehensive assessment was an intensive and time consuming project in which ING Bank participated in an effort to improve transparency and restore trust in the banking industry as a whole.

Bank Recovery and Resolution Directive
Another important element of the regulatory reforms is the Bank Recovery and Resolution Directive (BRRD) that was adopted by the European Parliament on 15 April 2014. The aim of this directive – that applies per 1 January 2015 – is to make EU banks more resilient and to reduce the risk of having to bail out banks 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. To ensure the effectiveness of the bail-in tool, the BRRD requires banks to meet a Minimum Requirement for own funds and Eligible Liabilities (MREL). The implementation of MREL will also depend on the final Total Loss Absorption Capacity (TLAC) proposal for which the Financial Stability Board (FSB) has published a consultative document in November 2014. In 2015 FSB will based on the outcome of the Quantitative Impact Study and the feedback from its stakeholders prepare a final document for the November 2015 G20 meeting. ING supports the bail-in concepts 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 National Resolution Authority will be able to develop a Resolution Plan.

Principles for Effective Risk Data Aggregation and Risk Reporting
In January 2013, the Basel Committee published Principles for Effective Risk Data Aggregation and Risk Reporting (also referred to as PERDARR or BCBS239), following a recommendation made by the Financial Stability Board (FSB). 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 Bank performed a "stocktaking" self-assessment survey in 2013 and another assessment in 2014 to monitor the progress made. The 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 2014

Risk developments listed below are defined as the risks that may have a potentially significant impact on our business and for which it is 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.

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

The typical interest rate position for ING Bank is that the duration of the assets is slightly higher than the duration of the liabilities. Given this mismatch, decreasing interest rates are under normal circumstances favourable for the interest income of ING Bank: liabilities reprice more quickly than assets, and therefore the average rate paid on liabilities would adapt more quickly to lower market interest rates. This would then support ING Bank's net interest income.

However, given the current unusual situation with very low interest rates, the above may not fully apply anymore for the following reasons:

- ING Bank could be confronted with higher than expected prepayments because of the significant difference between the rates of the existing mortgage portfolio and the prevailing market rates.
- ING Bank may not be able to fully track further declines in interest rates in savings rates.
- Returns on new originated assets may decrease, which may for example be the consequence of increased competition.

These factors could put ING Bank's Net Interest Margin under pressure. This situation will remain until structural economic recovery.

Dutch mortgages
In 2014, the Dutch house prices increased every quarter for the first time since 2008, while the real economy showed a fragile recovery. 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.

ING introduced differentiation in pricing based on LTV buckets attracting new customers with lower LTV, and stimulating existing clients to repay their mortgages. ING has seen a record high of partial prepayments in 2014.

By the end of the year, the portfolio showed an elevated but still low percentage of non-performing loans (NPL). This was due to the implementation of the refined EBA's NPL definition. The percentage 90 days overdue remained at a low level. 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 portfolio, defined as lending to corporates in the business line Retail Banking, is concentrated within the Benelux. The weak economic environment was reflected by increased, but lower compared to last year, risk costs and an elevated percentage of non-performing loans. The Netherlands showed increased non-performing loan amounts, which was mainly driven by the sectors transportation & logistics - especially inland shipping and short sea -, builders & contractors and retail non-food. The non-performing loan amounts in Belgium and Luxembourg decreased slightly over 2014.

Real estate finance
Real Estate Finance (REF) is 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 2014, the commercial real estate key market areas overall improved although it remains challenging. This is reflected in lower risk costs and decrease in non-performing loans compared to 2013. ING managed down the credit outstandings through sale or redemption of loans mainly in The Netherlands. In 2014, the ECB conducted an AQR for the total bank and the CRE portfolio was also included.

Russia & Ukraine
ING has a long history supporting clients in both Ukraine and Russia. We have intensified our monitoring and tightened acceptance criteria. The economic outlook for both Russia and Ukraine is negative and reflects (i) the increasingly subdued medium-term outlook, exacerbated by the prolongation of the Ukraine crisis, including the impact of expanded international sanctions, (ii) the gradual but ongoing erosion of Russia's FX buffers, (iii) Russian borrower's restricted international market access and (iv) low oil prices. Our risk appetite will therefore remain limited and only new exposures with sufficient risk mitigation will be considered. We will focus on international business clients and export-oriented companies. We intend to remain long-term players in both countries as these are defining moments for our clients.

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 2014 ING Bank has successfully finished its Cybercrime Resilience Programme to become more mature in being able to protect, detect and respond to e-banking fraud, Distributed Denial of Service (DDoS) and targeted attacks (also called Advanced Persistent Threats). The Cybercrime Resilience Programme has handed over the Cybercrime activities to the line organisation to ensure structural embedding.

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 Centre) 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.

KEY DEVELOPMENTS IN CREDIT RISK

CRR/CRDIV comes into effect from 1st January 2014

For the European Union Basel III has been transposed into law through the Capital Requirements Directive IV (CRDIV) and the Capital Requirements Regulation (CRR). CRR/CRDIV came into effect as of 1 January 2014 and ING Bank has complied with the requirements stated by these regulations. The impact of these regulations was mainly felt through (i) CVA Capital for the derivatives portfolio (ii) higher correlation for large regulated financial institutions (iii) increased haircut for securities financing business and (iv) increased risk weight for Central Clearing Parties. The Financial Markets portfolio was the one which was most significantly impacted by these new regulations along with parts of Retail Banking International, Corporate & FI Lending and Transaction Services units. The impact was seen through an increase in risk density in these units where the ratio of Credit RWA/READ increased.

Improved Credit Quality

The credit RWA density, measured as total credit RWA divided by total EAD, showed an improvement indicating a better risk profile for the year 2014. Improvements were seen through a diminishing inflow in our NPL, fewer files in watch-list (2014: 2.5%, 2013:3.7%) and a decrease in additions to loan loss provisions (2014: EUR 1.6 billion, 2013: EUR 2.3 billion). Overall, the credit portfolio has improved with reduced inflows to problem loan departments, watch-list and a reduction in risk costs compared to 2013.

Mortgages

The total mortgage portfolio remained almost flat over the year. Growth was seen in Belgium, DiBa and Australian markets. In Australia, the FX impact of the Australian Dollar had a significant impact on the size of the portfolio and contributed to most of the growth seen.

In the Netherlands, concentration in the Dutch mortgage portfolio for ING Bank has reduced, mainly through a steady transfer of mortgages from WestlandUtrecht to Nationale-Nederlanden Bank. After years of continued weakness in the housing market, house prices in the Netherlands finally showed an uptick in 2014. This development improved the LTV and reduced RWA for the Dutch mortgages.

Commercial Real Estate

Given the increased risk profile in the real estate sector, ING Bank decided in 2008 to reduce its real estate portfolio and this reduction continued in 2014. The portfolio is now at the level targeted by ING Bank's risk appetite for this asset class. The book is performing better compared to 2013, reflected by an improved Credit RWA density, lower number of clients on the watch list, NPL ratio showing a steady decline in 2014 and a material reduction in risk costs.

Commercial Banking

Structured Finance as well as Transaction Services have seen an increase in 2014. FX had a material impact on these significantly USD denominated portfolios, but, excluding FX these portfolios registered a volume increase. Financial Markets and especially derivatives were impacted by the introduction of CRR/CRDIV resulting in increased READ, RWA density and higher capital requirements (increased Credit RWA by EUR 5.5 billion and additional CVA RWA of EUR 6.2 billion).

Move to the new Masterscale

Since 2012, ING Bank has been working on a project to map the 1-19 rating grades to internal data instead of external rating agency scales. In March 2014, DNB approved the implementation of the new Masterscale (ING Bank internal rating methodology). As of Q2 2014, PD values of the ING Bank Masterscale were adjusted using internal observed default data history from 2005 until 2012 where previously Standard & Poor's data was used. These adjustments are performed to reflect internal default experience, which is better compared to the more US based Standard & Poor´s data. This has made the Masterscale a better reflection of the risk profile of ING Bank and consequently has led to a net decrease in RWA. This change in methodology resulted in a release of EUR 3.7 billion in Credit RWA. The planning is to add each year a new year of internal default history to the data set.

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 outstanding 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

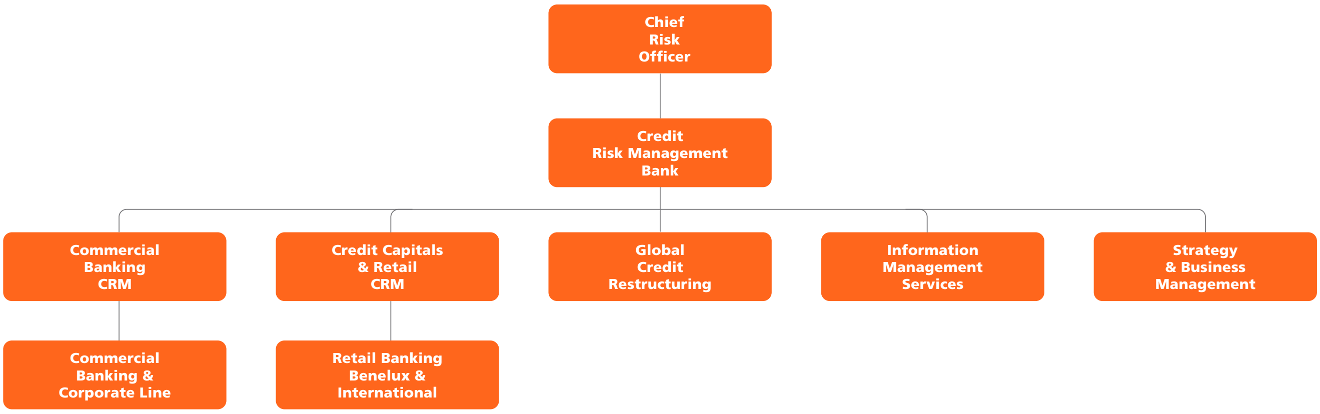
CRM within ING Bank belongs to the second line of defence (the front office being the first, internal audit the third) and aligns the credit risk taking with the strategic planning of ING Bank. It is responsible for reviewing and managing credit risk including environmental and social risk for all types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

Credit analysis at portfolio level is a function of different concentration levels and various metrics like Economic Capital, Regulatory Capital, Exposure at Default, Probability of Default and Loss Given Default. The risk/reward is monitored and managed at portfolio level to ensure efficient use of ING Bank's capital. Credit analysis at facility level is also risk/reward-oriented in that the level of credit analysis is a function of the risk amount, tenor, structure (e.g. covers received) of the facility, and the risks entered into. 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 approve or decline credit proposals resides with the Management Board Banking (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, in 2014 Credit Risk Management (CRM) consisted of the following units; Commercial Banking CRM (CB), Global Credit Restructuring (GCR), Credit Capitals and Retail Risk Management (CC&RRM), Information Management Services (IMS) and Strategy and Business Management (S&BM).



Credit risks of commercial and retail banking are monitored by Commercial Banking CRM, Global Credit Restructuring and Retail Banking. These units are guided, instructed and supported by Credit Capitals, Information Management Services and Strategy & Business Management. Each head of the five units reports directly to the CRM 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. ING Group Credit Risk Committee Policy or "GCC (P)" is the highest level ING Group body (with the exception of ING Group Executive Board), which is authorised to discuss and approve policies, methodologies and procedures related to Credit, Country and Reputation Risks within ING Group or exclusively ING Bank. Following the (partial) divestment of NN bank from ING Group, the GCC(P)'s main focus is on ING Bank items. 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 MDC has a delegated mandate to approve credit risk models which cover smaller portfolios. 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 ING Bank Impairment Committee decides on the quarterly debt, equity and real estate impairments in Available for Sale (AfS) books. The IPC and Impairment Committee are fully integrated as of 2014 and 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 (financial institutions). 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. Credit 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. Credit 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 CRR/CRDIV 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.

Information Management Services
Information Management Services (IMS) manages, updates and improves the Credit Risk infrastructure of ING Group to support Credit Risk life cycle activities:

- Supports CRM and ING organisation;
- Optimises Credit Risk related end-to-end data, processes and systems;
- Enables advanced technologies and analytics to support decision making;
- Creates and strengthens a risk/reward culture within the bank.

Supported business processes include Credit Risk Approval, Loan Loss Provisioning and Credit Risk Reporting through the development and maintenance of Credit Risk systems.

Strategy & Business Management
Strategy & Business Management (S&BM) is a strategic business partner for various stakeholders within CCRM, the ING organisation and the regulator. S&BM sets policy, advises on strategic matters, credit and reputation risk within ING; provides management information on credit risk for all portfolios; and coordinates and facilitates various CRM non-risk and supporting processes.

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 (PIP). 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, the Basel III Newsletter and the Policy House while the internal ING networking site, “Buzz”, is also used for internal communication.

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 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), 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.

Every country where ING has exposure has a country limit which is reviewed monthly and updated when needed. 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. In case the utilisation is above 90%, the respective credit risk manager is expected to take action to bring the utilisation below 90% or to submit to the relevant approval mandate holders a country limit review requesting a higher limit to accommodate the increasing exposure. In case of countries with elevated levels of geo-political or severe economic cycle risk like Argentina, Ukraine and Russia in 2014, the monitoring is performed on a more frequent basis with strict pipeline and exposure management to protect ING Bank from adverse impacts.

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.

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 CRWA that ING should allocate in such an event is named CRWA-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 CRWA-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 I and Pillar II capital calculations, based on the results of various stress test, ING Bank ensures that adequate levels of capital (and liquidity) are available to sustain such severe but plausible scenarios.

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

Risk programs
Within ING we distinguish between risk programs for Retail Banking and risk programs for Commercial Banking business.

The Retail risk portfolio program is defined as a set of policies and processes, which are laid down to manage a retail risk portfolio within a predefined risk appetite statement. A retail risk portfolio is defined as a group of sufficiently homogeneous credit assets, where:

- A consistent set of credit policies and processes for approving a high volume of counterparties and transactions could be applied;
- Exposures could be pooled and managed through a set of standard policies and procedures over its entire life cycle.

A risk appetite statement in the context of a retail risk portfolio program is a pre-defined set of minimum performance criteria.

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

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 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 translated into a probability of default (PD), 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);
- Restructuring (Risk Rating 1-19);
- Problem (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 III section.

Under regulatory guidance, an IRB bank is allowed to report portfolios on SA up to 15% of total credit RWA. In future, the permanent partial use of SA will be strengthened. This change is laid down in a recently published consultation document from EBA (as mandated in article 150 of the CRR). In this consultation document it is stated that if the number of material counterparties is limited and it would be unduly burdensome to implement IRB, IRB banks can use SA for parts of their portfolio. Exposures and RWA in scope cannot exceed 8% of the relevant exposures. In general, capital calculated with AIRB is more accurate and therefore has often a lower risk weight than when using the Standardised Approach (SA). This Supervisory Practice has an influence on the comparability of RWA across institutions.

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 calculation. Another important 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 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 many of both corporate and retail customers classified as non-performing are not overdue for more than 90 days in either interest or principal. For all 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 means that if one facility is in default, usually all facilities of the client are in default. Once the customer is deemed performing, a non-default PD will be given to the borrower. Non-performing clients which were granted forbearance measures need to stay non-performing for a minimum of one year starting from the moment they are classified as forborne. Only after this probation period the clients may become eligible to be changed back to performing.

Regulatory environment
ING Bank is regulated by many host supervisors; however the primary supervising entity is ECB. ECB ensures that the regulatory rules (CRR/CRDIV) are adhered to, including the strict 'significant change' policy that requires all changes to the internal models (PD, LGD and EAD) above a threshold to be reviewed and approved by ECB.

Next to different risk profiles, which accounts for the largest RWA deviation when comparing RWA levels between financial institutions, risk based drivers, practice based drivers and regulatory environment (e.g. Advanced Internal Rating Based approach or the Standardised Approach) can have a substantial impact on the regulatory capital / RWA of a financial institution. These factors make it challenging to compare capital levels across banks. ING Bank continues to work with industry groups including EDTF to improve the transparent reporting of our capital calculations.

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

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

An important characteristic of the CRM 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 AIRB based unexpected loss formula which is based on the corresponding PD, Downturn LGD and EAD inputs.
The 1.06 regulatory scaling-factor is used.	The 1.06 regulatory scaling-factor is not used.
Regulatory LGD values including potential downturn adjustment are used.	Downturn LGD values which include potential downturn adjustments.
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 CRDIV complaint external rating based look-up tables. For Mont Blanc exposures the Internal Assessment Approach is used.	EC for securitisations is calculated by applying the Corporates formulae within the CRR framework (based on internal PD, EAD, DLGD values and remaining maturity).
For exposures from 1 year and longer: PD values represent the PD for 12 months. Shorter than 1 year: 1 year PD values are used. Next to the PD, there is the maturity adjustment: always set to 1 year (for tenors shorter than 1 year) unless, the product is placed on a list of self-liquidation and or trade related products that is CRC approved (in line with the CRR). These should be seen as “not part of the institution’s ongoing financing of the obligor” (CRR article 162).	For exposures from 1 year and longer: PD values represent the PD for 12 months. Shorter than 1 year: except for lending to clients rated 11 and worse (1 year PD floor), all PD’s are floored at 1 month. So an exposure with a remaining tenor of 6 months will have a PD value based on 6 months.
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/CRDIV based confidence level of 99.90% is used.	Linked to Risk Appetite, a confidence level of 99.95% is used.
CRR/CRDIV compliant correlations are used. The Increased Correlations for FI's was applied in 2014.	ING specific correlations are used, in order to capture the ING portfolio specifics including diversification benefits, concentration risk and single name risk.
In 2014 CVA Capital Charge is added to Regulatory Capital for credit risk.	CVA risk is taken into account as calculated under Pillar I based on the CRR Standardised Approach.
In the Solvency Report Other non-credit obligation assets (ONCOA) are 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 I) or to the significance (size) of the model for the ING Bank portfolio.

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

Standardised Approach
Unlike the AIRB approach, the standardised approach applies a fixed risk weight to each asset as dictated by the Financial Supervisory Authorities, and is based on the exposure class to which the exposure is assigned. As such, the Standardised Approach is the least sophisticated of the Regulatory Capital 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 Regulatory ‘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 into 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 outstanding 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 outstanding, 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. Regulations (CRR/CRDIV) cap the maturity element at five years, despite the fact that many obligations extend their facilities for 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;
- 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 compliant models are used to determine the PD, EAD and LGD for regulatory and economic capital. Bank wide, ING Bank has implemented around 80 models, including various sub models that may be applicable for a specific portfolio.

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

- **Statistical models** are created where a large set of default or detailed loss data is available. They are characterised by a sufficient number of data points that facilitate meaningful statistical estimation of the model parameters. The model parameters are estimated with statistical techniques based on the data set available;
- **Expert models** are based on the knowledge and experience of experts from both risk management and front office staff and literature from rating agencies, supervisors and academics. These models are especially appropriate for 'Low Default Portfolios', where limited historical defaults exist;
- **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 European regulation (CRR/CRDIV) 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 CRR/CRDIV 'use test'. Key differences between the parameters used for Loan Loss Provisioning and Regulatory Capital calculations are that Regulatory Capital parameters are typically through the cycle while Loan Loss parameters tend to be more point in time. Additionally, the LGD for Regulatory Capital calculations is based on a down-turn LGD.

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

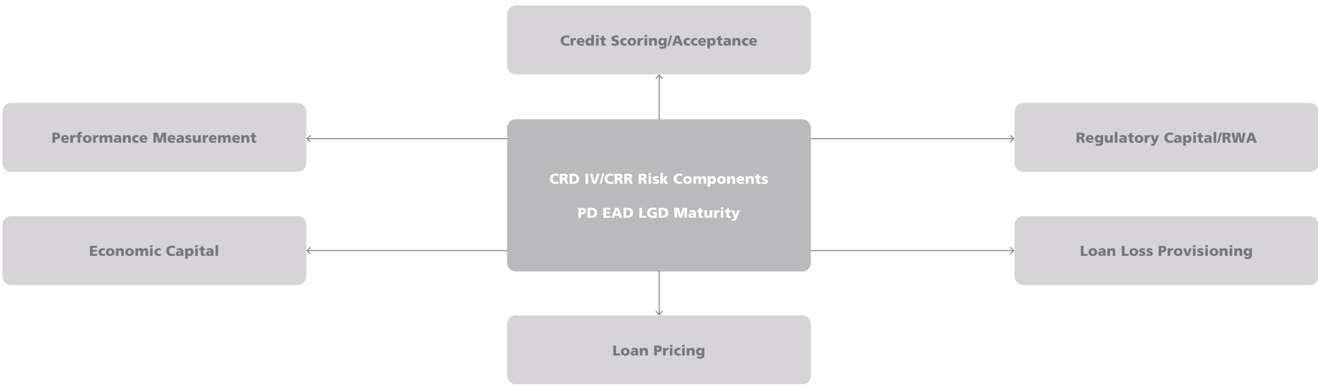
- **MtM plus model based add-on approach**: In this approach, the PS risk is calculated as the sum between the MtM of the trade and the model-based Add-on. The MtM fluctuates through the life of the contract. The model-based Add-on is product-specific, and takes into account remaining time to maturity, profiling per time-buckets etc. Add-ons are updated with a frequency that takes into account the major market changes. This methodology is used for pre-deal exposure assessment of all

ING Bank financial markets products and for post-deal risk calculations for financial markets portfolios for which computational efforts and costs associated with implementation of Scenario Simulation approach are not justifiable;

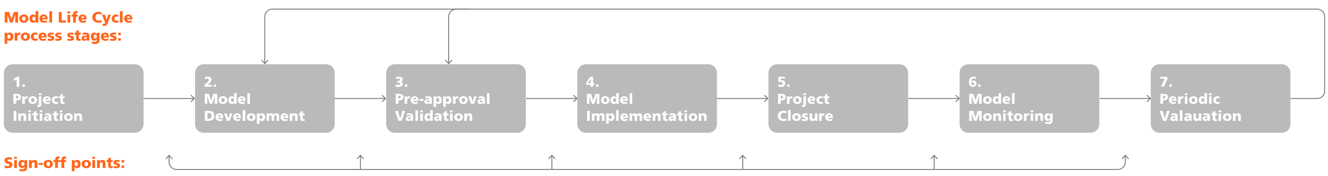
- Scenario **Simulation approach (Monte Carlo approach)**: Scenario Simulation approach is the most complex of the methods for PS risk calculations. This approach is the only approach that fully takes into account the daily market conditions, including correlations between the risk factors and portfolio benefits. This approach is also referred to as Monte Carlo (MC) approach and is currently used for the largest volume of derivative products such as FX and interest rate derivatives. ING Bank is in the process of implementing this approach for more products. The monitoring of the PS exposures and the limit setting for the products within the scope of the MC approach are based on the exposures resulting from the MC approach, the pre-deal check exposure assessment is based on the MtM plus model add-on approach.

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

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



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



Credit risk rating process
In principle all risk ratings are based on a Risk Rating (PD) Model that complies with the minimum requirements detailed in the CRDIV, 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 (referred to as the "Masterscale"), which roughly corresponds to the same rating grades that are assigned by external rating agencies, such as Standard & Poor's, Moody's and Fitch. For example, an ING Bank rating of 1 corresponds to an S&P/Fitch rating of AAA and a Moody's rating of Aaa; an ING Bank rating of 2 corresponds to an S&P/Fitch rating of AA+ and a Moody's rating of Aa1, and so on.

Risk ratings 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 Regulatory compliant 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
BCBS (Basel Committee) and the European law (CRR/CRDIV) have 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 recognised Local / Regional Authorities as well as Supranational Organisations;
- **Institutions** include all Commercial Banks, non-Bank Financial Institutions, such as Funds and Fund Managers, and Insurance Companies, as well as local and regional government entities not classified as governments;
- **Corporates** includes all legal entities, that are not considered to be Governments, Institutions or Retail Other;
- **Residential Mortgages** include all mortgage loans for residential properties that are not part of a securitisation; and
- **Retail Other** includes all other credit obligations related to Retail SMEs, such as partnerships, one-man businesses and private individuals, such as consumer loans, car loans and credit cards.
- **Securitisations** include securitisation programs for which ING Bank acts as an investor, sponsor or originator.

Under these exposure class definitions, it is possible for a private individual to be included under both residential mortgages and retail other.

The Pillar III 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 III that reflect 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 shown below. The figures shown in the Credit Risk section are including loans to Group and Insurance being "intercompany loans", unless stated otherwise:

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

2014	Lending		Investment		Money Market		Pre-Settlement		Total		Total (ALL)
	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB	SA	AIRB + SA
Sovereigns	2.2%	0.0%	9.1%	0.1%	1.0%	0.2%	0.5%	0.0%	12.8%	0.3%	13.1%
Institutions	4.3%	0.2%	2.6%	0.0%	1.1%	0.1%	6.0%	0.0%	14.0%	0.3%	14.3%
Corporate	27.2%	1.0%	0.2%	0.0%	0.1%	0.0%	1.3%	0.0%	28.7%	1.0%	29.7%
Residential mortgages	34.9%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	34.9%	0.7%	35.6%
Other retail	5.0%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%	1.3%	6.3%
Securitisation	0.2%	0.0%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	0.0%	1.0%
Total (ALL)	73.8%	3.2%	12.7%	0.1%	2.1%	0.2%	7.8%	0.0%	96.4%	3.6%	100.0%

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

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

Residential Mortgages and Corporates comprise over 65.3% of the total ING Bank portfolio (down from 66.8% in 2013). Even though the volume of residential mortgages has remained fairly stable over the year, as a proportion of the total portfolio they have declined most notably in the Netherlands.

The investment portfolio grew in 2014, mainly to support liquidity requirements which will be enforced by the introduction of the Liquidity Coverage Ratio, and is mainly concentrated to European central governments and central banks. The maturity of ING Bank originated securitisation BEL-SME 2006 in March 2014 means that the securitisation portfolio now comprises of only Investor (90.9%) and Sponsor (9.1%) securitisations.

The declines seen in the SA categories are due to the deconsolidation of ING Vysya from ING Bank.

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 around 80 different internal models, which have the following features:

- **PD models**: Probability of Default (PD) 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.

As of 2014, ING Bank has implemented the latest forbearance policy in line with EBA guidelines. More details on this are available in the forbearance section.

Changes in 2014 to credit risk models
The credit risk models are updated on a regular basis by taking into account more recent data, regulatory requirements and Model Validation recommendations. In 2014 model changes have been implemented to various important AIRB models across all exposure classes leading to a decrease in RWA of EUR 2.2 billion of which the major changes are:

- Belgium Business and Consumer Lending: The LGD model for the Belgium Business and Consumer Lending portfolio was updated to better reflect current market circumstances, leading to an increase in RWA;
- Governments: A new PD model was implemented for Central Governments to support a more efficient rating process. New LGD models were implemented for the Central and Local Government portfolio. These changes lead to a net decrease in RWA;
- Germany Mortgages: the model was updated with more recent data and implemented in the central infrastructure. The net effect in RWA was neutral;
- For the Small and Medium Sized entities updates have taken place in the Dutch LGD model, the Belgium LGD model and in the Central Eastern Europe PD and LGD models, leading to an increase in RWA.

In addition to these model updates, methodology change related to Masterscale update led to a decrease in RWA. For further details regarding model changes and the subsequent RWA migration in 2014 we refer to the chapter Risk Weighted Assets Migration Analysis in the Pillar III section.

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

ING Bank as Investor
Retail Banking International has 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 matured or have been unwound.

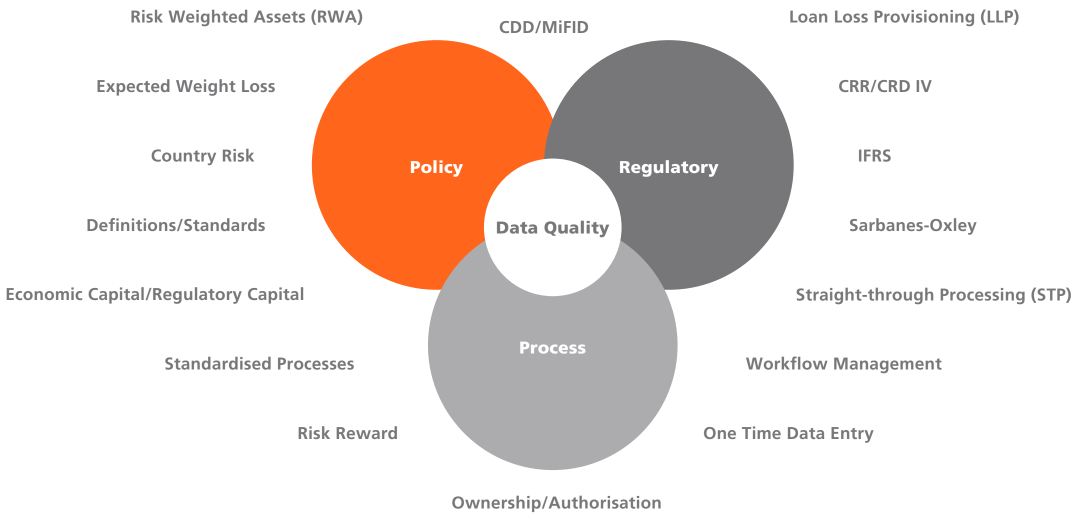
ING Bank as Sponsor
In the normal course of business, ING Bank structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to an SPV. The transactions are often funded by the ING Bank administered 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 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. Credit Risk Management (CRM) together with the Bank-wide Customer Domain (BCD) jointly designs and operates the tools, the process and the environment while the ING units (the users) provide the data input and various other ING departments and/or external regulators provide the rules, policies, and methodology embedded in the various tools.

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



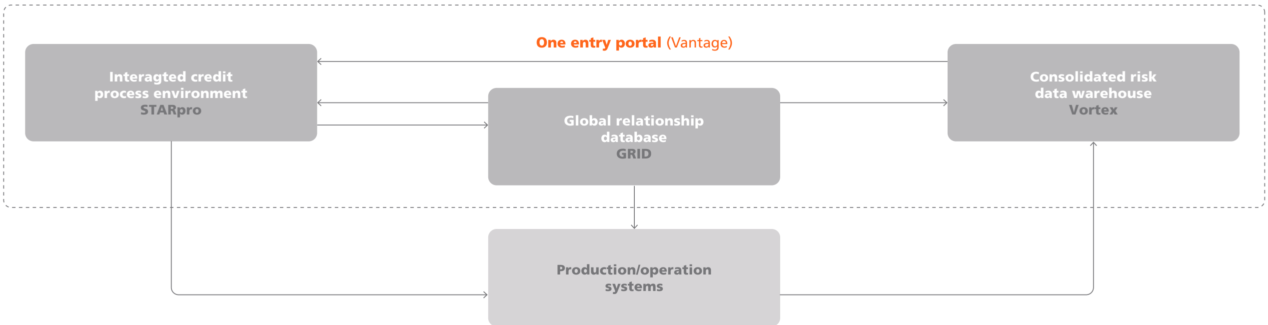
The CCRM/BCD customer-centric data model conforms strongly to the three core business needs of ING Bank:
- To transact efficiently with our counterparties;
- To be compliant with our internal and external obligations;
- To monitor the risks we undertake.

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, compliance, and regulatory reporting.

ING Bank main credit risk systems



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

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

GRID's cross-reference functionality is essential. It enables the bank 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.

Vortex Advanced Analytics
Since the beginning of 2014, CRM has introduced SAS based Vortex Advanced Analytics (VAA) as a tool for advanced risk analysis. It enables creation of flexible analyses and reports with high granularity within a short turnaround time. The biggest advantage of using VAA is that it significantly reduces the time spent on data collection and data preparation allowing more time to be spent on value adding analyses. VAA has also provided independence in accessing the right data and reduction in manual interventions due to automated data collection and preparation. VAA was used extensively in the ECB Comprehensive Assessment and continues to be used for the ongoing ad-hoc regulatory requests to which CRM caters to.

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;
- Manual ratings, which are calculated on an individual basis and where the user is required to also answer additional qualitative questions in order to create a rating.

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

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

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

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

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

Role of reporting department
The credit risk reporting department contributes in the following ways to CRM:

- Provides periodic overviews of credit capital, migration of credit risk weighted assets, concentration overviews by industry/sector/counterparty names required or requested by the DNB, the ECB and other European regulators;
- Create periodic overviews of a set of high level credit risk metrics as defined in the ING Bank Credit Risk Appetite Statements and monitor to ensure that ING Bank remains within its defined Credit Risk Appetite;
- 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.

ING Bank’s credit risk reporting principles
The Basel Committee on Banking Supervision (BCBS) released a document in January 2013 on Principles for Effective Data Aggregation and Risk Reporting. The paper stems from a recommendation made by the Financial Stability Board (FSB) and outlines 11 key principles for global systemically important banks to follow. Credit risk has done a self-assessment and rates itself satisfactory or better on all reporting principles. 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 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	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
1 (AAA)	**6.1%**	1.9%	**0.0%**	0.0%	**9.8%**	8.5%	**42.3%**	5.0%	**5.6%**	3.2%
2-4 (AA)	**10.2%**	14.2%	**5.7%**	5.4%	**17.0%**	16.6%	**0.5%**	60.3%	**10.5%**	12.6%
5-7 (A)	**23.3%**	23.0%	**4.1%**	4.1%	**15.9%**	21.6%	**11.6%**	16.5%	**14.8%**	16.1%
8-10 (BBB)	**27.2%**	26.6%	**27.7%**	34.4%	**33.1%**	27.9%	**14.9%**	5.7%	**28.9%**	29.3%
11-13 (BB)	**22.8%**	22.6%	**47.3%**	41.5%	**16.8%**	18.8%	**30.6%**	12.3%	**29.2%**	27.7%
14-16 (B)	**6.3%**	6.6%	**8.6%**	8.2%	**5.6%**	4.6%	**0.0%**		**6.8%**	6.5%
17-22 (CCC & Problem Grade)	**4.2%**	5.1%	**6.6%**	6.4%	**1.8%**	2.0%	**0.0%**	0.2%	**4.2%**	4.6%
	100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

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

The Masterscale used within ING Bank to rate clients was updated in May 2014 to include ING own collected data. This update resulted in the movement seen in Retail Banking International in rating A to BBB and is due to downward re-rating of mortgage clients in DiBa which is now in line with the bank-wide rating methodology. Similar movements were seen in Retail Banking Benelux in mortgages where outflow of WestlandUtrecht mortgages to NN Bank and the economic downturn reflected in the mortgage client ratings causing them to slip from BBB to BB. The big increase in AAA rated clients was due to the increase in investments with European sovereigns.

Credit risk types
Continued transfer of performing mortgages from WestlandUtrecht Bank to NN Bank combined with the economic downturn reflected in the mortgage ratings predicted by the Dutch mortgage models resulted in an increase in BB rated and decrease in BBB rated Lending outstandings. Investments as a proportion of the total ING Bank portfolio have grown to 12.8% (2013: 12.4%). The investment portfolio saw a healthy growth in AAA-rated outstandings due to increased placements with European sovereigns as it becomes more of a liquidity portfolio to support liabilities under a new Liquidity Coverage Ratio regime. Due to 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	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
1 (AAA)	**1.5%**	1.2%	**30.0%**	12.1%	**4.8%**	23.2%	**1.2%**	1.2%	**5.6%**	3.2%
2-4 (AA)	**5.4%**	6.2%	**33.7%**	48.3%	**41.5%**	27.1%	**11.4%**	9.8%	**10.5%**	12.6%
5-7 (A)	**10.1%**	11.5%	**17.5%**	17.9%	**21.4%**	27.3%	**58.1%**	61.0%	**14.8%**	16.1%
8-10 (BBB)	**33.1%**	34.1%	**11.1%**	10.4%	**23.5%**	16.9%	**20.0%**	17.2%	**28.9%**	29.3%
11-13 (BB)	**36.0%**	33.1%	**6.9%**	10.4%	**7.8%**	5.5%	**7.2%**	8.6%	**29.2%**	27.7%
14-16 (B)	**8.6%**	8.1%	**0.6%**	0.7%	**0.5%**		**1.5%**	1.3%	**6.8%**	6.5%
17-22 (CCC & Problem Grade)	**5.4%**	5.8%	**0.3%**	0.2%	**0.6%**		**0.6%**	0.9%	**4.2%**	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.

During 2014, the overall portfolio expanded, which caused shifts in concentration per economic sector. A more prominent place is now taken in by Central Governments in the RBI portfolio due to an increased position in the German, Spanish and Italian Unsecured Bonds, whilst the Central Bank concentration decreased mainly due to a swap of cash held at the Central Bank into debt securities. The concentration of mortgages continues to decrease, seen in the private individuals number. Also, the share of Real Estate in the Commercial Banking portfolio decreased substantially due to actively reducing the portfolio via regular repayments.

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

	Commercial Banking		Retail Banking Benelux		Retail Banking International		Corporate Line		Total ING Bank	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Private Individuals	**0.0%**	0.0%	**73.6%**	74.1%	**59.6%**	57.1%	**0.0%**	0.0%	**40.9%**	41.5%
Commercial Banks	**15.4%**	14.8%	**0.3%**	0.2%	**8.1%**	11.2%	**45.1%**	23.0%	**8.8%**	9.0%
Central Governments	**11.9%**	10.9%	**1.2%**	1.3%	**8.0%**	5.0%	**35.0%**	59.9%	**7.5%**	6.7%
Non-Bank Financial Institutions	**12.2%**	13.2%	**0.8%**	0.8%	**5.0%**	7.3%	**19.9%**	17.1%	**6.5%**	7.4%
Real Estate	**10.3%**	12.0%	**4.9%**	4.9%	**0.7%**	0.9%	**0.0%**	0.0%	**5.7%**	6.2%
Natural Resources	**14.0%**	14.2%	**0.4%**	0.4%	**0.6%**	0.7%	**0.0%**	0.0%	**5.6%**	5.4%
Lower Public Administration	**0.9%**	0.4%	**2.7%**	1.8%	**8.0%**	7.3%	**0.0%**	0.0%	**3.5%**	2.9%
Transportation & Logistics	**7.4%**	6.5%	**1.2%**	1.3%	**0.3%**	0.3%	**0.0%**	0.0%	**3.3%**	2.8%
Food, Beverages & Personal Care	**3.4%**	2.9%	**2.1%**	2.1%	**1.2%**	1.2%	**0.0%**	0.0%	**2.3%**	2.1%
Services	**2.9%**	3.1%	**3.3%**	3.3%	**0.5%**	0.5%	**0.0%**	0.0%	**2.3%**	2.4%
General Industries	**3.8%**	3.3%	**1.5%**	1.5%	**1.3%**	1.5%	**0.0%**	0.0%	**2.3%**	2.1%
Central Banks	**4.2%**	5.5%	**0.1%**	0.2%	**1.7%**	3.4%	**0.0%**	0.0%	**2.1%**	3.0%
Other	**13.8%**	13.2%	**8.0%**	8.1%	**5.1%**	3.6%	**0.0%**	0.0%	**9.3%**	8.5%
Total	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

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

Country risk

In Europe, growth continued in the German portfolio, both corporate and retail. Lower proportion of Dutch mortgages in the overall portfolio has reduced the overall concentration of the Netherlands.

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

	Commercial Banking		Retail Banking Benelux		Retail Banking International		Corporate Line		Total ING Bank	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Netherlands	**15.2%**	17.4%	**68.4%**	70.5%	**0.8%**	0.7%	**49.2%**	77.8%	**28.2%**	30.5%
Belgium	**6.6%**	6.9%	**29.5%**	27.5%	**0.4%**	0.3%	**0.0%**	0.0%	**12.0%**	11.6%
Germany	**5.0%**	4.5%	**0.2%**	0.2%	**44.9%**	43.5%	**4.1%**	2.8%	**14.1%**	13.9%
Rest of Europe [2]	**41.8%**	45.4%	**1.6%**	1.5%	**35.9%**	34.0%	**2.1%**	1.5%	**27.4%**	27.7%
Americas	**17.2%**	13.1%	**0.1%**	0.1%	**1.4%**	1.2%	**7.2%**	0.7%	**7.6%**	5.5%
Asia/Pacific	**13.3%**	12.2%	**0.1%**	0.1%	**16.5%**	20.3%	**37.4%**	17.1%	**10.3%**	10.6%
Rest of World	**1.0%**	0.5%	**0.0%**	0.0%	**0.0%**	0.0%	**0.0%**	0.0%	**0.4%**	0.2%
Total	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

[1] Geographic areas are based on the primary country of risk and not based on country of residence for private individuals.
[2] The top 5 exposures within Rest of Europe are to United Kingdom, Spain, France, Poland and Italy

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. The average turnaround time of problematic files has stabilised in 2013 and improved in 2014, however is not yet back to pre-crisis levels. 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. As a logical next step, 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. The table below captures all past due exposures starting from day 1, without excluding the first 5-7 day operational time interval.

Aging analysis (past due but not non-performing): ING Bank consumer lending portfolio, outstandings [1]

	2014	2013
Past due for 1–30 days	**4,185**	5,556
Past due for 31–60 days	**849**	1,125
Past due for 61–90 days	**109**	129
Total	**5,143**	6,810

[1] Based on consumer lending. The amount of past due but not non-performing financial assets in respect of non-lending activities was not significant.

In 2014 the Retail portfolio showed a decrease in the past due but not impaired portfolio of 24%. Past due outstandings decreased over the year mainly due to new forbearance policy resulting in a shift from performing loans to non-performing loans, due to better collection of arrears and due to an overall improvement seen in the economic conditions. The deconsolidation of ING Vysya Bank had an impact of 7% in reducing the exposures. Without these for mentioned declines the decrease would be around 3%.

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. These are the default triggers:

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;
   - 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;
   - 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 Regulatory definition (CRR/CRDIV), ING Bank considers all business loans as non-performing if they are 90 days past due.

Credit restructuring
Global Credit Restructuring (GCR) 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 called Plans. *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 plan. 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 in the crisis. However, after stabilisation in 2013, the average turnaround time of the files at GCR is reducing again in 2014 indicating a further improvement.

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:

1) **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, instead of 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.
2) **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.
3) **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 impairment and these accounts hold risk rating 20. Also included in the Non-performing loan portfolio are accounts that go into liquidation phase, and from liquidation ING expects to incur no credit loss (rating 21) or a credit loss if there is insufficient collateral (rating 22). All files that are more than 90 days past due are part of the Non-performing loan portfolio.

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

	Regular	Watch List	Restructuring	Non-performing
Possible ratings	1–19	1–19	1–19	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

	2014	2013
Neither past due nor impaired	**706,635**	688,834
Consumer lending past due but not impaired (1–90 days)	**5,143**	6,810
Non-performing [1]	**16,889**	15,921
Total	**728,667**	711,565

(1) Based on lending and investment activities.

Despite the deconsolidation of ING Vysya Bank the total ING portfolio increased modestly by 2%. FX movements were the main driver for the increase. The combined non-performing and past due but not impaired portfolio decreased in 2014. However, due to the enforcement of forbearance regulations, there was an increase seen in the non-performing portfolio. More details on this are provided in the Forbearance section.

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 commercial 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]

	2014	2013
Private Individuals	6,308	4,939
Real Estate	3,279	4,302
Builders & Contractors	1,119	1,132
Natural Resources	929	526
Transportation & Logistics	794	912
General Industries	776	730
Food, Beverages & Personal Care	695	800
Services	694	580
Commercial Banks	662	315
Other	1,632	1,685
Total	16,889	15,921

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

Private individuals remained the largest sector, mainly due to the large mortgage portfolio in the Netherlands. Due to the new regulations for forbearance enforcing a one-year probation period before non-performing loans move back to performing, NPL exposure for this exposure class increased more than others.

The decrease in the real estate industry reflects the further improvement in this market and the fact that ING Bank has been able to sell several distressed real estate assets in 2014. The increase in the sector natural resources (77%) is mainly due to the economic deterioration in Ukraine and Russia.

ING Bank has made conservative choices in Retail Banking with respect to curing from default. The majority of units only allow curing from default once there are no more days overdue. If ING Bank would allow curing from default once the client is < 90 days overdue and this, only if there is no forbearance, then the total non-performing loans would reduce to EUR 15.3 billion.

Loan loss provisions
Loan Loss provisions are calculated and accounted for in accordance with International Financial Reporting Standards (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; Discounted cash flow (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 and at least once a year, the PD time horizon is validated.

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.

At 31 December 2014, ING Bank held specific (ISFA) and collective provisions (INSFA) of EUR 3,519 million and EUR 1,696 million, respectively (2013: EUR 3,729 million and EUR 1,589 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 780 million (2013: EUR 835 million) in provisions (IBNR) against the performing portfolio.

Provisions: ING Bank portfolio [1]

	Commercial Banking		Retail Banking Benelux		Retail Banking International		Total ING Bank	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Opening Balance	**2,459**	2,304	**2,264**	1,864	**1,431**	1,337	**6,154**	5,505
Changes in the composition of the group		-2		-14	**-170**	-4	**-170**	-20
Write-offs	**-715**	-756	**-716**	-652	**-298**	-201	**-1,729**	-1609
Recoveries	**49**	58	**48**	34	**8**	24	**105**	116
Increase/(decrease) in loan loss provision	**500**	867	**857**	1060	**237**	362	**1,594**	2,289
Exchange or other movements	**-34**	-12	**76**	-28	**-1**	-87	**41**	-127
Closing Balance	**2,259**	2,459	**2,529**	2,264	**1,207**	1,431	**5,995**	6,154

[1] At the end of 2014, the stock of provisions included provisions for amounts due from banks: EUR 6 million (2013: EUR 19 million)

The total risk costs for the year 2014 were just under EUR 1.6 billion confirming the downward trend since the end of 2013. Where the average quarterly risk costs over the years 2012 and 2013 were EUR 550 million, since the beginning of this year they have trended downwards to stabilise at around EUR 400 million per quarter. The total stock of provisions decreased to EUR 6.0 billion due to the deconsolidation of ING Vysya Bank and slightly higher write-offs due to the sale of non-performing loans.

Risk costs decreased across all business lines. Particularly, Commercial Banking saw a big decrease due to continued lower risk costs in Real Estate Finance (while risk costs for the Business Lending portfolio in Retail Banking Benelux also showed a reduction). The deconsolidation of ING Vysya Bank caused a reduction of EUR 170 million in the stock of provisions for Retail Banking International.

There was a decrease in coverage ratio to 35.5% (2013: 38.6%) mainly due to an increased inflow into the non-performing loan portfolio in Q4 2014 after implementation of the new EBA rules for forbearance which enforce a broader definition of non-performing clients.

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

Forbearance
In July 2014, EBA has provided a final draft definition on forbearance and non-performing exposures, which was a further refinement of the draft definition published in 2013. ING Bank has followed up on the EBA recommendations, by updating and implementing its forbearance policy in 2014.

The definition of forbearance is: “Forbearance occurs when the client is considered to be unable to meet its financial commitments under the contract due to financial difficulties, and based on these difficulties ING decides to grant concessions towards the client by either loan modification or refinancing”. Modification is defined as changing the terms and conditions of the contract to enable the client to service the debt. Refinancing relates to putting in place a new loan contract to ensure the total or partial repayment of an existing loan contract, of which the debtor is unable to comply with. 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.

As a result of follow up on EBA and updating and implementing the changes in 2014, the forborne assets of 2014 are not comparable with 2013. The incomparability is mainly the result of the following:

1) EBA issued more stringent definitions on the type of assets that should classify as forborne and on the non-performing criteria. This resulted in new assets being classified as forborne in 2014 and new forborne assets being classified as non-performing, which ING did not classify as such in 2013.
2) The two- and one-year probation periods (the minimum reporting period for performing and non-performing forborne assets) were implemented in 2014. Compared to last year these probation periods will substantially diminish the outflow of the forborne assets, while inflow of new forborne assets will continue.
3) New portfolios came into scope for screening, such as clients with ‘Early Warning Signals’, the Commercial Banking portfolio under EUR 3 million (threshold of EUR 3 million was applicable in 2013) and the investment portfolio.

To identify the notion of forbearance, ING typically assesses clients with Early Warning Signals, Watch List, Restructuring and Recovery status. ING Bank reviews the performance of clients which were granted forbearance measures on at least 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, while applying a very strict policy with respect to (partial) debt forgiveness.

For retail clients, clear criteria to determine whether a client is eligible for a modification or refinancing have been established for all ING Bank retail units that apply forbearance activities. Also, specific approval mandates are in place to approve the modifications and refinancing, as well as procedures to manage, monitor and report the forbearance activities. These criteria and mandates vary, based on the legal framework in place and market practices, but are in line with ING Bank policy.

Clients which are granted forbearance measures can have any risk rating (performing or non-performing), depending on their risk profile:

- Performing - If the contract is considered as performing prior to any forbearance measure, and also after granting the forbearance measure, the forbearance status for this client needs to be reported for a minimum of two years;
- Non-performing - If the contract is considered as non-performing prior to any forbearance measure, the client will retain its non-performing status for a period of minimum one year.

The rating of clients with forbearance measures can also change during the forbearance reporting period:

- From performing to non-performing - If the performing client, after forbearance measures have been granted, hits one of the general non-performing triggers defined by ING, becomes more than 30 days past due or receives additional forbearance measures during the reporting period, the client needs to be classified as non-performing.
- From non-performing to performing - The non-performing client, after forbearance measures have been granted, may be upgraded to a performing rating, only when 1) one year has passed since the forbearance measures were granted, 2) the granting of forbearance does not lead to the recognition of impairment or default, and 3) there is not any past-due amount or no concerns regarding the full repayment of the exposure according to the post-forbearance conditions. The total minimum reporting period of forbearance for any “cured” non-performing client will take three years: one year as non-performing and subsequently the “regular” two years as performing.

The forbearance classification on a client shall be discontinued, when all of the following conditions are met:

- The contract is considered as performing and has been reported as “performing forbearance” for a minimum of two years;
- Regular payments of significant aggregate amounts of principal or interest have been made during at least half of the forbearance reporting period;
- None of the exposure to the client is more than 30 days past-due at the end of the forbearance reporting period.

ING Bank
The total ING Bank forborne assets amounted to EUR 9.9 billion at 31 December 2014 (2013: EUR 5.5 billion).

ING Bank: Summary Forborne assets [(1)]

				2014				2013
	Forborne assets	Of which: Performing	Of which: Non-Performing	% of total portfolio	Forborne assets	Of which: Performing	Of which: Non-Performing	% of total portfolio
Commercial Banking	**5,839**	**2,422**	**3,417**	**1.6%**	4,664	928	3,736	1.1%
Retail Banking	**4,097**	**1,568**	**2,529**	**1.4%**	810	810		0.3%
Totals	**9,936**	**3,989**	**5,947**	**1.5%**	5,474	1,738	3,736	0.8%

(1) Commercial Banking includes Business Lending and Investments, Retail Banking includes Consumer Lending.

In 2014, the forborne assets increased by EUR 4.5 billion, which was mainly driven by Retail Banking. The increase in Retail Banking was mainly visible in the non-performing book, due to a combination of reasons, e.g. more stringent definitions by EBA, implementing forbearance retrospectively in combination with the probation periods and the stricter non-performing criteria. For Commercial Banking the increase was visible in the performing book, mainly due to the extension of the screening scope.

Commercial Banking

As per end 2014, Commercial Banking forborne assets amounted to a total of EUR 5.8 billion (2013: EUR 4.7 billion), which represents 1.6% of the total Commercial Banking portfolio.

Commercial Banking: Forborne assets by Geographical Region

			2014			2013
	Forborne assets	Of which: Performing	Of which: Non-Performing	Forborne assets	Of which: Performing	Of which: Non-Performing
Netherlands	3,188	1,444	1,744	1,961	336	1,625
Belgium	577	212	365	236	18	218
Germany	62	36	26	85	0	85
Rest of Europe	1,764	698	1,066	1,604	254	1,350
Americas	165	18	147	232	13	219
Asia/Pacific	74	6	68	537	298	239
Rest of World	9	9		9	9	0
Total	5,839	2,422	3,417	4,664	928	3,736

Commercial Banking: Forborne assets by Industry

			2014			2013
	Forborne assets	Of which: Performing	Of which: Non-Performing	Forborne assets	Of which: Performing	Of which: Non-Performing
Real Estate	1,906	993	913	1,676	343	1,333
Builders & Contractors	650	265	385	400	45	355
General Industries	510	144	366	331	37	293
Transportation & Logistics	508	214	294	547	203	344
Food, Beverages & Personal Care	464	204	260	384	21	363
Natural Resources	429	102	327	239	0	239
Services	388	153	235	281	183	98
Utilities	255	60	195			
Retail	214	72	142	169	8	160
Media	103	60	43	120	4	116
Telecom	64	1	63	146	3	142
Other	348	154	194	372	79	293
Total	5,839	2,422	3,417	4,664	928	3,736

The forborne assets in the performing portfolio increased by EUR 1.5 billion. The increases were visible in almost all regions, but mainly in the Netherlands and Rest of Europe. Also the industries Real Estate and Builders & Contractors were mostly impacted. Performing forborne assets in Asia/Pacific declined during the year.

During 2014, ING screened the lending and investment book on forborne assets. The portfolios that were typically assessed are clients with Early Warning Signals, Watch List, Restructuring and Recovery status and clients rated 18 and 19. These clients are perceived to have the potential trigger for whom forbearance measures could be granted. Last year, exposures below EUR 3 million were left out of scope. This change had a large impact on the performing forborne assets per end of 2014.

In contrast to the above, the non-performing forborne assets showed a decline of EUR 0.3 billion during 2014, which was driven by Real Estate clients in Rest of Europe. This outflow can be explained by write-offs and repayments of and by relatively large Real Estate clients.

Furthermore, the deconsolidation of ING Vysya Bank decreased forborne assets by EUR 0.2 billion.

Retail Banking

As per end 2014, Retail Banking forborne assets amounted to a total of EUR 4.1 billion, which represents 1.4% of the total Retail Banking portfolio.

Retail Banking: Forborne assets by Geographical Region [1]

	2014				2013			
	Clients	Forborne assets	Of which: Performing	Of which: Non-Performing	Clients	Forborne assets	Of which: Performing	Of which: Non-Performing
Netherlands	**8,732**	**2,194**	**363**	**1,832**	1,955	502	502	
Belgium	**5,100**	**613**	**301**	**312**	1,616	197	197	
Luxembourg	**16**	**5**	**2**	**3**	7	2	2	
Germany	**8,246**	**702**	**480**	**222**				
Spain	**438**	**60**	**53**	**7**	403	56	56	
Italy	**178**	**21**	**21**	**0**	107	13	13	
Romania	**1,380**	**20**	**6**	**13**	845	13	13	
Turkey	**11,913**	**17**	**14**	**3**	31	0	0	
Poland	**822**	**5**		**5**	548	3	3	
France	**852**	**0**	**0**	**0**				
Ukraine	**22**	**1**	**1**					
Australia	**2,210**	**458**	**326**	**131**	111	24	24	
Total	**39,909**	**4,097**	**1,568**	**2,529**	5,623	810	810	0

[1] These regions correspond to the respective ING initiating offices. Region Netherlands includes Netherlands Retail and Westland Utrecht and region Belgium includes Belgium Retail and Record Bank.

The Retail Banking table shows a breakdown of forborne assets on ING Bank's consumer retail lending portfolio, which includes mortgages and consumer loans.

The forborne assets in the performing portfolio increased by EUR 0.8 billion. The increases were mainly visible in Germany, Australia and Belgium. The forborne assets in the non-performing portfolio also increased in these countries. However, the largest increase originates from the Netherlands with EUR 1.8 billion, which is 72% of the total EUR 2.5 billion increase in the non-performing portfolio.

This significant increase of forborne assets, especially in the non-performing portfolio, was not the result of a deteriorating consumer lending portfolio. It is mainly explained by forbearance screening of new portfolios, which took place in 2014. Units were instructed to perform a review on their book based on the updated ING policy on forborne assets, taking new regulations into account. In addition to this, more stringent definitions issued by EBA increased the forborne assets in some countries.

The Netherlands showed the largest increase in forborne assets in 2014. Next to the reasons mentioned above, forborne assets increased also as a result of implementing the policy retrospectively. A shift of forborne assets from performing to non-performing was visible as well, which was the result of clients becoming more than 30 days past due after forbearance measures were granted.

The Turkish government reduced the maximum credit card limit, hence large numbers of credit card accounts were modified.

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 "a cover".

While a 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, there are two distinct forms of covers: assets and third party obligations.

Assets

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

Third party obligation

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

General guidelines on cover valuation
General guidelines for cover valuation are established to ensure consistency of the application within ING Bank. These general guidelines also require that the value of the cover needs to be monitored on regular basis, in principle at least annually. Covers shall be revalued accordingly and whenever there is 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 obligations, 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 covers and to which extent a 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 the Capital Requirements Directive IV (CRDIV) and the related Capital Requirements Regulation (CRR) requirements, 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 with previous tables, outstandings are used to show the ING Bank's portfolio.

Exposures are categorised into different Value to Loan (VTL) buckets that give 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 and indexed values and exclude any cost of liquidation. Covers can either be valid for all limits, sub-limits or a particular outstanding of a borrower, the latter being the most common. To prevent erroneous inflation of the level of collateralisation, the coverage of all outstanding is capped at 100% if there is over-collateralisation on a certain outstanding. As a result, the coverage levels disclosed are conservative. Each limit is subsequently assigned to one of the six defined VTL buckets: no cover/data not available, >0% - 25%, >25% to 50%, >50% to 75%, >75% to <100%, and ≥ 100%. As the nature of the Pre-settlement portfolio determines that collateral is netted, these VTL buckets are not shown for the Pre-settlement portfolio.

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

Total Bank

Cover values including guarantees received - Total ING Bank – 2014 [1][2]

		Cover type					Value to Loan		
	Outstandings	Mortgages	Eligible Financial Collateral	Other CRR/CRDIV eligible	Guaran -tees	Non CRR/CRD IV eligible	No Cover/ Data not available	Partially covered	Fully covered
Consumer Lending	296,451	445,855	2,976	512	30,240	31,628	5.0%	22.9%	72.1%
Commercial Banking	22	6				77	15.0%	7.6%	77.4%
Retail Banking Benelux	148,299	210,581	2,467	512	22,739	18,492	3.2%	27.1%	69.7%
Retail Banking International	122,568	202,279	27			9,959	8.2%	15.7%	76.1%
WestlandUtrecht Bank	25,562	32,989	482		7,501	3,100	0.0%	32.8%	67.1%
Business Lending	262,415	112,817	17,680	83,916	56,835	110,661	33.7%	30.5%	35.8%
Commercial Banking	180,126	54,483	14,687	61,205	45,399	93,261	34.0%	29.9%	36.1%
Corporate Line Bank	270				0		100.0%	0.0%	0.0%
Retail Banking Benelux	60,297	48,374	2,657	20,725	10,119	12,664	24.7%	35.4%	39.8%
Retail Banking International	20,278	7,684	334	1,986	1,266	4,722	58.5%	19.8%	21.8%
WestlandUtrecht Bank	1,445	2,277	2		51	14	1.1%	64.4%	34.4%
Investment and Money Market	118,198		16	298	1,476	1,993	97.2%	1.1%	1.7%
Commercial Banking	46,157		10	298	80	27	99.2%	0.7%	0.1%
Corporate Line Bank	6,870						100.0%	0.0%	0.0%
Retail Banking Benelux	2,656		6		5	55	97.8%	0.4%	1.8%
Retail Banking International	62,515				1,392	1,911	95.5%	1.6%	2.9%
Total Lending, Investment and Money Market	677,065	558,673	20,673	84,726	88,552	144,282	32.2%	22.0%	45.7%
Pre-settlement [3]	51,602								
Commercial Banking	49,143								
Corporate Line Bank	1,807								
Retail Banking Benelux	134								
Retail Banking International	519								
Total Bank	728,667	558,673	20,673	84,726	88,552	144,282	32.2%	22.0%	45.7%

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

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

		Cover type						Value to Loan		
	Outstandings	Mortgages	Eligible Financial Collateral	Other CRR/CRDIV eligible	Guaran -tees	Non CRR/CRD IV eligible	No Cover/ Data not available	Partially covered	Fully covered
Consumer Lending	293,714	443,475	2,697	519	30,403	29,566	4.7%	32.1%	63.2%
Commercial Banking	10	6				1	58.4%	20.4%	21.2%
Retail Banking Benelux	147,197	200,879	2,191	519	22,333	17,148	3.2%	33.7%	63.1%
Retail Banking International	118,186	207,017	65			9,859	7.7%	27.5%	64.8%
WestlandUtrecht Bank	28,321	35,573	441	0	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				0		100.0%	0.0%	0.0%
Retail Banking Benelux	58,630	45,479	3,124	20,981	10,410	12,703	22.2%	38.0%	39.8%
Retail Banking International	24,081	3,247	560	1,973	1,581	3,849	74.9%	12.2%	12.9%
WestlandUtrecht Bank	1,607	2,607	2		51	10	1.5%	66.3%	32.1%
Investment and Money Market	112,647		6		5,117	135	95.3%	0.2%	4.5%
Commercial Banking	38,936				193	116	99.2%	0.4%	0.4%
Corporate Line Bank	8,513					19	99.7%	0.3%	0.0%
Retail Banking Benelux	3,117		6		5		99.6%	0.0%	0.4%
Retail Banking International	62,081				4,919		92.1%	0.0%	7.9%
Total Lending, Investment and Money Market	663,541	551,209	18,169	77,408	88,070	143,777	31.9%	26.1%	42.0%
Pre-settlement [3]	51,602								
Commercial Banking	49,143								
Corporate Line Bank	1,807								
Retail Banking Benelux	134								
Retail Banking International	519								
Total Bank	728,667	558,673	20,673	84,726	88,552	144,282	32.2%	22.0%	45.7%

(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.

Over the year, the collateralisation level of the total ING Bank portfolio improved. Excluding the pre-settlement portfolio for which covers are netted to derive the outstandings at risk, 45.7% of the total ING Bank's outstandings (from 42.0% as of 2013) are fully collateralised in 2014.

The lending portfolio grew over the year, partially due to the appreciation of the USD (6.0 billion) and the AUD (2.0 billion) against the Euro. The fully covered ratio showed an improvement over the year, both in the consumer and business portfolios, with the fully covered outstandings increasing from 50.2% to 55.1%. The consumer lending portfolio overall showed an improvement in the fully covered ratio thanks to improved VTL's in the residential mortgages, which are by far the largest constituent of the portfolio. While the Business Lending portfolio benefitted from de-risking activities and growths in sectors which show high levels of collateralisation.

Investment outstandings increased over the year, mainly due to increased placements with European sovereigns due to the new regulatory liquidity regime. However, since investments traditionally have no covers, the no-covers ratio showed a small increase in 2014. This was also due to reduction in covers seen in Investments in the German portfolio where a more conservative method for recognition of government guarantees was implemented (where government support was considered implicit and not explicit). Also, as a part of the ING One Bank initiatives, the investment portfolio in the Spanish market was overhauled, which further led to reductions in the covers for investments.

Consumer lending portfolio
The Consumer Lending portfolio includes Residential Mortgage loans (93.7% in 2014) 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 (49.3%) 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 104%. The cover values are captured in the local systems which then are fed into a central data system (Vortex). All valuations are performed by certified valuators that are registered at one of the ING Bank-accepted organisations. In addition, the valuator must be a member of the NVM (Nederlandse Vereniging van Makelaars – Dutch Association of Real Estate Agents), VBO (Vereniging Bemiddeling Onroerend Goed – Association of Real Estate Brokers), VastgoedPRO (Association of Real Estate Professionals) or NVR (Nederlandse Vereniging van Rentmeesters).

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

Consumer Lending

Cover values including guarantees received - Total ING Bank – 2014 (1)(2)

		Cover type						Value to Loan					
	Outstand -ings	Mort -gages	Eligible Financial Collateral	Other CRR/CRD IV eligible	Guaran -tees	Non CRR/CRD IV eligible	No Cover / Data not available	>0% - 25%	>25%- 50%	> 50%- 75%	>75%- <100%	≥ 100%
Performing												
Residential Mortgages	**269,974**	**430,794**	**2,593**	**207**	**29,266**	**24,900**	**0.3%**	**0.1%**	**0.2%**	**1.6%**	**21.9%**	**75.9%**
Other Consumer Lending	**20,282**	**8,879**	**337**	**276**	**371**	**6,153**	**65.4%**	**0.3%**	**0.2%**	**0.5%**	**2.7%**	**30.8%**
Total Performing	**290,256**	**439,672**	**2,930**	**483**	**29,637**	**31,054**	**4.8%**	**0.1%**	**0.2%**	**1.5%**	**20.6%**	**72.7%**
Non-performing												
Residential Mortgages	**5,307**	**5,849**	**43**	**9**	**583**	**457**	**2.9%**	**0.3%**	**1.0%**	**7.8%**	**40.0%**	**47.9%**
Other Consumer Lending	**887**	**334**	**3**	**20**	**21**	**118**	**70.9%**	**0.3%**	**0.4%**	**0.8%**	**4.8%**	**22.8%**
Total Non-performing	**6,195**	**6,183**	**46**	**30**	**604**	**574**	**12.7%**	**0.3%**	**0.9%**	**6.8%**	**35.0%**	**44.3%**
Total Consumer Lending	**296,451**	**445,855**	**2,976**	**512**	**30,240**	**31,628**	**5.0%**	**0.1%**	**0.2%**	**1.6%**	**20.9%**	**72.1%**

(1) including loans to ING Group and NN Group.
(2) excluding intercompany positions

Cover values including guarantees received - Total ING Bank – 2013 (1)(2)

		Cover type						Value to Loan					
	Outstand -ings	Mort -gages	Eligible Financial Collateral	Other CRR/CRD IV eligible	Guaran -tees	Non CRR/CRD IV eligible	No Cover / Data not available	>0% - 25%	>25%- 50%	> 50%- 75%	>75%- <100%	≥ 100%
Performing												
Residential Mortgages	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	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%

(1) including loans to ING Group and NN Group.
(2) excluding intercompany positions

The collateralisation of the consumer lending portfolio showed signs of recovery over the year 2014. A big improvement was seen in the collateralisation of the residential mortgages in DiBa Germany where an improvement was implemented to correctly recognise the last known cover value. In addition to this, the rise in collateralisation levels is due to increased housing prices seen all over ING Bank mortgage markets and due to stringent policies, which reduced mortgages granted with low VTL’s.

Reversing the trend observed in the past years, house prices in the Netherlands went up in 2014. This helped to increase the total residential mortgages cover values whilst mortgage outstandings declined by 3.0%. As the Netherlands is the biggest market for mortgages for ING Bank, this had a significant impact on the coverage quality of the portfolio.

Other retail portfolio also showed an improvement, mainly in Belgium and Luxembourg.

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.

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 36.0% 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. This table cannot be directly compared with ING Bank’s Real Estate Finance portfolio as the scope and definition are differently determined.

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.

For properties located in the Netherlands, if the risk profile remains stable or improves during this three year cycle, an annual 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 (vacancy, WALE – weighted average lease expiry, EBITDA) and individual deteriorations (being Watch Listed, Credit event, suspension of payments, bankruptcy of a major tenant, actual or expected increase in vacancy level).

For financing properties outside the Netherlands, the revaluation cycle is also set to three years. In case the agreed LTV covenants are not met, an annual or bi-annual revaluation will take place.

The outcome of the re-valuation or indexed value is updated accordingly in the cover REF database.

Business Lending per economic sector

Cover values including guarantees received - Business Lending portfolio – 2014 (1)(2)

		Cover type						Value to Loan				
Industry	**Outstand -ings**	**Mort -gages**	**Eligible Financial Collat -eral**	**Other CRR/CR D IV eligible**	**Guaran -tees**	**Non CRR/CR D IV eligible**	**No Cover / Data not available**	**>0% - 25%**	**>25%- 50%**	**> 50%- 75%**	**>75%- <100%**	**≥ 100%**
Real Estate	40,592	60,158	1,218	1,084	5,659	6,120	7.0%	1.0%	1.9%	10.3%	19.2%	60.5%
of which Non-performing	*3,279*	*3,194*	*100*	*93*	*894*	*361*	*10.6%*	*1.9%*	*10.2%*	*27.5%*	*18.3%*	*31.5%*
Natural Resources	38,653	3,888	3,266	19,457	15,311	19,963	20.4%	9.1%	14.0%	13.8%	14.2%	28.5%
of which Non-performing	*929*	*56*	*150*	*621*	*642*	*1,146*	*21.3%*	*0.6%*	*5.2%*	*7.2%*	*27.6%*	*38.0%*
Commercial Banks	21,845	66	168	168	637	579	90.0%	3.4%	2.3%	0.8%	0.9%	2.6%
of which Non-performing	*662*	*0*	*0*	*0*	*7*	*7*	*98.8%*	*0.0%*	*0.0%*	*0.0%*	*1.1%*	*0.0%*
Transportation & Logistics	21,431	3,844	647	19,579	5,309	6,687	18.2%	3.4%	3.5%	7.1%	12.1%	55.8%
of which Non-performing	*794*	*317*	*11*	*488*	*187*	*281*	*27.7%*	*1.7%*	*8.5%*	*10.4%*	*24.7%*	*26.9%*
General Industries	15,912	4,611	723	6,481	4,080	10,539	32.6%	4.8%	7.9%	10.2%	10.0%	34.5%
of which Non-performing	*776*	*343*	*58*	*375*	*280*	*298*	*22.9%*	*8.8%*	*7.7%*	*5.8%*	*9.5%*	*45.3%*
Services	15,744	7,851	1,036	4,306	3,941	7,635	30.8%	3.8%	5.5%	7.5%	10.6%	41.9%
of which Non-performing	*694*	*402*	*10*	*210*	*220*	*166*	*22.7%*	*5.4%*	*6.0%*	*6.4%*	*7.8%*	*51.7%*
Food, Beverages & Personal Care	15,376	6,114	954	7,983	3,067	15,524	28.1%	4.5%	7.5%	12.6%	14.7%	32.6%
of which Non-performing	*695*	*347*	*1*	*225*	*128*	*220*	*22.4%*	*7.6%*	*22.6%*	*16.7%*	*7.8%*	*22.9%*
Non-Bank Financial Institutions	13,741	2,064	5,921	2,409	3,415	5,987	34.9%	7.6%	2.6%	12.2%	7.9%	34.8%
of which Non-performing	*107*	*67*	*1*	*26*	*25*	*35*	*14.1%*	*10.9%*	*5.0%*	*10.1%*	*10.7%*	*49.2%*
Builders & Contractors	12,394	6,641	306	4,271	2,878	9,401	29.6%	6.2%	5.6%	9.6%	10.2%	38.8%
of which Non-performing	*1,016*	*711*	*5*	*358*	*390*	*695*	*29.6%*	*2.1%*	*8.2%*	*7.2%*	*12.3%*	*40.7%*
Chemicals, Health & Pharmaceuticals	11,914	6,610	351	4,291	1,892	4,945	32.7%	5.0%	7.5%	10.6%	12.6%	31.7%
of which Non-performing	*247*	*115*	*2*	*100*	*52*	*129*	*29.0%*	*0.8%*	*5.2%*	*8.8%*	*19.4%*	*36.9%*
Others (3)	54,815	10,972	3,089	13,886	10,646	23,281	49.9%	3.5%	3.0%	6.5%	9.0%	28.0%
of which Non-performing	*1,385*	*517*	*107*	*625*	*390*	*514*	*26.4%*	*5.6%*	*3.9%*	*8.0%*	*15.4%*	*40.8%*
Total Business Lending	262,415	112,817	17,680	83,916	56,835	110,661	33.7%	4.5%	5.5%	9.0%	11.6%	35.8%
of which Total Non-performing	*10,584*	*6,067*	*446*	*3,120*	*3,216*	*3,852*	*25.2%*	*3.3%*	*8.2%*	*13.9%*	*15.5%*	*33.9%*

(1) Including loans to ING Group and NN Group.
(2) Excluding intercompany positions
(3) “Others” comprises industries with outstandings below EUR 10 billion

Cover values including guarantees received - Business Lending portfolio – 2013 (1)(2)

Industry	Outstand-ings	Mort-gages	Eligible Financial Collat-eral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover / Data not available	>0% - 25%	>25%-50%	> 50%-75%	>75%-<100%	≥ 100%
		Cover type					Value to Loan					
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 Care	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 Institutions	13,325	2,538	3,634	2,895	3,953	6,517	40.1%	5.4%	5.0%	6.0%	7.1%	36.3%
of which Non-performing	*132*	*67*	*4*	*23*	*25*	*11*	*26.0%*	*21.9%*	*2.7%*	*11.9%*	*13.9%*	*23.6%*
Central Banks	13,178		3				100.0%			0.0%	0.0%	0.0%
of which Non-performing												
Builders & Contractors	12,916	6,232	352	4,050	3,136	8,953	35.6%	5.2%	5.4%	8.3%	9.2%	36.3%
of which Non-performing	*1,124*	*633*	*62*	*356*	*358*	*761*	*37.7%*	*2.8%*	*3.5%*	*7.4%*	*9.1%*	*39.6%*
Chemicals, Health & Pharmaceuticals	11,308	5,842	242	4,071	2,159	4,821	34.0%	4.6%	8.8%	11.4%	10.2%	31.0%
of which Non-performing	*277*	*106*	*2*	*111*	*67*	*75*	*37.3%*	*0.4%*	*3.5%*	*6.4%*	*15.3%*	*37.1%*
Others(3)	43,191	10,722	3,487	12,860	9,480	23,646	41.2%	3.8%	4.5%	7.5%	10.1%	33.0%
of which Non-performing	*1,385*	*579*	*100*	*585*	*320*	*600*	*28.8%*	*7.2%*	*1.9%*	*16.6%*	*16.6%*	*28.9%*
Total Business Lending	257,179	107,734	15,466	76,889	52,550	114,076	35.2%	4.5%	5.3%	8.5%	12.3%	34.1%
of which Total Non-performing	*11,083*	*6,815*	*286*	*2,882*	*2,432*	*4,281*	*20.3%*	*3.7%*	*8.1%*	*15.9%*	*19.4%*	*32.5%*

(1) Including loans to ING Group and NN Group.
(2) Excluding intercompany positions
(3) "Others" comprises industries with outstandings below EUR 10 billion

Overall, an improvement was seen in the Business Lending portfolio over the year 2014. This reflected not only the improving economy but also a more prudent approach from ING Bank.

In general the amount of covers increased. The percentage of fully collateralised loans increased while the proportion of non-covered loans decreased. This was amongst others driven by a big decline in outstandings (29.0%) to Central Banks for which there is no collateral put aside.

Continued derisking activities in the Real Estate sector caused outstandings to decline by 4.3%. Furthermore, this sector being traditionally the most collateralised, an improvement was seen in the coverage over 2014. New deals in Real Estate were done on more conservative collateral terms, while the coverage was also boosted by some collateral value increases in 2014. The improvement was also caused by an increase in outstandings for sectors such as Transportation & Logistics and Utilities, which have traditionally higher coverage. This improvement was however partially negated by growth seen in outstandings to traditionally low collateralised sectors like Commercial Banks and General Industries.

The coverage of the non-performing part remained relatively stable even though an overall decrease was observed in the non-performing outstandings.

Business Lending per region

Cover values including guarantees received - Business Lending Portfolio – 2014 (1)(2)

Region		Outstand-ings	Mort-gages	Eligible Financial Collat-eral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover / Data not available	>0% - 25%	>25%- 50%	> 50%- 75%	>75%- <100%	≥ 100%
			Cover type					Value to Loan					
Africa		**2,221**	**24**	**177**	**822**	**1,010**	**717**	**21.1%**	**2.8%**	**24.7%**	**6.4%**	**23.9%**	**21.0%**
of which Non-performing		***1***	***0***	***0***	***0***	***0***	***0***	***95.3%***	***0.0%***	***0.0%***	***0.0%***	***0.0%***	***4.7%***
America		**28,163**	**3,369**	**6,763**	**19,588**	**5,353**	**19,484**	**25.8%**	**3.8%**	**6.3%**	**9.2%**	**16.1%**	**38.8%**
of which Non-performing		***296***	***112***	***0***	***129***	***23***	***123***	***4.0%***	***0.0%***	***21.0%***	***4.6%***	***38.1%***	***32.2%***
Asia		**32,416**	**907**	**1,381**	**8,265**	**9,308**	**6,553**	**46.5%**	**8.1%**	**4.3%**	**10.0%**	**6.8%**	**24.3%**
of which Non-performing		***150***	***0***	***7***	***49***	***29***	***12***	***19.3%***	***11.1%***	***0.0%***	***37.9%***	***19.1%***	***12.7%***
Australia		**3,447**	**2,531**	**148**	**1,470**	**583**	**546**	**17.6%**	**15.6%**	**1.6%**	**2.5%**	**8.7%**	**54.1%**
of which Non-performing		***50***	***6***	***0***	***0***	***0***	***0***	***92.8%***	***0.0%***	***0.0%***	***0.0%***	***0.0%***	***7.2%***
Europe	Belgium	**41,189**	**28,369**	**1,249**	**6,513**	**10,882**	**22,251**	**33.5%**	**2.2%**	**3.1%**	**4.3%**	**6.5%**	**50.3%**
	of which Non-performing	***1,289***	***1,253***	***16***	***634***	***534***	***808***	***11.2%***	***1.7%***	***2.6%***	***4.8%***	***10.4%***	***69.4%***
	Germany	**8,599**	**1,766**	**166**	**392**	**597**	**1,552**	**66.9%**	**2.5%**	**3.5%**	**2.8%**	**2.2%**	**22.1%**
	of which Non-performing	***80***	***72***	***4***	***8***	***1***		***53.6%***	***1.8%***	***7.2%***	***0.0%***	***0.3%***	***37.1%***
	Netherlands	**62,063**	**46,710**	**2,681**	**24,917**	**6,820**	**14,695**	**23.6%**	**2.9%**	**5.6%**	**15.9%**	**20.7%**	**31.3%**
	of which Non-performing	***4,377***	***2,075***	***140***	***1,449***	***321***	***343***	***29.5%***	***4.7%***	***12.8%***	***22.4%***	***14.7%***	***16.0%***
	Rest of Europe	**84,318**	**29,143**	**5,114**	**21,950**	**22,283**	**44,864**	**36.5%**	**5.4%**	**6.5%**	**6.8%**	**8.4%**	**36.4%**
	of which Non-performing	***4,342***	***2,549***	***278***	***850***	***2,309***	***2,566***	***25.4%***	***2.5%***	***4.7%***	***8.3%***	***16.6%***	***42.5%***
Total Business Lending		**262,415**	**112,817**	**17,680**	**83,916**	**56,835**	**110,661**	**33.7%**	**4.5%**	**5.5%**	**9.0%**	**11.6%**	**35.8%**
of which Non-performing		***10,584***	***6,067***	***446***	***3,120***	***3,216***	***3,852***	***25.2%***	***3.3%***	***8.2%***	***13.9%***	***15.5%***	***33.9%***

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

Cover values including guarantees received - Business Lending Portfolio – 2013 (1)(2)

Region		Outstand-ings	Mort-gages	Eligible Financial Collat-eral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible	No Cover / Data not available	>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*	*0*	*0*	*0*	*0*	*0*	*100.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
America		22,887	3,749	4,246	16,659	4,592	19,181	20.8%	3.5%	6.5%	9.5%	15.5%	44.2%
of which Non-performing		*489*	*273*	*3*	*169*	*63*	*55*	*9.1%*	*9.7%*	*4.2%*	*13.7%*	*40.0%*	*23.3%*
Asia		33,949	993	1,574	8,063	8,853	6,381	52.6%	8.1%	4.7%	10.2%	6.3%	18.1%
of which Non-performing		*437*	*0*	*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*	*0*	*7*	*30*	*0*	*0*	*74.0%*	*0.0%*	*6.8%*	*0.0%*	*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 Non-performing		*11,083*	*6,815*	*286*	*2,882*	*2,432*	*4,281*	*20.3%*	*3.7%*	*8.1%*	*15.9%*	*19.4%*	*32.5%*

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

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 total increase in the business lending portfolio is in line with the increase in covers. The increase in collateralisation is observed in most regions and main countries, such as Africa, America, Australia and Netherlands. Exposures and covers in Asia decreased due to the deconsolidation of ING Vysya Bank, although the FX changes impacted adversely the decline in exposures and outstandings in Asia. In the Netherlands the exposures and covers decreased due to the de-risking in the Dutch Real Estate portfolio.

Investment and Money Market portfolio
Investment and Money Market exposure per region

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

		2014				Cover type		2013					Cover type
Investment and Money Market		**Outstand-ings**	**Mort-gages**	**Eligible Financial Collat-eral**	**Other CRR/CRD IV eligible**	**Guaran-tees**	**Non CRR/CRD IV eligible**	Outstand-ings	Mort-gages	Eligible Financial Collat-eral	Other CRR/CRD IV eligible	Guaran-tees	Non CRR/CRD IV eligible
Africa		**0**						0					
America		**7,261**		**10**		**30**	**16**	4,028				17	19
Asia		**6,946**						6,481					116
Australia		**5,576**						5,485					
Europe	Belgium	**8,252**						9,843					
	Germany	**25,730**				**614**		23,472				4,399	
	Netherlands	**10,723**		**6**				16,153		6		249	
	Rest of Europe	**53,710**			**298**	**2,810**		47,185				452	
Total Investment and Money Market		**118,198**		**16**	**298**	**3,454**	**16**	112,647		6		5,117	135
of which Non-performing		***104***		***6***				*11*		*6*			

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

A key characteristic of the Investment and Money Market business is that typically little cover is given to support these exposures. 99.9% of Money Market and 96.9% of Investment exposure receives no covers. During 2014 these percentages increased slightly. The majority of ING's investment positions are of high quality with 94% of the portfolio rated between AAA to A-, based on external ratings.

In the Investment portfolio, the cover mainly relates to government guarantees and supranational institution guarantees.

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. In 2014, the notional Pre-Settlement exposure that was cleared via CCPs increased by 7.4%.

As part of its securities financing business, ING Bank entities actively enter into agreements to sell and buy back marketable securities. These transactions can take many legal forms. Repurchase and reverse repurchase agreements, buy/sell-back and sell/buyback agreements, and securities borrowing and lending agreements are the most common. As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or re-pledged in other (similar) transactions. ING Bank is obliged to return equivalent securities in such cases.

The next table represents the different types of outstandings in 2014 and 2013. 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)]

		2014				2013			
Region		Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	Outstand-ings	Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	Outstand-ings
Africa		108	85	85	103	53	37	37	43
America		18,871	10,224	7,350	8,720	15,844	7,069	5,276	6,083
Asia		6,761	3,629	2,782	3,742	5,879	3,377	2,943	4,195
Australia		450	245	232	195	449	293	286	338
Europe	Belgium	6,955	4,704	4,187	2,572	4,011	2,762	2,406	1,947
	Germany	8,589	4,673	2,468	3,639	7,275	3,948	2,045	3,227
	Netherlands	12,466	6,767	4,924	5,475	9,848	4,775	3,996	5,180
	Rest of Europe	129,451	31,986	26,818	27,146	86,861	27,542	23,430	27,011
Total Pre-settlement		**183,651**	**62,313**	**48,846**	**51,593**	**130,220**	**49,803**	**40,419**	**48,024**
of which Non-performing		***101***	***101***	***101***	***100***	***205***	***205***	***205***	***209***

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

The increase in the gross MtM (25.4%) was mainly observed in the UK (Rest of Europe), due to Clearing Houses. After netting the increase for Clearing Houses was only EUR 1.5 billion. Main part of this increase came from the interest rate derivatives (IRD) portfolio which represents 68.7% (2013: 66.1%) of the total pre-settlement gross.

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, capital, 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 with a short-term intent.

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

- Risk identification is a joint effort of the 1st and 2nd line of defence (the ‘three lines of defence governance’ model is explained in the risk governance paragraph of the general risk management section). Its goal is to detect potential new risks and changes in known risks.
- Identified risks are assessed to determine the importance of the risk for ING Bank and subsequently to identify the control measures needed.
- Control measures used by ING include policies, procedures, limit frameworks, buffers and stress tests.
- An important element of risk management is to continuously check if the implemented risk controls are executed and complied with and monitor that the controls are effective.
- Results and findings are reported to the governing departments and approval bodies.

Governance

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

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

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

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

This market risk paragraph elaborates on the various elements of the risk management approach for:

- Market risk economic capital for trading and banking books
- Market risks in the banking books
- Market risks in the trading books

Economic capital for market risk
Economic capital for market risk is the economic capital necessary to withstand unexpected value movements due to changes in market variables and model risk.

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 Value at Risk (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 real estate investment and the development portfolio of ING Commercial Banking. The economic capital for real estate price risk 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	
	2014	2013	**2014**	2013
Trading	**318**	527	**745**	667
Interest rate risk in the banking books	**2,861**	2,629		
Foreign exchange	**420**	130	**113**	37
Real Estate	**461**	563		
Equity Investments*	**2,246**	880		
Market risk	**6,306**	4,729	**858**	704

* Regulatory capital for equity investments are reported under credit risk regulatory capital.

Year-on-year variance
During 2014, market risk economic capital increased significantly from EUR 4.7 billion to EUR 6.3 billion. The main drivers of the increase are an update of the model parameters and an increase of the equity investment positions, primarily impacting the equity investments risk type. A short explanation for the main items:

- Trading: the decrease in economic capital is largely driven by an increased diversification with the risk types.

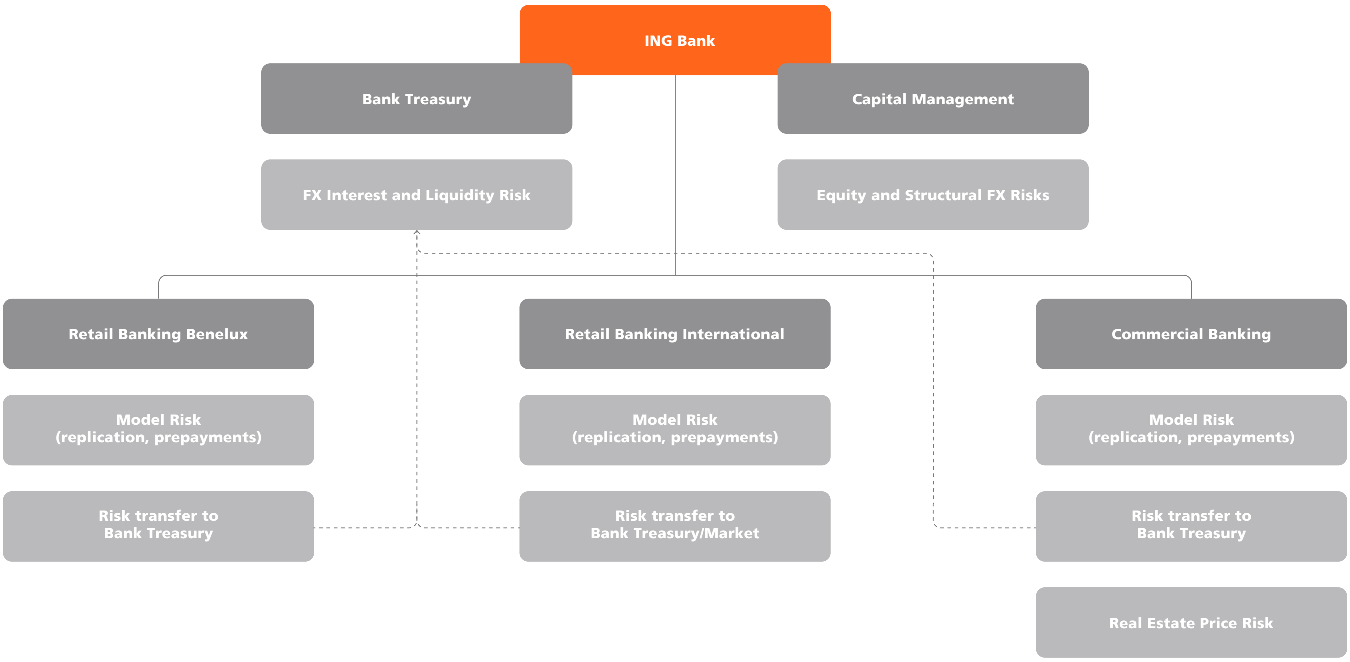
- Interest rate risk in the banking books: the exposure is mainly driven by the long-term investment of ING Bank's capital (investment of own funds). In this overview the replication of capital is presented in line with the regulatory prudential approach and therefore capital itself is classified as an overnight interest rate position. Overall the economic capital is relatively stable compared to 2013, since a shorter duration of the investment in own funds offsets the extension of the historical period of the risk parameters.
- Foreign exchange: the increase is mainly resulting from ceasing the hedge of the common equity tier 1 ratio for foreign exchange rates of a selection of emerging market currencies.
- Real estate: the decrease is mainly resulting from the run-off exposure of Real Estate Development
- Equity investments: the main drivers of increase of Economic Capital are an update of the model parameters, an extension of the historical period, the inclusion of ING Vysya Bank as an equity investment and the appreciation of Bank of Beijing.

The increase in market risk Regulatory Capital for Trading is due to a combination of position changes and market movements which led to an increase in the VaR and Stressed VaR components of the regulatory capital calculation. The increase in market risk Regulatory Capital for Foreign Exchange relates to the equity stake in ING Vysya Bank.

Market risk in banking books
ING Bank makes a distinction between trading and banking (non-trading) books. Positions in banking books originate from the market risks inherent in commercial products that are sold to clients and from the investment of own funds (core capital). 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, funding and liquidity risks are transferred from the commercial books through matched funding to Bank Treasury, where it is centrally managed. The scheme below presents the transfer and management process of market risks in the banking books:



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

Interest rate risk in banking book
Interest rate risk in the banking books is defined as the exposure of a bank's earnings, capital and market value 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 it defines the policies and procedures related to interest rate risk

management. Furthermore, on an overall level, ALCO Bank sets the risk appetite for interest rate risk, 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 funds (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.

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), if necessary also based on estimations of customer behaviour. The originating commercial business is ultimately responsible for estimating customer behaviour, leaving convexity risk and (unexpected) customer behaviour risk with the commercial business.

Risk measurement and the risk transfer process take place on a monthly basis, but more often if deemed necessary, for instance in volatile markets. The customer behaviour in relation to mortgages, loans, savings and demand deposits is modelled by MRM, based on extensive research. Model parameters are determined from historical data and expert opinion. Models are periodically validated by Model Validation. 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 estimated duration and an investment rule for the various portfolios. With respect to mortgages and loans, prepayment behaviour including 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 excluding capital investments. 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. For a downward shock it is assumed that interest rates will not be negative after the shock is applied. Management interventions are not incorporated in these calculations.

Earnings Sensitivity banking book per currency (instantaneous parallel shock)

		2014		2013
	-100 bps	**+100 bps**	-100 bps	+100 bps
By currency				
Euro	**-107**	**68**	-184	120
US Dollar	**-5**	**5**	5	2
Other	**-7**	**16**	-9	
Total	**-119**	**89**	-188	122

Earnings Sensitivity banking books per business (instantaneous parallel shock)

	2014		2013	
	-100 bps	+100 bps	-100 bps	+100 bps
By business				
Commercial Banking	-19	7	-73	43
Retail Banking Benelux	-39	101	-52	42
Retail Banking International	-27	-86	-52	20
Corporate Line	-34	67	-11	17
Total	-119	89	-188	122

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 line with previous year the earnings with a one year horizon as per 2014 year end are relatively insensitive to rate changes, if compared to the net interest income. 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.

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)

	2014		2013	
	-100 bps	+100 bps	-100 bps	+100 bps
By currency				
Euro	169	–1,749	1,399	-1,503
US Dollar	-4	26	-13	23
Other	1	5	36	-29
Total	166	–1,718	1,422	-1,509

NPV-at-Risk banking books per business (instantaneous parallel shock)

	2014		2013	
	-100 bps	+100 bps	-100 bps	+100 bps
By business				
Commercial Banking	183	-120	57	-30
Retail Banking Benelux	-109	-130	-184	-209
Retail Banking International	-285	-29	30	236
Corporate Line	377	–1,439	1,519	-1,506
Total	166	–1,718	1,422	-1,509

NPV-at-Risk banking books per accounting category (instantaneous parallel shock)

	2014		2013	
	-100 bps	+100 bps	-100 bps	+100 bps
By accounting category				
Amortised Cost	–1,203	1,292	-1,115	923
Fair value through equity	1,234	–2,920	2,459	-2,347
Fair value through profit and loss	135	–90	78	-85
Total	166	–1,718	1,422	-1,509

The NPV-at-Risk is dominated by the interest rate sensitive long-term investments of own funds, as the equity itself is not modelled and hence is not presented as an offset for the 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. The asymmetry between the NPV-at-Risk for a -100 bps and a +100 bps shock is primarily caused by the flooring the interest rates to zero for the -100 bps scenario.

Year-on-year variance analysis
NPV-at-Risk for a +100 bps shock increased during 2014. An overall increase of EUR 209 million is shown. This mainly results from a change in the strategic interest rate position. The sensitivity for a -100 bps shock has mainly changed as a result of lower rates, whereby for fewer positions a -100 bps shock can be applied, as the interest rates are limited to zero in the calculations.

Besides the change of the overall NPV-at-Risk exposure there is change 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 a larger move for the +100 bps shock. The impact of this move was mitigated by cash flow hedges, which revaluate through equity.

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

BPV banking books per currency

amounts in thousands of euros	2014	2013
By currency		
Euro	**-15,890**	–13,900
US Dollar	**261**	214
Other	**-21**	-339
Total	**-15,650**	–14,025

BPV banking books per business

amounts in thousands of euros	2014	2013
By business		
Commercial Banking	**-1,773**	–626
Retail Banking Benelux	**-55**	-100
Retail Banking International	**981**	2,757
Corporate Line	**-14,803**	–16,056
Total	**-15,650**	–14,025

BPV banking books per accounting category

amounts in thousands of euros	2014	2013
By accounting category		
Amortised Cost	**16,311**	11,482
Fair value through equity	**-30,205**	–24,318
Fair value through profit and loss	**-1,756**	–1,189
Total	**-15,650**	–14,025

In line with NPV-at-Risk, the bank's overall BPV position is dominated by the long-term investment of own funds, 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 increase in NPV-at-Risk, the overall BPV increased in 2014 with EUR 1.6 million. As for NPV-at-Risk this mainly results from a change in the strategic position. Besides the change of the overall BPV exposure there is a change 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 and an increased duration of investments. The decreased sensitivity of other currencies results from the deconsolidation of ING Vysya Bank.

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

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

Governance – FX translation result

ING Bank's strategy is to protect the target common equity 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 common equity tier 1 ratio hedge is achieved by deliberately taking foreign currency positions equal to certain target positions, such that the target common equity tier 1 capital and risk-weighted assets are equally sensitive in relative terms to changing FX rates. A selection of emerging market currencies are exempted for the hedge.

Risk profile – FX translation result

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

Net banking currency exposures banking books

	Foreign Investments		Hedges		Net exposures	
amounts in thousands of euros	**2014**	2013	**2014**	2013	**2014**	2013
US Dollar	**2,601**	2,191	**-189**	-134	**2,412**	2,057
Pound Sterling	**635**	325	**21**	19	**656**	344
Polish Zloty	**1,774**	1,852	**-848**	-1,012	**926**	840
Australian Dollar	**3,665**	3,478	**-3,309**	-2,877	**356**	601
Turkish Lira	**2,033**	1,861	**-3**	–572	**2,030**	1,289
Chinese Yuan	**2,289**	1,253	**-166**	-150	**2,123**	1,103
Korean Won	**800**	723	**-635**	-583	**165**	140
Indian Rupee	**701**	856			**701**	856
Brazilian Real	**277**	270		-195	**277**	75
Russian Rouble	**502**	765	**-311**	-544	**191**	221
Other currency	**2,359**	1,872	**-1,359**	-1,050	**1,000**	822
Total	**17,636**	15,446	**-6,799**	-7,098	**10,837**	8,348

In order to measure the remaining sensitivity of the target common equity tier 1 ratio against FX rate fluctuations, the common equity tier 1 ratio at Risk (cTaR) measure is used. It measures the drop in the common equity 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 common equity tier 1 ratio, so a negative sign means that a depreciation of that corresponding currency will result in a drop of the common equity tier 1 ratio.

Common Equity Tier 1 ratio sensitivity ING Bank

	cTaR		Stress Scenario	
Currency	**2014**	2013	**2014**	2013
US Dollar	**0.12%**	0.09%	**15%**	15%
Pound Sterling	**0.00%**	0.01%	**15%**	15%
Polish Zloty	**0.00%**	0.00%	**-15%**	15%
Australian Dollar	**0.00%**	0.01%	**20%**	-20%
Turkish Lira	**0.06%**	0.01%	**-25%**	-25%
Chinese Yuan	**0.08%**	0.00%	**-15%**	15%
Korean Won	**0.01%**	0.01%	**-15%**	-15%
Indian Rupee	**0.04%**	0.02%	**-20%**	-20%
Brazilian Real	**0.02%**	0.01%	**-25%**	-25%
Russian Rouble	**0.01%**	0.01%	**-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 common equity tier 1 ratio as the US Dollar Net Exposure significantly deviates from the target. This deviation from the target for USD is mainly resulting from the limited capability to hedge the exposure without introducing P&L volatility. In 2014 the hedge of the common equity tier 1 ratio for foreign exchange rates of a selection of emerging market currencies has been ceased. The common equity tier 1 ratio is less sensitive for fluctuations in the other currencies.

Year-on-year variance analysis
The Foreign Investments in Chinese Yuan increased due to an increase in share price of Bank of Beijing. The decrease of the Foreign Investments in Indian Rupee is due to the deconsolidation of ING Vysya Bank, partly offset by the release of the minority interest. The change in Turkish Lira and Brazilian Real hedge position is a result of the decision to terminate the hedge of the common equity tier 1 ratio for foreign exchange rates of a selection of emerging market currencies, resulting in an increase in cTaR. For currencies in the table above, the decision to terminate the hedge was applicable to Turkish Lira, Chinese Yuan, Indian Rupee and Brazilian Real.

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 and joint ventures of EUR 861 million (2013: EUR 937 million) and equity securities held in the available-for-sale (AFS) portfolio of EUR 2,718 million (2013: EUR 1,645 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 and joint ventures are measured in accordance with the equity method of accounting and the balance sheet value and therefore not directly linked to equity security prices.

Equities Unrealised Gains and Losses in the AFS portfolio

	2014	2013
Gross unrealised gains	2,019	1,038
Gross unrealised losses		
Total	2,019	1,038

Year-on-year variance analysis
During the year ended 31 December 2014 the revaluation reserve relating to equity securities held in the available-for-sale portfolio fluctuated between a month-end low amount of EUR 996 million (2013: EUR 1,038 million) and a high amount of EUR 2,019 million (2013: EUR 1,483 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 is a run-off business consisting of Real Estate Development and Real Estate Investment Management activities which are being wound down by sale of assets, strict execution of contract maturity 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 1.8 billion. For market risk management purposes, the total real estate exposure amounts to EUR 1.7 billion since property from foreclosures (EUR 0.08 billion) and third party interest (EUR 0.02 billion) are excluded.

ING Bank has EUR 0.2 billion recognised at fair value through profit and loss and EUR 1. 5 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)

	2014	2013		2014	2013
Continent			**Sector**		
Europe	**1,352**	1,993	Residential	**270**	325
Americas	**142**	145	Office	**1,102**	1,241
Australia		94	Retail	**181**	661
Asia	**101**	135	Industrial	**22**	144
Other	**91**	115	Other	**111**	111
Total	**1,686**	2,482	Total	**1,686**	2,482

Main exposure arises from office buildings in own use located in Netherlands and Belgium (EUR 0.8 billion), as well as retail and residential exposures in Europe (EUR 0.3 billion).

Year-on-year variance analysis
In total, real estate market risk exposure in the banking books decreased by EUR 0.8 billion mainly as a result of divestments (EUR 0.7 billion). The remainder 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 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. The selection of the pricing sources used is subject to internal approval and review.

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, hence the implied downward and/or upward uncertainty of the accounting value may vary. For a classification of fair valued exposure to products in accordance with their degree of valuation uncertainty, refer to the section Financial instruments - Level Disclosure.

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.

As of 2014 year end the valuation of all fair valued positions is aligned with the latest draft regulatory standards for fair valued instruments issued by the European Banking Authority (EBA/RTS/2014/06). These ‘Regulatory Technical Standards on Prudent valuation’ encompass a range of prescriptive valuation adjustment categories, aiming to reduce inherent valuation uncertainty for fair valued instruments and create more consistency across the banking industry. Where fair valued positions do not meet these higher standards, institutions must subtract the valuation difference from their Core Tier 1 capital.

ING has chosen to align existing fair valuation adjustments with the new requirements, hence support only one valuation process which meets both IFRS and CRR requirements, where allowed. This approach is supported by a new bank-wide valuation policy framework, and by detailed methodologies for fair valued instruments, per product and degree of liquidity. Benefits of the revised framework and chosen approach are a significant increase in consistency, and transparency of the fair valuation of financial instruments across different locations and books. An additional valuation adjustment through capital on the concentrated positions (the Concentration AVA) of EUR 35 million after tax is booked for ING Bank in 2014.

To include credit risk in the fair valuation, ING applies both credit and debit valuation adjustments (hereafter referred to as respectively, CVA and DVA). Own issued debt and structured notes that are valued at fair value are adjusted for credit risk by means of an own credit 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 risks on the counterparty as well as 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 decreases) 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 is managed by 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.

To address the risk associated with the illiquid nature of the derivative portfolio, ING applies an additional ‘liquidity valuation adjustment’. The adjustment is based on the market price of funding liquidity and is applied to the uncollateralised derivatives. This additional discounting is taken into account in both the credit and debt valuation adjustments.

Market Risk Management Product Control has the role to identify and challenge market data and pricing sources determine the parameters that will be used in the valuation models, and to calculate necessary value adjustments. 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. Price testing and valuation results are reviewed and validated by local and global parameter committees.

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, such as the following: 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 2014, three global backtest outliers (one actual and two hypothetical P&L outliers) occurred on two days, which were in line with our expectation based on the 99% confidence level of our VaR model. Details of the outliers are disclosed in the section ‘Risk profile’. 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. CRD IV has come into force as of 2014, but it has no impact on the Market Risk Framework. The Basel Committee is performing a Fundamental Review of the Trading Book, which may have a significant impact on the Pillar I calculations. The review is still in consultation and full implementation is not expected before end of 2017.

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

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

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

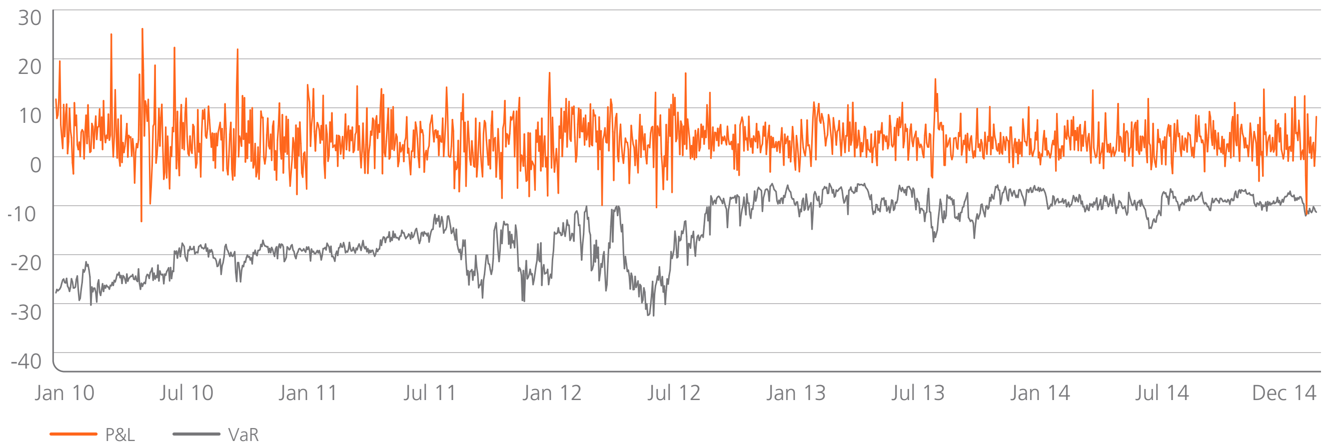
Event risk
Event risk is a valuable risk management tool. Event risk evaluates the bank's financial stability under severe but plausible stress scenarios and assists in decision-making that assures the bank to remain a financially-healthy on-going concern after a severe event occurs. In addition to the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

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

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

Risk profile
The following chart shows the development of the overnight VaR under a 99% confidence interval and a 1-day horizon versus daily trading profits and losses. The overnight VaR is presented for the ING Commercial Banking trading portfolio from 2010 to 2014.

Consolidated trading VaR ING Commercial Banking 2010 – 2014



We observed backtest outliers on two days in 2014: one actual and two hypothetical P&L outliers. On both days, the markets were more volatile than to the history captured in the VaR estimate. The hypothetical outlier in October was due to large moves in both interest rate and equity derivatives markets. This hypothetical outlier however results from being very prudent in taking into account basis risks in the hypothetical P&L calculation, in line with the VaR calculation model. The outlier in December (actual and hypothetical outlier on the same day) was mainly due to increased volatilities in certain credit spreads. Only two outliers in a period of a year – and no outliers in previous years – indicate that the VaR model is prudent.

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	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Interest rate	**3**	3	**11**	13	**5**	7	**6**	7
Equity	**2**	2	**7**	8	**3**	5	**6**	4
Foreign exchange	**1**	1	**6**	6	**2**	3	**2**	2
Credit spread	**3**	2	**9**	4	**5**	3	**9**	3
Diversification (2)					**-6**	–9	**-12**	–7
Total VaR	**6**	5	**15**	17	**9**	9	**11**	9
Stressed VaR (10-day, 99%)	**32**	38	**111**	110	**54**	66	**99**	52
Incremental Risk Charge (1-year, 99.9%)	**341**	280	**555**	487	**462**	351	**426**	438

(1) CVA is not included in VaR.
(2) 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 in the same level of the previous year. The increase in average IRC was largely driven by updated LGD model parameters for the Central and Local Government portfolio.

Regulatory capital
According to the Capital Requirements Regulation (CRR/CRD IV), 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 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 2014, capital on all trading books is performed under the Internal Model Approach. Mismatches in FX risk from the banking books are incorporated under the Standardised Approach.

Regulatory Capital

	SVaR	VaR	2014 Total	2013 Total
Interest rate/Credit spread	**127**	**66**	**193**	146
Equity	**74**	**19**	**93**	48
Foreign exchange	**24**	**9**	**33**	35
Incremental Risk Charge			**426**	438
Total Internal Model Approach	**224**	**94**	**745**	667
Standardised model [(1)]			**113**	37
Total Regulatory Capital			**858**	704
Market Risk Weighted Assets [(2)]			**11**	9

(1) Standardised model is applied to FX positions in banking books.
(2) Amounts are in EUR billions

The increase in market risk Regulatory Capital for Trading as of 2014 is mainly due to stressed VaR increase driven by position changes in the Equity Derivatives books; and due to 10D VaR increase as a result of increased volatilities in emerging markets.

The increase in market risk Regulatory Capital for Foreign Exchange relates to the FX risk in the equity stake in Vysya.

Sensitivities
As part of the risk monitoring framework, Market Risk Management Trading actively monitors the daily changes of sensitivities of our trading portfolios. The following tables show the five 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. Due to the nature of the trading portfolios, positions change from day to day.

Most important foreign exchange year-end trading positions

amounts in millions of euros	2014		2013
Foreign exchange		**Foreign exchange**	
Chinese Yuan	**282**	Chinese Yuan	297
US Dollar	**-257**	US Dollar	–214
Swiss Franc	**-65**	Romanian Leu	46
Australian Dollar	**40**	Singapore Dollar	–21
South Korean Won	**21**	Taiwan Dollar	19

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

amounts in thousands of euros	2014		2013
Interest Rate (BPV [(1)])		**Interest Rate (BPV [(1)])**	
Euro	**231**	Euro	–302
Taiwan Dollar	**75**	Taiwan Dollar	48
Chinese Yuan	**-47**	Russian Ruble	–48
Polish Zloty	**43**	Romanian Leu	–27
Japanese Yen	**34**	South Korean Won	–25
Credit Spread (CSO1 [(2)])		**Credit Spread (CSO1 [(2)])**	
Netherlands	**-702**	Germany	–454
Germany	**552**	France	452
United States	**115**	Netherlands	–384
Russia	**97**	Austria	–86
Italy	**-94**	Russia	–79

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

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

amounts in thousands of euros **Credit Spread (CSO1[1])**		**2014** **Corporate**	**2014** **Financial Institutions**	2013 Corporate	2013 Financial Institutions
Risk classes					
1	(AAA)	**62**	**24**	–4	–135
2–4	(AA)	**-21**	**-100**	–66	–74
5–7	(A)	**21**	**-76**	–58	–105
8–10	(BBB)	**-52**	**-116**	–28	–48
11–13	(BB)	**-47**	**-45**	–26	–37
14–16	(B)	**-14**	**-18**	–17	–9
17–22	(CCC and Problem Grade)	**-44**	**-6**	–42	–3
Not rated		**-1**	**-1**	–2	0
Total		**-96**	**-338**	–243	–411

(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 it's 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 stress.

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 have oversight of and are responsible for managing funding and liquidity risk.

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 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.

The identification of liquidity risks is primarily a responsibility of the 1st line business management function.

Bank Treasury 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 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 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. Also refer to Note 39 in which 'Assets by contractual maturity' are shown.
- Home/host regulatory liquidity limits must be pro-actively complied with.
- The time-to-survive in a funding stress situation must extend over defined period, also depending on the level of stress applied.
- Funding of all longer-term assets and investments must be done by stable and longer-term liabilities.
- Geographical dependencies with respect to intra-group funding are to be limited.
- Diversification must be in place of funding profile, across funds providers, instrument types, geographic markets, tenors and currencies.

The risk appetite statements are also directly linked to liquidity stress testing.

Funding
In detailing the activities of the bank regarding utilisation of professional market funding sources, the following key principles apply:

- Maintaining adequate market access in both normal and stressed but operable market conditions.

- Managing risk by adhering to internally and externally imposed risk limits and balance sheet ratios.
- Optimising the cost of funding under the principles above.

With respect to funding sources, ING Bank manages its balance sheet prudently, whereby short-term funding is primarily utilised for funding short-term assets. The bank aims to fund all longer term assets and investments by stable and longer term liabilities. Next to this, ING Bank monitors exposures in major currencies such as the USD. Monitoring and control of this funding is effectuated through a dedicated USD funding and liquidity risk framework.

ING Bank reviews its funding plan on at least a quarterly basis, assessing market developments and funding requirements.

In 2014, 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

	2014	2013
Funding type		
Retail deposits	**47%**	46%
Corporate & other deposits	**22%**	23%
Interbank (incl. central bank)	**6%**	5%
Lending/repurchase agreement	**4%**	4%
Public debt	**19%**	20%
Subordinated debt	**2%**	2%
Total	**100%**	100%

The funding mix remained well diversified and according to targets set. Retail deposits accounted for 47% of the total funding mix, improved from 46% per 2013 year end. Ultimo 2014 the Loan-to-Deposit ratio (excluding securities at amortised costs) equals 1.04 (2013: 1.04).

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. Intraday liquidity management is managed through the risk appetite statement, by setting amongst others monitoring metrics and triggers on daily net negative liquidity positions and levels of payments outflows.

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-term part 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 BT function.
- The buffer must be adequate in relation to the contractual and expected expiry calendars and other 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 eligible for the Liquidity Coverage Ratio (LCR) 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 can be found in Pillar III.

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 the pricing mechanism 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 and/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 Euro and US Dollar.
- 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 CRR/CRD IV
  or on own defined stress scenarios related to time-to-survive periods.

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. From a currency perspective, stress tests are applied on Euro and US Dollar whilst other currencies are monitored. This aligns with the Basel3 and CRR approach with regard to major currencies.

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
During 2014 there were many regulatory developments related to funding and liquidity. One of the most important was the finalisation of the Delegated Act by the European Commission, providing detailed guidance on the LCR, taking into account comments from the industry as well as European Union specificities.

Next to this additional guidance has been provided on a broad range of additional regulatory reporting requirements such as asset encumbrance and monitoring metrics. At the end of October, the BCBS published a final version of the Net Stable Funding Ratio, which will be implemented by 2018. In the coming years, both the EBA and the EC will review how the NSFR will be implemented in the EU.

In November 2014, the European Central Bank ('ECB') assumed responsibility for a significant part of the prudential supervision of banks in the Eurozone, including ING Bank, following a year-long preparatory phase, which included an in-depth comprehensive assessment of the resilience and balance sheets of the biggest banks in the Eurozone. ING Bank was among the seven Dutch institutions covered by the assessment (out of 130 institutions overall). While the ECB has assumed the supervisory tasks conferred on it by the Single Supervisory Mechanism ('SSM') Regulation, the DNB will still continue to play a big role in the supervision of ING Bank. The SSM has created a new system of financial supervision for countries within the Eurozone, with the possibility of non-Eurozone Member States participating by means of close cooperation. With the SSM only having been in place since November

2014, it is difficult at this stage to identify what exact impact the SSM will have on ING Bank. The SSM may have a significant impact on the way ING's banking operations are supervised in Europe.

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 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 events and non-financial risk issues. A comprehensive system of internal controls creates an environment of continuous improvement in managing non-financial risk.

ING Bank believes that fully embedding controls preserves and enhances the trust of its customers, staff and shareholders and so is essential to building sustainable businesses. ING Bank's Business Principles set the foundation for the high ethical standards ING Bank expects of all business activities. ING Bank's Business Principles require all staff to conduct themselves, not only within the spirit and letter of laws and regulations, but also with integrity, whilst being open and clear, respectful, and responsible.

Governance

At all levels in the organisation Non-Financial Risk Committees (NFRCs) are established to appropriately measure, manage and monitor the operational and compliance risks of a business unit or region 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 non-financial risk 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. The CCO reports functionally to the Chief Risk Officer and hierarchically to the Head of Non-Financial Risk. This is an independent function responsible for developing and establishing the Bank-wide compliance risk management charter & framework which establishes the policies and minimum standards for managing compliance risks. The CCO assists and supports the Management Board Banking 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 framework of policies and minimum standards within ING Bank. 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 ORM and Compliance 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, monitoring and reporting 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 by the Bank NFRC. 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.

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. The internal data based calculation is combined with an external loss data (ORX) based calculation. In April 2013 ING Bank obtained accreditation for use of its enhanced AMA model for regulatory supervision purposes. In 2014, the set of scenarios has been further extended in such areas as cybercrime and compliance risk. ING Bank reports the regulatory capital numbers on a quarterly basis. The AMA capital for the fourth quarter of 2014 amounts to EUR 2,700 million. For the fourth quarter of 2013 the AMA capital amounted to EUR 2,822 million. ING Bank is currently not using any insurance or risk transfer mechanisms for the mitigation of risk in the context of the AMA capital calculation.

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.

Given the heavy reliance on IT systems in financial institutions, controls that monitor the various aspects of IT risk, such as integrity and confidentiality, are embedded in ING Bank's risk and control framework.

Main developments in 2014
Internal and external fraud
ING Bank is continuously working on strengthening its global fraud resilience including enhanced collaboration against cybercrime. Developing applications, or exploring and combining existing data search tools that can be used for behavioural monitoring are becoming more and more important in both internal and external fraud prevention and are being further developed into an effective set of organisational controls.

The risk of clients and ING staff being targeted by fraudsters using social engineering techniques to execute payments has increased. Efforts are undertaken to mitigate the risk such as creating awareness for customer relationship departments about this type of fraud and communication to the customers and staff targeted by these fraudsters. ING Bank continues to strengthen its control environment for manually initiated payments by clients as fraudsters are increasingly shifting their interest to the end-user. ING Bank continues to stringently monitor both this type of fraud and new emerging fraud methodologies.

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 2014 ING has successfully finished its Cybercrime Resilience Programme to become more mature in being able to protect, detect and respond to e-banking fraud, Distributed Denial of Service (DDoS) and targeted attacks (also called Advanced Persistent Threats). The Cybercrime Resilience Programme has handed over the Cybercrime activities to the line organisation to ensure structural embedding.

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).

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, corruption 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). The effectiveness of those controls is reviewed periodically.

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 maintain 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 stipulated in local laws and regulations and if not specifically forbidden (data privacy or bank secrecy).

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 North Korea, Sudan, Syria, Iran and Cuba. Each of these countries is subject to a variety of EU, US and other sanctions regimes. Cuba, Iran, Sudan, and Syria are identified by the US as state sponsors of terrorism and are subject to U.S. economic sanctions and export controls.

Within ING Bank the so-called Sanctions Risk Assessment (SRA) procedure has been developed and implemented within Lending Services. With this procedure all transactions within Lending Services go through a Transaction Due Diligence process in a standardised manner. The outcome of the SRA determines the level of contractual language that is being included in the deal documentation. The SRA takes into consideration the direct and indirect nexus a customer/deal has towards certain countries and sectors. A further roll-out into other business areas of ING is in progress.

Mid 2014 both the US and the EU announced Ukraine-related sanctions. Those sanctions restrict amongst others the dealing in specific (financial) products with certain named parties. Management of ING Bank entities use their existing control framework to ensure compliance with these sanctions.

Main developments in 2014

Whistleblower Ethics Line

ING has an Ethics Line which makes it possible for all ING staff to report suspected cases of wrongdoing on a fully anonymous basis. This Ethics Line is fully independent of ING and operational since Q1 2014.

Compliance Conduct Risk Monitoring

Compliance developed a new methodology in order to assess the working of soft controls in relation to compliance risks. This methodology will be rolled out through the compliance function in 2015 as part of the existing compliance framework. This new approach supports the ambition of ING to secure an integrity-led culture.

Corruption risk

ING Bank set up a programme to create a statutory framework in respect of sound and ethical operations designed to prevent corruption in the form of conflicts of interest and/or bribery.

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 includes a statement from a senior manager. The topics covered in 2014 were:

- Cybercrime
  An introduction to cybercrime, focusing on how cybercriminals operate and the risks that cybercrime creates for employees, ING and our customers. By using practical examples staff are challenged to think about what can be done to minimise cybercrime risks.
- Personal Responsibility
  In this module several Compliance, Operational Risk and Legal topics are covered. Practical examples are supported by an engaging video whereby staff are challenged to think about the need to identify risks and to take personal responsibility when they see something that is not right.

Learning

Global education and awareness training in the form of e-learning modules was provided on topics such as Financial Economic Crime (FEC), Sanctions and Ultra High Risk Countries, Foreign Account Tax Compliance Act (FATCA), Gifts, Entertainment and

Anti-Bribery (GEAB) and Competition Law. Furthermore, there were end of year campaigns for GEAB and anti-corruption to strengthen awareness.

A compliance curriculum and learning path was developed and rolled out for all compliance staff worldwide, providing information on compliance-related training available in the ING Learning Centre and recommended external trainings. Also a mandatory Compliance Induction e-module was introduced for new staff in ING Bank in the Netherlands.

Classroom sessions were delivered on other specialist topics. This included training in introduction programmes for new staff and talent programmes. A new training was introduced for staff in ING Bank worldwide who are new to the Operational Risk function. Compliance Risk Management continued its mandatory international Compliance Officer Training programme for all new compliance officers in ING Bank worldwide.

In addition, regular global calls were organised on various topical subjects to provide advice and clarification to NFR staff and provide the opportunity to ask questions.

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,

3) Expense risk relates to the (in)flexibility to adjust expenses, when that is needed.
4) 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

OBJECTIVES

ING Group Capital Management (Capital Management) is responsible for the adequate capitalisation of ING Group and ING Bank entities at all times in order to manage the risk associated with ING's business activities. This involves not only the management, planning and allocation of capital within ING Group and ING Bank, but also the necessary capital market transactions, term (capital) funding and risk management transactions. 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, rating agencies and internal metrics such as Economic Capital (EC).

ING applies the following main capital definitions:

- Common equity Tier 1 capital, Tier 1 capital and total BIS capital – Tier 1 capital is defined as shareholders' equity plus hybrid capital less regulatory adjustments. Common equity Tier 1, Tier 1 and BIS capital divided by risk-weighted assets equal the Common equity Tier 1, Tier 1 and BIS ratio respectively. Common equity Tier 1 capital is equal to Tier 1 capital excluding hybrid capital;
- EC – ING Bank uses Internal economic capital models to allocate capital for unexpected losses given 99.95% confidence level. These models capture credit risk, market risk, operational risks , business risks as well as diversification.

DEVELOPMENTS

In 2014, Capital Management's main focus remained executing the Group restructuring programme while ensuring it has sufficient loss-absorbing capacity to cope with severe unexpected losses without jeopardising our business as usual. In terms of the restructuring programme, ING completed the disentanglement from the Dutch State in 2014 while ensuring an orderly exit from Insurance activities.

In February 2014, ING together with the Dutch State completed the unwinding of the Illiquid Assets Back-Up Facility (IABF). The Dutch State has sold the remaining USD 11.5 billion of securities in the portfolio through three auctions at an average price of 77.3%. The proceeds were used to pay off the remaining loans from ING. Together with the settlement of fees, the unwinding resulted in a cash profit for the Dutch State of EUR 1.4 billion in 2014.

In March 2014, ING Group repaid the penultimate EUR 1.225 billion non-voting equity securities (core Tier 1 securities) to the Dutch State. ING Bank paid a dividend to ING Group to facilitate the payment. ING Group's financial position allowed us to accelerate the final payment of EUR 1.025 billion to November 2014, six months ahead of the schedule as agreed with the European Commission. ING has now completely repaid the EUR 10 billion non-voting equity securities issued in 2008 as well as EUR 3.5 billion in premiums and coupons. The total repayment of EUR 13.5 billion equates to a 12.7% internal rate of return for the Dutch State.

In January 2014 ING has completed, as already announced in 2013, the sale of 37.7 million units in SulAmérica to Swiss Re Group. This transaction further reduced ING's stake in the Brazilian insurance holding to approximately 10%.

The remaining bonds issued under the Credit Guarantee Scheme of the State of the Netherlands were fully repaid in March 2014. ING Group paid a fee of 84 basis points over the issued bonds to the Dutch State to participate in the Credit Guarantee Scheme in 2009.

ING executed on other capital transactions as well. Firstly, in February 2014, ING has finalised the agreement in which it is released from all future financial obligations arising out of the closed Defined Benefit (DB) Pension Plan in the Netherlands. The Dutch DB Plan has ceased to be accounted for as a defined benefit plan and the Pension Asset related to this plan has accordingly been removed from ING's balance sheet as of the first quarter 2014. The after-tax P&L impact of the agreement was approximately EUR -1.1 billion. Of this P&L impact, EUR -0.7 billion has been attributed to ING Bank and EUR -0.4 billion to NN Group. For ING Group, the removal of these financial obligations and the subsequent removal of a cross guarantee between ING Bank and NN Group was an important step towards the IPO of NN Group.

In addition, under the IAS 19 accounting rules, "unrecognised actuarial gains and losses" on defined benefit pension plans are recognised immediately in equity, which increases volatility driven by movements in financial markets. The transfer of the obligations connected to the current Dutch DB Plan removes this source of volatility for both Bank and Insurance. It also removes the potential direct negative impact on capital in the event of a net pension liability. Consequently, the agreement has made the capital position more stable.

Secondly, ING redeemed EUR 1.5 billion 8% ING Group hybrid capital on the call date of 18 April 2014 which has reduced the level of Tier 1 securities in the capital base. It was replaced in ING Bank's capital structure by the EUR 1.5 billion 3.625% CRD-IV eligible Tier 2 security that was successfully issued in February 2014 by ING Bank. NN Group redeemed EUR 1 billion of ING Group hybrids in July 2014, further disentangling NN Group from ING Group. These hybrids were subsequently on-lent to ING Bank as CRR/CRD IV eligible securities thus improving the Tier 1 capital base.

In 2014, ING participated in the targeted longer-term refinancing operations ('TLTRO') of the European Central Bank for an amount of EUR 5.7 billion. The TLTRO aims to stimulate lending to the real economy in the Eurozone. The interest rate on the TLTRO's is fixed over the life of each operation plus a fixed spread of 10 basis points above the ECB refinancing year rate. Counterparties that have borrowed in the TLTROs but whose eligible net lending in the period from 1 May 2014 to 30 April 2016 is below the benchmark will be required to pay back their borrowings in September 2016. Interest will be paid in arrears when the TLTRO is repaid. Starting 24 months after each TLTRO, ING has the option to repay any part of the amounts allotted in that TLTRO at a six-month frequency.

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 and ING Bank 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.

CAPITAL ADEQUACY ASSESSMENT

As at 1 January 2014, the CRR/CRD IV capital rules entered into force. The capital position table on the next page reflects own funds according to the Basel III rules as specified in the CRR/CRD IV. As CRD IV will be phased in gradually until 2019, the table shows the CRD IV positions according to the 2019 end-state rules and the 2014 rules. This makes clear which items phase in directly, which phase in gradually and which not yet in 2014. In addition, ING not only reports these metrics for ING Bank, but as of the fourth quarter of 2014 also introduced this analysis for ING Group. During 2014, ING Group and ING Bank were adequately capitalised.

ING Bank capital position according to CRR/CRD IV

	Fully loaded 2014	Phased-in 2014	Phased-in 2013
Shareholders' equity (parent)	38,064	38,064	32,805
Regulatory adjustments	-4,395	-4,808	-1,049
Available common equity Tier 1 capital	33,668	33,256	33,854
Additional Tier 1 securities [1]	5,727	5,727	5,123
Regulatory adjustments additional Tier 1		-1,883	-1,838
Available Tier 1 capital	39,395	37,100	37,139
Supplementary capital Tier 2 bonds[2]	9,371	9,371	8,653
Regulatory adjustments Tier 2	103	-456	-506
Available BIS capital	48,869	46,015	45,287
Risk weighted assets [3]	296,427	296,319	300,958
Common equity Tier 1 ratio	11.36%	11.22%	11.25%
Tier 1 ratio	13.29%	12.52%	12.34%
BIS ratio	16.49%	15.53%	15.05%

(1) Of which EUR 1,988 million is CRR/CRD IV compliant and EUR 3,739 million to be replaced as capital recognition subject to CRR/CRDIV grandfathering rules.
(2) Of which EUR 5,778 million is CRR/CRD IV-compliant and EUR 3,593 million to be replaced as capital recognition is subject to CRR/CRD IV grandfathering rules.
(3) The fully loaded RWA deviated from the phased-in RWA as a result of higher market values, the significant investments in Financial Institutions for thr Bank exceeded 10% of CET1 capital. Only the amount up to this limit (which is lower phased-in than fully loaded) is to be 250% risk weighted, while the excess is deducted.

REGULATORY REQUIREMENTS

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 until 3 November 2014, the ECB thereafter) for supervisory purposes. In 2010 the Basel Committee on Banking Supervision issued new solvency and liquidity requirements, which superseded Basel II. The minimum common equity Tier 1 ratio is 4.5%, the minimum Tier 1 requirement is 6% and the total capital ratio (known as the BIS ratio) is 8% of all risk-weighted assets. Basel III requires Banks to hold a capital of at least 80% of the old Basel I requirements, which was 8% of the RWAs as calculated with the Basel I methodology. This Basel I floor has been extended until the end of 2017.

Capital adequacy and ratios

Quantitative disclosure on capital measurements and ratios ING Bank

	2014 [1]	2013 [2]
Common equity Tier 1 ratio		
Year-end actual CET 1 ratio	11.2%	11.7%
Minimum CET 1 ratio	4.5%	2.0%
Tier 1 ratio		
Year-end actual Tier 1 ratio	12.5%	13.5%%
Minimum Tier 1 ratio	6.0%	4.0%
BIS ratio		
Year-end actual BIS ratio	15.5%	16.5%
Minimum BIS ratio	8.0%	8.0%

(1) Basel III phased in
(2) Basel II

The common equity Tier 1 ratio, Tier 1 ratio and BIS ratio are regulatory requirements for ING Bank NV. The actual ratios at the end of 2014 were well in excess of these levels.

ICAAP/SREP PROCESS

On a yearly basis ING Bank N.V. submits extensive documentation on the Internal Capital Adequacy Assessment Process (ICAAP) to its regulator as prescribed in the Basel II and Basel III frameworks. This documentation includes a description of ING's internal capital models, its risk appetite framework, an asset quality analysis and a capital planning, both under normal circumstances and in certain stressed scenarios. This documentation is an important input for the regulator's Supervisory Review and Evaluation Process (SREP) resulting in a letter to ING Management. With the change in supervision from the Dutch Central Bank to the European Central Bank in November 2014, the SREP is for the first time conducted by the ECB. The regulatory 2014 guidance indicated that the minimum capital ratios ECB considers adequate for ING Bank consolidated are sufficiently covered by ING's own capital standards. In addition the regulator examines on a regular basis ING's internal models and processes, which resulted in several add-ons on ING's economic capital requirements. Nevertheless ING capital position is more than sufficient to meet these requirements and as such these add-ons do not lead to incremental capital requirements compared to what results from ING's own assessment.

		Standard & Poor's		Moody's		Fitch
	rating	outlook	rating	rating	outlook	
ING Bank N.V.						
– long-term	**A**	**negative**	**A2**	**negative**	**A+**	**negative**
– short-term	**A-1**		**P-1**		**F1+**	**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, 16 March 2015

THE SUPERVISORY BOARD

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E.F.C.B. (Eric) Boyer de la Giroday

H.W. (Henk) Breukink

I. (Isabel) Martín Castellá

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H.J. (Hermann-Josef) Lamberti

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THE MANAGEMENT BOARD BANKING

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J.V. (Koos) Timmermans, vice-chairman and CEO of Market Leaders

P.G. (Patrick) Flynn, CFO

R.M.M. (Roel) Louwhoff, COO

W.F. (Wilfred) Nagel, CRO

W.L.A. (Bill) Connelly, CEO Commercial Banking

Parent company balance sheet of ING Bank N.V.

As at 31 December before appropriation of result

amounts in millions of euros	2014	2013
ASSETS		
Cash and balances with central banks 1	5,174	5,210
Short-dated government paper 2	4,527	2,748
Amounts due from banks 3	74,717	66,602
Loans and advances to customers 4	300,829	295,770
Debt securities 5		
– available-for-sale	25,445	15,600
– held-to-maturity	2,045	532
– trading	18,396	16,703
Equity securities 6		
– available-for-sale	2,269	1,264
– trading	6,956	5,729
Investments in group companies 7	32,488	29,422
Investments in associates and joint ventures 8	600	480
Intangible assets 9	1,020	980
Equipment 10	500	472
Other assets 11	72,626	54,995
Total assets	547,592	496,507
LIABILITIES		
Amounts due to banks 12	41,153	46,021
Customer deposits and other funds on deposit 13	253,457	224,908
Debt securities in issue	118,532	113,650
Other liabilities 14	78,482	59,698
General provisions 15	707	4,071
Subordinated loans 16	17,197	15,354
Total liabilities	509,528	463,702
EQUITY		
Share capital	525	525
Share premium	16,542	16,542
Legal reserves [(1)]	4,543	759
Other reserves	16,454	14,979
Total equity 17	38,064	32,805
Total liabilities and equity	547,592	496,507

(1) Legal reserves includes Share of associates and joint ventures reserve of EUR 2,082 million (2013:EUR 991 million), Currency translation reserve of EUR –592 million (2013:EUR –845 million) and Revaluation reserve of EUR 3,053 million (2013: EUR 613 million).

References relate to the notes starting on page 211. These form an integral part of the parent annual accounts.

Parent company profit and loss of ING Bank N.V.

For the years ended 31 December

amounts in millions of euros	2014	2013
Result of group companies after taxation	2,669	1,476
Other results after taxation	75	1,587
Net result	2,744	3,063

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 and joint ventures reserve	Currency translation reserve	Revaluation reserve	Other reserves[1]	Total
Balance as at 1 January 2013	525	16,542	1,553	–289	1,064	15,569	34,964
Remeasurement of the net defined benefit asset/liability						–811	–811
Unrealised revaluations property in own use			–10		3		–7
Unrealised revaluations available-for-sale and other			–203	302	–438		–339
Realised gains/losses transferred to profit and loss			–56		–89		–145
Changes in cash flow hedge reserve			–88		73		–15
Exchange rate differences and other			–205	–858		55	–1,008
Total amount recognised directly in equity			–562	–556	–451	–756	–2,325
Net result						3,063	3,063
			–562	–556	–451	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**	**991**	**–845**	**613**	**14,979**	**32,805**
Remeasurement of the net defined benefit asset/liability						**–88**	**–88**
Unrealised revaluations property in own use			**–28**		**–1**		**–29**
Unrealised revaluations available-for-sale and other			**614**	**26**	**1,222**		**1,862**
Realised gains/losses transferred to profit and loss			**–85**		**–36**		**–121**
Changes in cash flow hedge reserve			**396**		**1,255**		**1,651**
Exchange rate differences and other			**194**	**227**		**–11**	**410**
Total amount recognised directly in equity			**1,091**	**253**	**2,440**	**-99**	**3,685**
Net result						**2,744**	**2,744**
			1,091	**253**	**2,440**	**2,645**	**6,429**
Employee stock options and share plans						**55**	**55**
Dividend						**–1,225**	**–1,225**
Balance as at 31 December 2014	**525**	**16,542**	**2,082**	**–592**	**3,053**	**16,454**	**38,064**

[1] Other reserves include Retained earnings, Net defined benefit asset/liability remeasurement reserve and Unappropriated result.

Accounting policies for the parent company annual account 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 and joint ventures 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.

In 2014 ING Bank changed the presentation of the reserves within equity related to the associates. Previously, the unrealised revaluations of consolidated group companies were presented in the Revaluation Reserve. From 2014 onwards these unrealised revaluations are presented in the Share of associates Reserve. Furthermore relating foreign currency translation used to be presented in the Currency translation reserve, but is now presented in the Share of associates reserve. This presentation is consistent with the presentation as applied by ING Bank's parent ING Groep N.V. and aligns better with the reporting for regulatory purposes. The 2013 comparatives have also been restated accordingly.

Changes in balance sheet values due to changes in the Revaluation reserve of the associates and joint ventures are reflected in the Share of associates and joint ventures reserve, which forms part of Shareholder's equity. Changes in balance sheet values due to the results of these associates and joint ventures, 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 Share of associates 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 and joint ventures 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 and joint ventures reserve.

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 4,586 million (2013: EUR 4,678 million). In the last quarter of 2014 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 3,837 million (2013: EUR 2,476 million) for the company.

3 AMOUNTS DUE FROM BANKS

Amounts due from banks

	2014	2013
Non-subordinated receivables from:		
Group companies	19,340	20,234
Third parties	55,317	42,275
	74,657	62,509
Subordinated receivables from:		
Group companies		3,927
Third parties	60	166
	74,717	66,602

As at 31 December 2014, amounts due from banks included receivables with regard to securities, which have been acquired in reverse repurchase transactions amounting to EUR 27,652 million (2013: EUR 18,964 million).

4 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers – subordinated and non-subordinated

	2014	2013
Non-subordinated receivables from:		
ING Groep N.V.		762
Group companies	51,826	64,761
Third parties	248,171	226,988
	299,997	292,511
Subordinated receivables from:		
Group companies	832	3,259
	300,829	295,770

As at 31 December 2014, assets held under finance lease contracts amounted to EUR 11 million (2013: EUR 15 million).

As at 31 December 2014, the receivables included in Loans and advances to customers that are part of the trading portfolio amounted to EUR 14,224 million (2013: EUR 18,140 million).

Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 14,527 million (2013: EUR 18,427 million) for the company.

5 DEBT SECURITIES

Debt securities by issuer

	2014	2013
Public sector	35,155	23,385
Other	10,731	9,450
	45,886	32,835

Debt securities analysed by listing

	2014	2013
Listed	44,040	31,695
Unlisted	1,846	1,140
	45,886	32,835

Debt securities – subordinated and non-subordinated

	2014	2013
Non-subordinated debt securities issued by:		
Associates and joint ventures		58
Group companies	179	
Third parties	45,707	32,777
	45,886	32,835

Changes in debt securities (available-for-sale)

	2014	2013
Opening balance	15,600	12,065
Additions	21,071	11,967
Amortisation	–3	1
Changes in the composition of the group	1,669	759
Gains/(losses) from change in fair value	2,266	–623
Provision for impairment		
Disposals and redemptions	–15,504	–8,408
Exchange rate differences	346	–133
Other changes		–28
Closing balance	25,445	15,600

As at 31 December 2014, the cost of the trading debt securities amounted to EUR 18,396 million (2013: EUR 16,703 million).

As at 31 December 2014, an amount of EUR 21,608 million (2013: EUR 8,724 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 5,569 million as at 31 December 2014 (2013: EUR 4,050 million).

Borrowed debt securities are not recognised in the balance sheet and amount to nil (2013: nil) as at 31 December 2014.

6 EQUITY SECURITIES

Equity securities analysed by listing

	2014	2013
Listed	9,072	6,833
Unlisted	153	160
	9,225	6,993

Changes in equity securities (available-for-sale)

	2014	2013
Opening balance	1,264	2,068
Additions	1	12
Changes in the composition of the group	1	–1
Gains/(losses) from change in fair value	1,018	–263
Provision for impairments	–2	–1
Disposals	–14	–547
Exchange rate differences	1	
Other changes		–4
Closing balance	2,269	1,264

The cost or purchase price of the shares in the trading portfolio approximates their fair value. As at 31 December 2014 the cost or purchase price of shares in the available-for-sale portfolio was EUR 1,987 million lower (2013: EUR 987 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
		2014		2013
ING België N.V.	100	10,018	100	9,966
ING Direct N.V. [1]			100	7,561
ING Holding Deutschland GMBH	100	8,227		
ING Bank (Australia) Limited	100	2,373		
ING Financial Holdings Corporation	100	2,096	100	1,913
ING Bank Slaski S.A.	75	1,805	75	1,518
WestlandUtrecht Bank N.V.	100	1,071	100	1,283
ING Bank A.S.	100	1,405	100	1,269
ING Vastgoed Management Holding B.V.	100	630	100	1,208
ING Australia Holdings Limited	100	1,148	100	1,079
ING Corporate Investments B.V.	100	446	100	447
ING Lease Holding N.V	100	293	100	428
Other (including financing companies)		2,976		2,750
		32,488		29,422

[1] In 2014 ING Direct N.V. merged with ING Bank N.V.

As at 31 December 2014, Investments in group companies included credit institutions of EUR 17,631 million (2013: EUR 22,923 million). As at 31 December 2014 listed investments in group companies amounts to EUR 1,805 million (2013: EUR 1,518 million).

Changes in investments in group companies

	2014	2013
Opening balance	29,422	30,802
Additions		1,190
Repayment of capital injection	–4	–1,590
Revaluations	891	–1,736
Results from group companies	2,669	1,476
Dividends received	–2,561	–2,205
Capital contribution		249
Mergers and liquidations	1,973	–52
Exchange rate differences	271	–778
Other changes	–173	2,066
Closing balance	32,488	29,422

8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates

	Interest held (%)	Balance sheet value	Interest held (%)	Balance sheet value
		2014		2013
TMB Public Company Limited	25	558	25	458
Other		42		22
		600		480

Changes in investments in associates

	2014	2013
Opening balance	480	517
Additions	9	1
Share of results	53	23
Dividends received	–10	–10
Revaluations	–3	2
Exchange rate differences	63	–54
Other changes	8	1
Closing balance	600	480

9 INTANGIBLE ASSETS

Changes in intangible assets

	Goodwill		Software		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Opening balance	631	784	338	308	11	37	980	1,129
Additions			176	182			176	182
Changes in the composition of the group			9		1		10	
Depreciation			–167	–156	–10	–22	–177	–178
Exchange rate differences	25	–153				–4	25	–157
Other changes			6	4			6	4
Closing balance	656	631	362	338	2	11	1,020	980

10 EQUIPMENT

Changes in equipment

	2014	2013
Opening balance	472	498
Additions	145	124
Changes in the composition of the group	55	
Depreciation	–122	–121
Disposals	–2	–16
Exchange rate differences	1	–1
Other changes	–49	–12
Closing balance	500	472
Gross carrying amount as at 31 December	1,484	1,535
Accumulated depreciation as at 31 December	-984	–1,063
Net carrying value	500	472

11 OTHER ASSETS

Other assets by type

	2014	2013
Derivatives	56,861	37,729
Deferred tax assets	558	815
Accrued interests and rents	5,903	6,200
Other accrued assets	494	173
Pension asset	579	329
Other receivables	8,230	9,749
	72,625	54,995

Other receivables includes EUR 7,033 million (2013: EUR 7,943 million) related to transactions still to be settled at balance sheet date.

Derivatives includes transactions with group companies of EUR 19,303 million (2013: EUR 13,382 million).

As at 31 December 2014, an amount of EUR 1,179 million (2013: EUR 481 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

	2014	2013
Group companies	17,455	25,792
Third parties	23,698	20,229
	41,153	46,021

13 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

Customer deposits and other funds on deposit by group companies and third parties

	2014	2013
Group companies	22,928	32,059
Third parties	230,529	192,849
	253,457	224,908

Customer deposits and other funds on deposit by type		
	2014	2013
Savings accounts	**114,772**	78,084
Credit balances on customer accounts	**70,510**	65,150
Corporate deposits	**56,740**	74,230
Other	**11,435**	7,444
	253,457	224,908

14 OTHER LIABILITIES

Other liabilities		
	2014	2013
Derivatives	**57,079**	35,605
Trading liabilities	**9,461**	10,309
Accrued interest	**6,014**	6,677
Costs payable	**849**	624
Income tax payable	**107**	206
Other taxation and social security contribution	**55**	34
Other amounts payable	**4,917**	6,243
	78,482	59,698

Other amounts payable includes EUR 2,176 million (2013: EUR 2,857 million) related to transactions still to be settled at balance sheet date.

Derivatives includes transactions with group companies of EUR 13,994 million (2013: EUR 9,940 million).

As at 31 December 2014, an amount of EUR 1,100 million (2013: EUR 740 million) is expected to be settled after more than one year from the balance sheet date.

15 GENERAL PROVISIONS

General provisions		
	2014	2013
Pension liabilities and other staff-related liabilities	**13**	10
Reorganisations and relocations	**604**	273
Other	**90**	3,788
	707	4,071

As at 31 December 2014, an amount of EUR 322 million (2013: EUR 3,905 million) was expected to be settled after more than one year from the balance sheet date.

Other includes nil (2013: EUR 3,702 million) related to provisions for investments in group companies with a negative asset value. The change in 2014 is largely due to capital contributions in subsidiaries.

16 SUBORDINATED LOANS

Subordinated loans by group companies and third parties		
	2014	2013
Group companies	**5,856**	5,074
Third parties	**11,341**	10,280
	17,197	15,354

Subordinated loans by type		
	2014	2013
Capital debentures	**10,521**	9,310
Private loans	**6,676**	6,044
	17,197	15,354

The subordinated loans rank subordinated to the other liabilities in a winding-up of ING Bank.

17 EQUITY

Capital and reserves

	2014	2013
Share capital	**525**	525
Share premium	**16,542**	16,542
Share of associates reserve	**2,082**	991
Currency translation reserve	**–592**	–845
Revaluation reserve	**3,053**	613
Other reserves	**16,454**	14,979
	38,064	32,805

The Share of associates reserve includes the following components: Reserve for non-distributable retained earnings of associates of EUR 363 million (2013: EUR 328 million), Revaluation reserve of associates of EUR 1,736 million (2013: EUR 807 million) and Currency translation reserve of EUR –17 million (2013: EUR –144 million).

Share capital

				Ordinary shares (par value EUR 1.13)
	Number x1,000	Amount	Number x1,000	Amount
		2014		2013
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 2014 and 2013.

Changes in revaluation reserve

2014	**Available-for-sale reserve**	**Cash flow hedge reserve**	**Property in own use reserve**	**Total**
Opening balance	**984**	**–490**	**119**	**613**
Unrealised revaluations	**1,222**		**–1**	**1,221**
Realised gains/losses transferred to profit and loss	**–36**			**–36**
Changes in cash flow hedge reserve		**1,255**		**1,255**
Closing balance	**2,170**	**765**	**118**	**3,053**

Changes in revaluation reserve

2013	Available-for-sale reserve	Cash flow hedge reserve	Property in own use reserve	Total
Opening balance	1,511	–563	116	1,064
Unrealised revaluations	–438		3	–435
Realised gains/losses transferred to profit and loss	–89			–89
Changes in cash flow hedge reserve		73		73
Closing balance	984	–490	119	613

Changes in other reserves

2014	Retained earnings	Unappro-priated result	Net defined benefit assets/ liability remeasure-ment reserve	Other	Total
Opening balance	14,878	1,532	–2,671	1,240	14,979
Transfer to retained earnings	1,532	–1,532			
Employee stock options and share plans	55				55
Dividend	–1,225				–1,225
Result for the year		2,661		83	2,744
Net defined benefit assets/liability remeasurement reserve			–88		–88
Changes in the composition of the group and other	–2,391		2,389	-9	–11
Closing balance	12,849	2,661	–370	1,314	16,454

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 changes	44			11	55
Closing balance	14,878	1,532	–2,671	1,240	14,979

Other reserves-Other includes non-distributable reserves of EUR 1,070 million (2013: EUR 987 million) related to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN and EUR 244 million (2013: EUR 253 million) related to legal reserves that cannot be freely distributed.

Positive components of the Revaluation reserve, the Share of associates reserve, Currency translation reserve and the Net defined benefit asset/liability remeasurement reserve that is included in the Other reserves 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, the Revaluation reserve, Share of associates Reserve and the Net defined benefit asset/liability remeasurement reserve that is included in the Other reserves. 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 and are not included in Share of associates Reserve.

The total amount of Equity in the parent company annual accounts equals the Shareholders' equity (parent) in the consolidated annual accounts. Certain components within equity are different, as a result of the following presentation differences between the parent company accounts and consolidated accounts:

- Unrealised revaluations including those related to cash flow hedges within consolidated group companies, presented in the Revaluation reserve in the consolidated accounts, are presented in the Share of associates reserve in the parent company accounts;
- Foreign currency translation on consolidated group companies, presented in the Currency translation reserve in the consolidated accounts, is presented in the Share of associates reserve in the parent company accounts;
- Revaluations on investment property and certain participations recognised in income and consequently presented in Retained earnings in the consolidated accounts, is presented in the Share of associates reserve in the parent company accounts.

The total amount of non-distributable reserves, in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code, is EUR 7,411 million (2013: EUR 7,340 million).

Furthermore see Note 13 'Equity' and the Capital Management section in the consolidated annual accounts for additional information, including restrictions with respect to dividend and repayment of capital.

ADDITIONAL INFORMATION

18 MATURITY OF CERTAIN ASSETS AND LIABILITIES

Analysis of certain assets and liabilities by maturity

2014	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	16,422	5,878	6,905	12,826	4,954	27,732	74,717
Loans and advances to customers	8,649	6,945	19,629	85,165	166,217	14,224	300,829
Liabilities							
Amounts due to banks	13,285	1,237	2,111	9,471	3,460	11,589	41,153
Customer deposits and other funds on deposit	198,750	16,769	10,295	9,562	5,868	12,213	253,457
Debt securities in issue	2,465	21,810	22,484	35,959	22,989	12,825	118,532
Subordinated loans			889	745	14,362	1,201	17,197

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

19 ASSETS NOT FREELY DISPOSABLE

Assets not freely disposable

	2014	2013
Investments	25	14
Lending	53,980	51,389
Banks	6,162	6,094
Other assets	1,059	1,198
	61,226	58,695

20 CONTINGENT LIABILITIES

Contingent liabilities by type

	2014	2013
Discounted bills		1
Guarantees	44,593	44,619
Irrevocable letters of credit	5,302	5,931
Other	331	305
Contingent debts	50,226	50,856
Irrevocable facilities	39,770	35,715
	89,996	86,571

Contingent debts

	2014	2013
Group companies	31,509	31,292
Third parties	18,717	19,564
	50,226	50,856

Irrevocable facilities

	2014	2013
Group companies	15	49
Third parties	39,755	35,666
	39,770	35,715

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, 16 March 2015

THE SUPERVISORY BOARD

J. (Jeroen) van der Veer, *chairman*

J.Ch.L. (Joost) Kuiper, *vice-chairman*

E.F.C.B. (Eric) Boyer de la Giroday

H.W. (Henk) Breukink

I. (Isabel) Martín Castellá

C.W. (Carin) Gorter

H.J. (Hermann-Josef) Lamberti

R.W.P. (Robert) Reibestein

THE MANAGEMENT BOARD BANKING

R.A.J.G. (Ralph) Hamers, CEO, chairman and a.i. CEO Challengers & Growth Countries

J.V. (Koos) Timmermans, vice-chairman and CEO of Market Leaders

P.G. (Patrick) Flynn, CFO

R.M.M. (Roel) Louwhoff, COO

W.F. (Wilfred) Nagel, CRO

W.L.A. (Bill) Connelly, CEO Commercial Banking

Independent auditor's report

To: to the Shareholders of ING Bank N.V.

REPORT ON THE AUDIT OF THE ANNUAL ACCOUNTS

Our opinion

We have audited the accompanying annual accounts 2014 of ING Bank N.V., Amsterdam ('ING Bank') as set out on pages 20 to 221.

In our opinion:

- the consolidated annual accounts give a true and fair view of the financial position of ING Bank as at 31 December 2014 and of its result and its cash flows for 2014 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.
- the parent company annual accounts give a true and fair view of the financial position of ING Bank as at 31 December 2014, and of its result for 2014 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The annual accounts include ING Bank's consolidated annual accounts and the parent company annual accounts. The consolidated annual accounts comprise the consolidated balance sheet as at 31 December 2014, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity for 2014 and the notes comprising a summary of the significant accounting policies and other explanatory information. The parent company annual accounts comprise the parent company balance sheet as at 31 December 2014, the parent company profit and loss account, the parent company statement of changes in equity for 2014 and the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the annual accounts' of our report.

We are independent of ING Bank within the meaning of the relevant Dutch ethical requirements as included in the 'Verordening op de gedrags- en beroepsregels accountants' (VGBA) and the 'Verordening inzake de onafhankelijkheid van accountants' (ViO) and have fulfilled our other responsibilities under those ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts. Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgement we determined materiality for the annual accounts as a whole at EUR 240 million. Materiality is based on 5% of the result before tax from continuing operations, adjusted for unusual items. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the annual accounts for qualitative reasons.

We agreed with the Supervisory Board that unadjusted misstatements in excess of EUR 10 million, which are identified during the audit, are reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

ING Bank is head of a group of entities. The financial information of this group is included in the consolidated annual accounts of ING Bank. ING Bank is structured along the segments: Retail Netherlands, Retail Belgium, Retail Germany, Retail Rest of the World, Commercial Banking and Corporate Line Banking, each comprising of multiple entities and covering different countries.

We are responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for the reporting units based on their size and / or the risk profile.

Following our assessment of the risk of material misstatement to ING Bank's annual accounts, we have selected 33 reporting units which represent the principal business units within ING Bank's reportable segments and account for approximately 94% of ING Bank's total assets and approximately 92% of ING Bank's profit before tax. 14 reporting units required an audit of the complete financial information, either due to their overall size or risk profile. Specific audit procedures on certain balances and transactions were performed for 19 reporting units. We have used the work of other EY auditors when auditing these reporting units in and outside the Netherlands.

The ING Bank audit team executed a programme of planned visits and regular communication that has been designed to ensure that the audit progress and findings for each of the in-scope locations were discussed between the ING Bank audit team and the EY component team. By performing the procedures mentioned above at group entities, together with additional procedures at ING

Bank level, we have been able to obtain sufficient and appropriate audit evidence regarding ING Bank's financial information as a whole to provide a basis for our opinion on the annual accounts.

Our key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the consolidated annual accounts as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Loan Loss Provisions (page 146)
The appropriateness of loan loss provisions is a key area of judgement for management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions. Associated risk management disclosure is complex and dependent on high quality data. Specific ING Bank portfolios of focus included the residential mortgage portfolio in the Netherlands, the SME lending portfolios in Belgium and the Netherlands and the commercial real estate finance portfolio in the Netherlands.

We assessed and tested the design and operating effectiveness of the controls over impairment calculations including the quality of underlying data and systems. For loan loss provisions calculated on an individual basis we tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. This included taking into consideration the impact of forbearance. For loan loss provisions calculated on a collective basis we tested, supported by our specialists, the underlying models including the model approval and validation process. We also tested the appropriateness and accuracy of the inputs to those models, such as recovery and cure rates, and where available, compared data and assumptions made to external benchmarks. Finally we assessed and tested the design and operating effectiveness of the controls over related disclosures including the disclosures for forbearance and cover values.

Fair values of financial assets and liabilities (page 92)
Fair value measurement and associated valuation adjustments can be a subjective area and more so for areas of the market reliant on model based valuation or with weak liquidity and price discovery. Valuation techniques can be subjective in nature and involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. Associated risk management disclosure is complex and dependent on high quality data. Specific areas of focus include the valuation of level two, and level three assets where observable market prices or market parameters are not available.

We assessed and tested the design and operating effectiveness of the controls over valuation, independent price verification and model approval. We performed additional procedures for areas of higher risk and estimation with the assistance of our valuation specialists. This included, where relevant, comparison of judgements made to current and emerging market practice and reperformance of valuations on a sample basis. We also assessed the impact of other sources of fair value information including collateral disputes and gains or losses on disposal. Finally we assessed and tested the design and operating effectiveness of the controls over related disclosures including valuation sensitivity and fair value hierarchy.

Employee Benefits (page 83)
ING Bank operated various defined benefit retirement plans with the largest scheme, at the start of the financial year, operating in the Netherlands. In February 2014 the Company reached final agreement to transfer all future funding and indexation obligations of the defined benefit plan in the Netherlands to the Dutch ING Pension Fund. The agreement makes the Dutch ING Pension Fund financially independent from ING Group and released the company from all financial obligations arising out of the Dutch defined benefit plan. As such the Dutch defined benefit plan was derecognised from ING Bank's balance sheet. A significant charge was recognised for the settlement with the Dutch ING Pension Fund. Whilst this transaction reduces future accounting complexity its impact on the annual accounts in the year is significant.

We have assessed and tested the design and operating effectiveness of the controls over the governance, execution and accounting of the transaction. This included work by our pension specialists on the mechanics of the transaction and the assessment of any residual risks. We also assessed the appropriateness of the accounting for the transaction including the derecognition of the net pension asset and the timing of the recognition of the resulting loss.

Reliability and continuity of electronic data processing (page 198)
ING Bank is dependent on the IT-infrastructure for the continuity of their business processes. In the last few years, investments were made in the improvement of IT- systems and processes. As part of our audit procedures we tested IT- security, change and application controls embedded in ING Bank's key processes. In addition we assessed and tested the impact of changes during the year either from internal restructuring initiatives or from external factors such as the implementation of SEPA.

We assessed the reliability and continuity of electronic data processing only to the extent necessary within the scope of the audit of the annual accounts. Our work consisted of assessing the developments in the IT infrastructure and analysing the impact on the IT-organisation. Additionally, we tested the design and operating effectiveness of relevant internal controls related to IT- systems and processes.

Responsibilities of the Management Board and Supervisory Board for the annual accounts
The Management Board is responsible for the preparation and fair presentation of these annual accounts in accordance with IFRS-EU and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Management Board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board 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.

As part of the preparation of the annual accounts, the Management Board is responsible for assessing ING Bank's ability to continue its activities. Based on the financial reporting frameworks mentioned, the Management Board should prepare the annual accounts using the going concern basis of accounting unless management either intends to liquidate ING Bank or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on ING Bank's ability to continue as a going concern in the annual accounts.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibility for the audit of the annual accounts
Our responsibility is to plan and perform the audit assignment to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit 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 ING Bank's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ING Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause ING Bank ceasing to continue as a going concern.
- Evaluating the overall presentation, structure and content of the annual accounts, including the disclosures; and
- Evaluating whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Report of the Management Board and other information

Pursuant to legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the management board report and other information):

- We have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the Other information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the Report of the Management Board, to the extent we can assess, is consistent with the annual accounts.

Engagement

We have been appointed as auditors for the audit of the 2014 annual accounts of ING Bank at the annual meeting held on 13 May 2013 and have been the external auditor since 2008. The most recent rotation of the signing external auditor on the audit of the ING Bank annual accounts was in 2012. Rotation of the signing external auditor is one of our safeguards to maintain our auditor independence.

Amsterdam, 16 March 2015

Ernst & Young Accountants LLP

Signed by M.A. van Loo

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 2014, 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

	2014
Net result	2,744
Addition to reserves pursuant to Article 24 of the Articles of Association	–83
Proposed to be added to the Other Reserves pursuant to Article 24 of the Articles of Association	2,661

Pillar III

INTRODUCTION

This section relates to Pillar III, market discipline, and as such provides information on several topics. Since 1 January, these disclosure requirements are based on CRR and CRD IV and required by the supervisor authority. The purpose of this report is to meet the regulatory disclosure requirements in accordance with Part Eight of the CRR. Some of the required information has already been provided elsewhere in the Annual Report, e.g. in the Risk Management section and/or in the Capital Management paragraph. For the other CRR/CRD IV disclosure requirements such as remuneration disclosures please refer to the corporate website ing.com. This section provides additional information, as well as references to the relevant sections.

The ING Bank's Pillar III report contains Regulatory Capital requirements, Credit Risk, including securitisations and Other Non-Credit Obligation Assets (ONCOA), Market Risk and Liquidity Risk disclosures. The regulatory requirements provided in the first section of the report for credit risk, market risk and operational risk relates primarily to the first pillar, the minimum capital requirement. The second pillar concerns Economic Capital (EC) and the underlying models used internally by banks and reviewed by supervisors. Economic Capital, and consequently Pillar II, is disclosed extensively in the Risk Management section. Further in the report you will find additional information on regulatory exposures and risk weighted assets which are not in the risk management section. As such, the text of this Pillar III 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.

The information in this report relates to ING Bank N.V. and all of its subsidiaries (hereafter ING Bank) in its character as significant subsidiary of ING Group. There are no 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 Group'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 2014, ING Bank reaffirms its commitment to the EDTF report and implemented additional recommendations, next to the CRR/CRD IV disclosure requirements. Below an overview is given on where ING Bank has implemented the EDTF recommendations.

Reference guide EDTF recommendations

Type	No.	Brief description	Pages
General	1	Index to aid navigation through risk related information	130 – 131
	2	Risk terminology, risk measures and key parameters	Corporate website ing.com
	3	Describe and discuss top and emerging risks	144 – 145
	4	Discuss regulatory developments, Once the applicable rules are finalised, outline plans to meet each new key regulatory ratio	142 – 144 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 – 134
	6	Bank's risk culture, related procedures and strategies	135 – 137
	7	Key risks arising from business model, risk appetite and how risks are managed	134; 137 – 139
	8	Use of stress testing within the bank's risk governance and capital frameworks	139 – 140
Capital adequacy and risk-weighted assets	9	Minimum Pillar I capital requirements, including buffers, or minimum internal ratio	202 – 206; 229
	10	Summarise composition of capital based on Basel Committee templates	230 – 231
	11	Flow statement of regulatory capital movements since the prior reporting, including changes in common equity tier 1, tier 1 and tier 2 capital	230
	12	Qualitatively and quantitatively discuss capital planning within a more general discussion of management's strategic planning	142 – 143; 202 – 203
	13	Analyse how risk-weighted assets relate to business activities	233
	14	Capital requirements for credit risk per Basel asset class and major portfolios	235
	15	Tabulate credit risk in the banking book per Basel asset classes and major portfolios	260
	16	Flow statement to display movements in RWAs for the reporting period	233; 261
	17	Basel Pillar III back-testing, including model performance and validation	157; 244 - 245
Liquidity & Funding	18	Manages of liquidity risk and quantitative analysis of the liquidity buffer	195 – 199; 262 - 263
	19	Summarise encumbered assets in a tabular format	263
	20	Tabulate assets, liabilities and off-balance sheet commitments by maturity.	220
	21	Discuss funding strategy, including key sources and any funding concentrations	194 – 198
Market risk	22	Link balance sheet items with positions in traded and non-traded market risk	Link with balance sheet items will be addressed in future disclosures
	23	Provide breakdowns of significant trading and non-trading market risk factors	181 – 194
	24	Qualitative and quantitative disclosures on market risk model limitations	182, 188
	25	Describe other market risk techniques applied	182 – 193
Credit risk	26	Understanding the bank's credit risk profile, including significant risk concentration	236 - 239
	27	Policies for identifying impaired or non-performing loans and forbearance	35 – 36; 166 – 171
	28	Flow statements of non-performing or impaired loans and stock of loan losses	166 - 171
	29	Quantitative and qualitative analysis of counterparty credit risk	252 – 253
	30	Qualitative and quantitative information on credit risk mitigation, including collateral	171 – 181; 253 – 255
Other risk	31	Describe how 'other risk' types are identified, governed, measured and managed	198 – 201
	32	Discuss publicly known risk events related to other risks	199 – 200

REGULATORY CAPITAL

Capital Adequacy Rules – Basel III Accord

The rules for required Regulatory Capital and Capital adequacy are based on the guidelines developed by the Basel Committee on Banking Supervision (The Basel Committee) and the European Union Regulation and Directives, as implemented by the Dutch Central Bank (and the ECB as of 3 November 2014) for supervisory purposes.

The rules 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 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).

In 2010, the Basel III Accord was adopted 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” in the Risk Management Paragraph.

ING Bank Regulatory capital requirements

	2014 CRR/CRD IV phased in – 2014 rules	2014 CRR/CRD IV phased in – 2014 rules	2013 Basel II	2013 Basel II
Credit risk				
Portfolios subject to standardised approach	**1,565**	**19,564**	2,023	25,294
Portfolios subject to AIRB approach				
– Sovereigns	**493**	**6,166**	540	6,747
– Institutions	**2,481**	**31,015**	1,505	18,808
– Corporate	**8,139**	**101,738**	8,050	100,623
– Residential mortgages	**3,939**	**49,233**	4,102	51,274
– Other retail	**1,347**	**16,839**	1,335	16,680
Total portfolios subject to AIRB approach	**16,399**	**204,990**	15,530	194,131
Securitisation exposures	**168**	**2,101**	218	2,728
Equity portfolios in the banking book under the simple risk weight approach	**768**	**9,599**	69	862
Other Non-Credit Obligation Assets	**1,248**	**15,594**	1,233	15,412
Total Credit Risk	**20,148**	**251,848**	19,074	238,425
Market risk				
Standardised approach	**113**	**1,412**	37	463
Internal models approach - trading book	**745**	**9,311**	667	8,334
Total Market risk	**858**	**10,723**	704	8,797
Operational risk				
Advanced measurement approach	**2,700**	**33,749**	2,823	35,281
Total Basel III required Regulatory Capital	**23,706**	**296,319**	22,600	300,958
Basel I floor*	**27,501**	**343,767**	26,913	336,412
Additional capital requirement	**3,795**	**47,447**	4,312	35,454

* The floor is 80% of Basel I required Regulatory Capital.

In 2010, the Basel Committee on Banking Supervision issued new solvency and liquidity requirements, which superseded Basel II. Basel III requires Banks to hold a capital of at least 80% of the old Basel I requirements, which was 8% of the RWAs as calculated using the Basel I methodology. This Basel I floor has been extended until the end of 2017. For 2014, the additional capital requirements resulting from this Basel I floor are EUR 3,795 million for 2014 (EUR 4,312 million in 2013).

The increase in Basel III required regulatory capital can be explained by the introduction of the CVA RWA following the implementation of the CRR/CRD IV and the increase of the market value of the equity portfolio. ONCOA represents assets of non-credit obligation character that are not included in the SA or AIRB calculations. At 31 December 2014, the capital requirement for ONCOA was EUR 1,248 million (2013: EUR 1,233 million).

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 and in the table below, which provides an overview of the changes in the available regulatory capital.

ING Bank Regulatory Capital flow statement

	2014 CRR/CRD IV phased in	2013 CRR/CRD IV phased in	2013 CRR/CRD IV fully loaded
Common Equity Tier 1 capital			
Opening amount	33,854	33,354	33,354
Profit	2,744	3,063	3,063
Adjustment prudential filters own credit risk	87	97	97
Change in goodwill	-5	890	158
Dividend	-1,225	-2,955	-2,955
Change in revaluation reserves	385	-726	-726
Change in third party interest	-220	-467	113
Change in deductions from tier 1	-52	682	-91
Other	-2,312	-84	97
Closing amount	33,256	33,854	33,110
Additional Tier 1 capital			
Opening amount	3,286	6,774	6,774
Basel III phase-in adjustments	-45	-1,837	
Issued capital	1,987		
Redeemed capital	-1,790	-1,506	-1,506
Exchange rate differences	406	-146	-146
Closing amount	3,844	3,286	5,122
Tier 2 capital			
Opening amount	8,147	7,142	7,142
Change in Tier 2 capital instruments	718	1,212	1,212
Change in deductions	50	-207	-91
Closing amount	8,915	8,147	8,263
Total regulatory capital	46,015	45,287	46,496

Capital adequacy assessment

As at 1 January 2014, the CRR/CRD IV capital rules entered into force. According to Basel III capital adequacy rules, the minimum Common Equity Tier 1 ratio has to be 4.5%, the minimum Tier 1 requirement 6% and the total capital ratio (known as the BIS ratio) 8% of all risk-weighted assets.

The capital position table reflects own funds according to the Basel III rules as specified in the CRR/CRD IV. As CRD IV will be phased in gradually until 2019, the table shows the CRD IV positions according to the 2019 end-state rules and the 2014 rules. This makes clear which items phase in directly, which phase in gradually, some of which as of 2014 and others as of 2015.

ING Bank’s capital consists of Tier 1 capital and Tier 2 capital net after deductions. Tier 1 capital consists of both Common Equity Tier 1 capital 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. With a Common Equity Tier 1 ratio of 13.36% at end of 2014, ING Bank is already meeting the Basel III solvency requirements. This percentage is calculated on the basis of immediate and full implementation and disregarding the possible impact of future management actions.

Capital position of ING Bank

	2014 rules		2015 rules		2019 rules	
	(CRR/CRD IV phased in)		(CRR/CRD IV phased in)		(Basel III fully loaded)	
	2014	2013 [4]	**2014**	2013	**2014**	2013[5]
Shareholders' equity (parent)	**38,064**	32,805	**38,064**	32,805	**38,064**	32,805
Regulatory adjustments:						
Minority interests, counting as Common equity Tier 1	**265**	485	**265**	485	**265**	485
Goodwill deductible from Tier 1	**–212**	–211	**–424**	–423	**–1,060**	–1,057
Intangibles deductible from Tier 1 [(1)]	**–119**	–114	**–238**	–229	**–594**	–572
Provision shortfall [(2)]	**–263**	–309	**–525**	–617	**–1,313**	–1,543
Revaluation reserve debt securities	**–1,597**	–833	**–958**	–500	**0**	0
Revaluation reserve equity securities	**–2,018**	–1,038	**–1,211**	–623	**0**	0
Revaluation reserve real estate	**–291**	–325	**–175**	–195	**0**	0
Revaluation reserve cash flow hedge	**–875**	776	**–875**	776	**–875**	776
Position in own shares	**–46**	0	**–46**	0	**–46**	0
Prudent valuation adjustment	**–35**	0	**–35**	0	**–35**	0
Investments >10% FI, exceeding 10% threshold	**–17**	0	**–5**	0	**–41**	0
Prudential filters:						
Own credit risk	**212**	125	**212**	125	**212**	125
Defined benefit remeasurement (IAS19R)	**370**	2,671	**296**	2,137	**0**	0
Net defined benefit pension fund assets	**–118**	–110	**–236**	–221	**–589**	–551
Deferred tax assets	**–54**	–57	**–108**	–114	**–271**	–286
Own credit risk adjustments to derivatives (DVA)	**–9**	–12	**–19**	–24	**–47**	–60
Other	**–1**	1	**–1**	1	**–1**	1
Available capital - Common equity Tier 1	**33,256**	33,854	**33,981**	33,384	**33,668**	30,123
Subordinated loans qualifying as Tier 1 capital [(3)]	**5,727**	5,123	**5,727**	5,123	**5,727**	5,123
Deduction of goodwill	**–848**	–846	**–636**	–634	**0**	0
Deduction of intangibles [(1)]	**–476**	–457	**–357**	–343	**0**	0
Provision shortfall [(2)]	**–525**	–617	**–394**	–463	**0**	0
Investments >10% FI, exceeding 10% threshold	**–34**	0	**–4**	0	**0**	0
Minority interests, counting as Additional Tier 1 capital	**0**	83	**0**	83	**0**	83
Available capital - Tier 1	**37,100**	37,139	**38,317**	37,149	**39,395**	35,328
Supplementary capital - Tier 2 [(3)]	**9,371**	8,653	**9,371**	8,653	**9,371**	8,653
Revaluation reserve equity securities	**0**	0	**0**	0	**0**	0
Revaluation reserve real estate	**0**	0	**0**	0	**0**	0
Non-hedged subordinated loans	**0**	0	**0**	0	**0**	0
Deduct participation Bank of Beijing	**0**	0	**0**	0	**0**	0
Provision shortfall [(2)]	**–525**	–617	**–394**	–463	**0**	0
Investments >10% FI, exceeding 10% threshold	**–34**	0	**–4**	0	**0**	0
Minority interests, counting as Tier 2 capital	**103**	111	**103**	111	**103**	111
Available Tier 3 funds	**0**	0	**0**	0	**0**	0
BIS capital	**46,015**	45,287	**47,394**	45,451	**48,869**	44,093
Risk-weighted assets	**296,319**	300,958	**296,497**	300,958	**296,427**	300,958
Common Equity Tier 1 ratio	**11.22%**	11.25%	**11.46%**	11.09%	**11.36%**	10.01%
Tier 1 ratio	**12.52%**	12.34%	**12.92%**	12.34%	**13.29%**	11.74%
Total capital ratio	**15.53%**	15.05%	**15.98%**	15.10%	**16.49%**	14.65%
RWAs based on 80% Basel I floor	**429,709**	420,515	**429,709**	420,515	**429,709**	420,515
Total capital ratio based on Basel I floor	**13.39%**	13.46%	**13.79%**	13.51%	**14.22%**	13.11%

(1) Mainly capitalised software.
(2) In Basel III the provision shortfall is deducted fully from Common Equity Tier 1, while the significant investments in financial institutions, conditionally to certain thresholds, are 250% risk weighted. During the phase-in period (2014-2017) they are gradually shifting from 50% deduction from Additional Tier 1 capital and 50% from Tier 2 capital towards full deduction from Common Equity Tier 1.
(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.
(4) After publication of the 2013 Annual Report, the 2013 end-of-year goodwill has been restated from EUR 1,035 million to EUR 1,057 million.
(5) During the AQR in 2014 we learned that the CRR/CRD IV phases in differently from the phase-in we showed in the Pillar III section of the 2013 Annual Report. Main differences are: (a) Goodwill, intangibles and provision shortfall start being deducted from Additional Tier 1 capital and only gradually phase in to a Common Equity Tier 1 deduction, (b) revaluation reserves equity and real estate as well as the deduction of the Bank of Beijing participation do not phase out of Tier 2 capital gradually, but immediately, and (c) The CRR/CRD IV calculation of the minority interests phases in immediately instead of gradually.

Own funds

The CRR requires ING Bank to disclose information on own funds in a specific format that was provided in the EBA Implementation Technical Standards. The EBA templates Annex I, II and Annex VI are disclosed on the corporate website ing.com.

CREDIT RISK

BASIS AND SCOPE OF CREDIT RISK PRESENTATION

In the credit risk section of the Pillar III, data included in tables are related to ING Bank's core credit risk activities in the areas of: Lending (both on- and off-balance); 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 CRR/CRD IV accords. Therefore, the numbers can be different from the accounting numbers as reported in the annual accounts under IFRS-EU. An example is the treatment of ONCOA items – while the accounting numbers include ONCOA, they are excluded from Pillar III overviews.

Unless stated otherwise, the tables included in this section focus on the measurement of Regulatory Exposure at Default (READ) and Credit Risk Weighted Assets (RWA) under the CRR/CRD IV definitions. READ is generally the sum of the on-balance and off-balance sheet: Lending, Investment, Money Market and Pre-Settlement 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 marked-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'.

Approaches applied

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. Depending on the regulatory landscape, ING will continue 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.

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 III.

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.

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

amounts in billions of euros	**2014**	2013
Opening amount	**222.2**	209.7
Book size [(1)]	**5.9**	–0.3
Divestments / De-consolidations	**–7.0**	–6.0
Book quality [(2)]	**0.8**	13.6
De-risking		–0.5
Model updates [(3)]	**–2.2**	9.7
Methodology and policy [(4)]	**3.4**	–0.6
Foreign exchange movements	**5.1**	–4.1
Other	**–1.6**	0.6
Total movement	**4.5**	12.4
Closing amount	**226.7**	222.2

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

Key changes

Over the year, RWA increased by EUR 4.5 billion to EUR 226.7 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 via ONCOA before allocation to businesses and facilities. At a later stage, the ONCOA positions are incorporated into capital calculations done by credit risk systems (Vortex).

- Book size: The increasing book size, excluding divestments and de-consolidations, led to EUR 5.9 billion higher RWA, mainly driven by the Commercial Banking and Retail Banking International portfolios. Growth was seen in the Corporates and Structured Finance book, as well as in the mortgage portfolios in Belgium and DiBa Germany. Several smaller movements, both increases and decreases occurred in various portfolios throughout the year.
- Divestments / De-consolidations: Following a request of the Indian regulator and because ING Bank no longer has a controlling stake, ING Vysya Bank was deconsolidated. The deconsolidation decreased ING Bank's portfolio by EUR 7.0 billion in RWA.
- Book quality: Book quality remained relatively stable compared to last year. The increasing RWA by EUR 0.8 billion is the reflection of the deteriorated market circumstances through past years which was visible in the applied regulatory capital models. The downturn factors have been adjusted accordingly for the impacted portfolios, which were mainly the Belgian and Dutch mortgage portfolios and the Small and Medium sized businesses. On the other hand, market circumstances started to improve in 2014 as well, for example, by an upward trend of the Dutch NVM house price index reflecting an increase in house prices in the Netherlands towards the end of 2014.
- Model updates: The Sovereign LGD model was redeveloped in 2014. The key changes were related to replacing the flat 45% unsecured LGD level by different unsecured LGD percentage levels using plausible risk indicators and updating the cover type haircuts. This model redevelopment and multiple other less significant model changes resulted in an RWA decrease of EUR 2.2 billion.
- Methodology and policy: In January 2014 the CRR/CRD IV changes were implemented resulting in an RWA increase of EUR 9.7 billion. The main impact was caused by the implementing of a capital charge against extreme volatility in CVA, increased correlation for Counterparties, increased capital for Central Counterparties and an increased haircut for collateral. This large CRR/CRD IV impact was partly offset by an update to the ING Masterscale to reflect a more accurate risk measurement of the PD values of the low default portfolios and a methodology change to internal guarantees and an SME supporting factor to stimulate lending to SMEs. All in all, these changes and multiple smaller changes resulted in an RWA increase of EUR 3.4 billion.
- Foreign exchange movements: Over year, FX movements increased RWA by EUR 5.1 billion which was mainly due to the appreciation of the US Dollar (13.87%) against the Euro which contributed to the increase by EUR 5.0 billion.

- The remaining RWA decrease of EUR 1.6 billion was the result of multiple smaller changes. Towards the end of 2013, the Retail portfolio showed a modest increase in the past due portfolio, mainly driven by the troublesome implementation of the SEPA payment system in Belgium and the Netherlands. This was repaired in 2014, resulting in an RWA decrease. Furthermore, DNB requires ING to impose a penalty on the PDs of customers which have not been rated using a Basel approved model, were unrated or were not reviewed in time. Compared to last year, the impact of the penalties on RWA decreased, resulting in an RWA reduction of EUR 0.7 billion.

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.

ADVANCED IRB AND STANDARDISED 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.

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 and Standardised 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, CRR/CRD IV recognized Local / Regional Authorities and Public Sector entities 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 as well as Specialised lending;
- **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.

In the tables below, the official Basel subcategories for the AIRB and SA approach are given, together with their mappings to the ING Bank exposure classes.

Basel AIRB exposure classes

	ING Bank exposure class
Central governments and central banks	**Sovereigns**
Institutions	**Institutions**
Corporates – Specialised lending	**Corporates**
Corporates – SME	**Corporates**
Corporates – Other	**Corporates**
Retail – Secured by immovable property SME	**Retail (Other)**
Retail – Secured by immovable property non-SME	**Retail (Residential mortgages)**
Retail – Qualifying revolving	**Retail (Other)**
Retail – Other SME	**Retail (Other)**
Retail – Other non-SME	**Retail (Other)**
Securitisations	**Securitisations**

Basel SA exposure classes

	ING Bank exposure class
Central governments or central banks	**Sovereigns**
Regional governments or local authorities	**Sovereigns**
Public sector entities	**Sovereigns**
Multilateral development banks	**Sovereigns**
International organisations	**Sovereigns**
Institutions	**Institutions**
Corporates	**Corporates**
Retail	**Retail (Other)**
Secured by mortgages on immovable property	**Retail (Residential mortgages)**
Exposures in default	**All**
High risk items	**Not applicable**
Covered bonds	**Not applicable**
Claims to institutions and corporates with a short-term credit assessment	**Not applicable**
Claims in collective investment undertaking	**Not applicable**
Equity exposures	**Not applicable**
Other items	**Not applicable**

The SA exposure class “Exposure in default” is mapped to the ING exposure class in which the exposure would have been if it was performing.

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		Residential Mortgages		Other Retail		Total 2014		Total 2013	
	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA	READ	RWA
SA approach														
On-balance	2,369	1,897	1,709	719	6,624	5,747	5,748	2,627	8,441	5,844	24,891	16,833	28,682	21,051
Off-balance			122	48	1,012	963	88	63	1,989	1,454	3,210	2,528	4,669	3,856
Securities Financing	5	5									5	5	57	57
Derivatives			287	141	14	14			1	1	302	155	553	329
CVA				42								42		
Total SA	2,374	1,902	2,118	950	7,649	6,725	5,835	2,690	10,430	7,298	28,408	19,564	33,961	25,294
AIRB approach														
On-balance	91,591	5,588	50,956	12,651	158,429	75,439	270,036	48,948	30,758	14,411	601,769	157,036	582,264	156,282
Off-balance	5,317	145	12,886	4,082	58,148	21,162	5,456	285	8,917	2,404	90,725	28,078	86,305	27,066
Securities Financing	1,160	4	12,982	1,956	1,448	125					15,590	2,085	10,923	1,436
Derivatives	2,695	288	34,465	6,146	8,818	4,963			63	24	46,041	11,421	27,028	9,347
CVA		141		6,179		49						6,369		
Total AIRB	100,763	6,166	111,288	31,015	226,843	101,738	275,492	49,233	39,738	16,839	754,125	204,990	706,520	194,131
SEC AIRB														
On-balance											6,756	1,991	7,920	2,541
Off balance											1,059	110	1,938	187
Total Sec IRB											7,815	2,101	9,858	2,728
Total Bank	103,137	8,068	113,407	31,964	234,493	108,462	281,328	51,922	50,168	24,137	790,348	226,655	750,339	222,152

Includes both AIRB and SA portfolios; excludes equities and ONCOA.
Default Fund Contribution to CCP’s is included under exposure class Institutions.

The ING Bank portfolio falls for 91.1% under the AIRB approach and for 8.9% under SA in terms of RWA. The total portfolio increased in 2014 by EUR 40.0 billion in READ to EUR 790.3 billion and by EUR 4.5 billion to 226.7 billion in RWA. The increase in RWA is mainly a result of updates of key risk factors related to CRR/CRD IV changes, next to the FX movements. Excluding the regulatory impact of the new CRR/CRD IV requirements, READ increased due to targeted increase of the book size in Structured

Finance and Corporate & FI Lending, growth of the mortgages portfolios in Belgium and Germany, and an increase in the investment portfolio in anticipation of the new Liquidity Coverage Ratio regime. This increase was partially compensated by the deconsolidation of ING Vysya Bank, and the downsizing of the Real Estate Finance and Securitizations portfolios.

Sovereign credit risk disclosure
The table below presents the READ, segmented by relevant factors, and the analysis for the exposure class 'Sovereigns'.

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

Sovereigns – credit risk disclosure in READ

		2014	2013	Delta %
Sovereigns	**Total per rating**	**103,137**	92,164	12%
	Performing	**103,132**	92,135	12%
	Impaired/Non-performing	**6**	29	–80%
Sovereigns	**Geography/business units**	**103,137**	92,164	12%
	Africa	**229**	262	–13%
	America	**3,254**	308	956%
	Asia	**3,818**	5,112	–25%
	Australia	**4,433**	3,338	33%
	Europe	**91,402**	83,145	10%
Sovereigns	**Europe**	**91,402**	83,145	10%
	Netherlands	**15,308**	19,419	–21%
	Belgium	**13,775**	13,529	2%
	Germany	**26,661**	18,881	41%
	Other Europe	**35,658**	31,316	14%
Sovereigns	**Product Type**	**103,137**	92,164	12%
	Bond Investments	**73,108**	57,219	28%
	Revolving	**12,255**	14,726	–17%
	Money Market	**9,066**	10,277	–12%
	Term Loans	**4,558**	6,133	–26%
	Derivatives	**2,695**	1,758	53%
	Other	**1,455**	2,052	–29%
Sovereigns	**PD Bands**	**103,137**	92,164	12%
	<0.05%	**82,105**	73,738	11%
	0.05% to 0.5%	**20,584**	15,424	33%
	0.5% to 5%	**251**	2,591	–90%
	5% to 10%	**77**	161	–52%
	10% to 20%	**111**	198	–44%
	20% to 50%	**3**	23	–85%
	more than 50%	**6**	29	–80%

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

Due to the CRR/CRD IV liquidity requirements, increased customer deposits require additional 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 customer types, certain institutions have been reclassified from exposure class Institutions to Sovereigns, resulting in an increase in READ, mainly in the Bond Investments in Germany.

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.

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

		2014	2013	Delta %
Institutions	**Total per rating**	**113,407**	101,311	12%
	Performing	**112,683**	100,520	12%
	Impaired/Non-performing	**724**	791	-9%
Institutions	**Geography/business units**	**113,407**	101,311	12%
	Africa	**634**	305	108%
	America	**16,562**	11,801	40%
	Asia	**14,418**	14,375	0%
	Australia	**1,789**	2,684	-33%
	Europe	**80,003**	72,146	11%
Institutions	**Europe**	**80,003**	72,146	11%
	Netherlands	**8,214**	8,018	2%
	Belgium	**8,907**	7,496	19%
	Germany	**8,737**	12,918	-32%
	Other Europe	**54,144**	43,713	24%
Institutions	**Product Type**	**113,407**	101,311	12%
	Derivatives	**32,851**	19,258	71%
	Bond Investments	**20,165**	26,372	-24%
	Revolving	**14,953**	13,273	13%
	Money Market	**12,637**	11,927	6%
	Term Loans	**12,476**	11,763	6%
	Other	**20,325**	18,718	9%
Institutions	**PD Bands**	**113,407**	101,311	12%
	<0.05%	**19,681**	34,101	-42%
	0.05% to 0.5%	**86,446**	51,568	68%
	0.5% to 5%	**6,236**	14,267	-56%
	5% to 10%	**69**	382	-82%
	10% to 20%	**222**	52	327%
	20% to 50%	**30**	150	-80%
	more than 50%	**724**	791	-9%

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

The growth in the Institutions portfolio was driven by the CRR/CRD IV change related to implementation of higher haircut for illiquid collateral which led to the increase in READ for Derivatives (EUR 12.0 billion). Increase in Revolving facilities to Central Banks also contributed to a rise in the exposure (EUR 1.7 billion) over the year. The deterioration of the average risk profile of the Institutions portfolio was partially caused by the shift of the low risk German Bond Investments to exposure class Sovereigns and partially by the Masterscale update, resulting in a shift from lowest to higher PD buckets.

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

		2014	2013	Delta %
Corporate	**Total per rating**	**234,493**	216,408	8%
	Performing	**225,600**	206,452	9%
	Impaired/Non-performing	**8,893**	9,956	-11%
Corporate	**Geography/business units**	**234,493**	216,408	8%
	Africa	**1,675**	727	130%
	America	**31,679**	23,626	34%
	Asia	**22,046**	20,464	8%
	Australia	**3,511**	2,722	29%
	Europe	**175,581**	168,870	4%
Corporate	**Europe**	**175,581**	168,870	4%
	Netherlands	**54,426**	56,425	-4%
	Belgium	**33,457**	29,840	12%
	Germany	**6,601**	5,154	28%
	Rest of Europe	**81,098**	77,450	5%
Corporate	**Industry**	**234,493**	216,408	8%
	Natural Resources	**44,128**	37,046	19%
	Real Estate	**40,512**	42,279	-4%
	Transportation & Logistics	**25,996**	21,434	21%
	Food, Beverages & Personal Care	**18,349**	15,717	17%
	Services	**16,381**	15,109	8%
	Other	**89,126**	84,823	5%
Corporate	**PD Bands**	**234,493**	216,408	8%
	<0.05%	**7,198**	9,106	-21%
	0.05% to 0.5%	**132,793**	92,315	44%
	0.5% to 5%	**74,172**	84,089	-12%
	5% to 10%	**3,425**	7,235	-53%
	10% to 20%	**4,131**	5,531	-25%
	20% to 50%	**3,880**	8,170	-53%
	more than >50%	**8,893**	9,961	-11%

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

The growth in the Corporates portfolio was supported by higher limits granted in Structured Finance and Corporate and FI Lending leading to increased READ. The appreciation of the USD versus the Euro contributed to the increase in READ as well. Next to that, the reduction in the Real Estate Finance portfolio continued, mostly in the Netherlands.

The previously mentioned Masterscale update resulted in a shift between PD bands for this exposure class. Further improvement in the book also supported the reduction in the higher PD bands. The reduction in non-performing READ was mainly due to sale of several distressed real estate assets achieved in 2014.

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

		2014	2013	Delta %
Retail	**Total per rating**	**331,496**	330,598	0.3%
	Performing	**323,866**	324,411	-0.2%
	Impaired/Non-performing	**7,630**	6,187	23.3%
Retail	**Customer Segment**	**331,496**	330,598	0.3%
	Private Persons	**304,760**	302,437	0.8%
	Small Mid-sized Enterprises	**19,584**	20,372	-3.9%
	Private Banking	**3,651**	3,536	-3.3%
	Other	**3,501**	4,253	-17.7%
Retail	**Geography/business units**	**331,496**	330,598	0.3%
	Africa	**67**	58	15.8%
	America	**187**	177	5.8%
	Asia	**161**	1,728	-90.7%
	Australia	**29,494**	28,451	3.7%
	Other	**0**	0	0.0%
	Europe	**301,587**	300,184	0.5%
Retail	**Europe**	**301,587**	300,184	0.5%
	Netherlands	**147,940**	152,254	-2.8%
	Belgium	**41,961**	40,278	4.2%
	Germany	**72,806**	71,358	2.0%
	Rest of Europe	**38,880**	36,294	7.1%
Retail	**PD Bands**	**331,496**	330,598	0.3%
	<0.05%	**24,534**	23,185	5.8%
	0.05% to 0.5%	**192,765**	184,925	4.2%
	0.5% to 5%	**93,642**	100,495	-6.8%
	5% to 10%	**4,431**	5,804	-23.7%
	10% to 20%	**4,759**	5,529	-13.9%
	20% to 50%	**3,052**	3,571	-14.5%
	more than 50%	**8,313**	7,088	17.3%

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

The increase in the Retail exposure class was driven mainly by Residential Mortgages in Belgium, Germany and Turkey in Rest of Europe. The increase in Asia was driven by FX movements, due to the appreciation of the Australian dollar against the Euro.

In contrast to these increases, similar to 2013, Residential Mortgages were transferred from WestlandUtrecht Bank to NN Bank, causing a decline of approximately EUR 1.3 billion READ. The transfer consisted of performing loans only. Additionally, the de-consolidation of ING Vysya Bank which decreased the READ by EUR 1.6 billion (mainly Residential Mortgages and Overdrafts) also impacted the Retail portfolio.

The non-performing loans increased by EUR 1.4 billion, which is primarily the result of the implementation of the new forbearance policy together with its 1-year probation period. For more information see Risk Management Paragraph Forbearance section.

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 portfolios, ING uses house price development to index these market values. In several markets, customers provide additional collateral or (government sponsored) mortgage insurance programs are used. None of these additional covers are included in the LTV figures.

Loan-to-Value Residential Mortgages per country

	2014		2013	
	LTV	**READ**	LTV	READ
Netherlands [1]	**87%**	**134,526**	91%	138,364
Germany	**71%**	**64,530**	71%	63,821
Australia	**61%**	**29,577**	66%	28,516
Belgium, Luxembourg	**74%**	**29,509**	75%	31,575
Spain	**65%**	**9,653**	66%	9,137
Italy	**57%**	**7,747**	55%	7,713
Poland	**59%**	**3,828**	59%	3,310
Turkey	**54%**	**1,264**	50%	955
Romania	**67%**	**693**	54%	632
India	**n.a.**	**n.a.**	53%	646
Total	**77%**	**281,328**	83%	284,668

Includes both AIRB and SA portfolios
CRR/CRDIV introduced a new IRB exposure class "Retail secured by immovable property SME" as of 2014. From 2014, this exposure class is not included under residential mortgages anymore, while it was included in the 2013 figures.
(1) Netherlands includes Domestic Bank NL and WestlandUtrecht Bank.

While in 2013 the LTV for the Dutch mortgage portfolio deteriorated, it improved from 91% in 2013 to 87% during 2014. The downward trend in the Dutch housing industry seems to have bottomed out in 2014. As a result an increase in the Dutch house price index for the first and third quarter of 2014 improved the LTV ratio.

While in the Netherlands the house price index improved, for Italy the opposite occurred. The decrease in the house price index during the first quarter resulted in an increase of the LTV from 55% to 58%, after which it remained fairly stable.

Also for Australia the upward trend in the house prices translated to an improvement of the Australian LTV from 66% in 2013 to 61% in 2014. Additionally, the ING Bank wide strategy to limit concentration in the residential mortgage portfolio and the ING Australia objective to only take on new mortgages which have a low LTV, resulted in an improved LTV.

Although the LTV increased over 2014, Turkey still has a relatively low LTV. In Turkey the house prices increased more than income over the past two years. This combined with the willingness of customers to take up higher loan amounts while the house prices are still increasing causes a higher LTV of newly issued mortgages and translates into an increased total average LTV.

During the third quarter, a large increase of the Romanian LTV ratio is reported. This is due to the newly implemented property price index model with more conservative numbers which resulted in a decrease of the underlying collateral value of the mortgages. The implementation of the index model is in line with the strategy of ING to value property in accordance with local house price indices.

The ING policy is to index property values on a quarterly basis. In some markets only annual figures are available while for others it is more practical to index on an annual basis. Quarterly or annual indexing is done for the Netherlands, Belgium, Australia, Italy, Romania and Spain covering 75% of the portfolio.

THE ADVANCED INTERNAL RATING BASED APPROACH (AIRB)

The AIRB approach has five elements that drive the CRR/CRD IV 'risk-based approach' for the determination of RWA. RWA times the BIS ratio of 8% leads to Regulatory Capital. The elements are: the CRR/CRD IV exposure class, Probability of Default (PD), Exposure at Default (EAD), Loss Given Default (LGD) and Maturity (M).

Probability of Default (PD): The first element 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 into 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 outstanding 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 outstanding, 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. Regulations (CRR/CRD IV) cap the maturity element at five years, despite the fact that many obligations extend their facilities for 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.

AIRB models per exposure class
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 around 80 models, including various sub models for specific portfolios. A model may be applicable for various exposure classes. In the table below, the number of PD, EAD, and LGD models per exposure class are shown.

Number of AIRB rating models per exposure class

	PD models	EAD models	LGD models
Sovereigns	2	2	2
Institutions	8	4	3
Corporate	11	7	9
Residential mortgages	8	8	8
Other retail	12	9	10
Securitisation	1	1	1
Total	**31**	**23**	**25**

The main differences among the models within the same asset class are explained below.

- **Sovereigns:** The Government Central PD model is developed statistically based upon risk driver information fed from external sources. The Government Local PD model is developed expert based and is a combination of financial and qualitative information. There is one main EAD model applied to all portfolios in this exposure class. There is one main LGD model for Sovereigns and other governments. The model for multilateral banks is based upon the Financial Institutions LGD model with a separate parameter for the unsecured recovery.
- **Institutions:** The main PD model applied is Bank Commercial based upon financial, qualitative and country information. Other PD models for different types of financial institutions are built using a similar framework, but are more specialised for the specific characteristics of the type of financial institution. Banks and Financial Institutions use the same EAD model, which is also used for sovereigns and corporates. The main differences between the financial institutions and other governments LGD models are difference in the recoveries on unsecured exposure.
- **Corporate:** The SME PD models are estimated statistically and directly predict a PD. The Corporate Large and Commercial Property Finance Models are both expert based scorecards and predict a rating. The risk drivers and adjustment factors are specialised to the type of clients in the portfolios. The EAD models all follow the same structure and are based upon the current exposure and current limit. Main differences are types of products involved and behaviour of the unutilised amount of the limit that is expected to be utilised at the time of default. The LGD models all follow the same structure, but have different parameters.
- **Residential mortgages and other retail:** The PD mortgages models are all developed statistically and include borrower specific information, payment behaviour and product related information. The EAD and LGD models all follow the same structure The differences in parameters, risk drivers or segmentation are due to differences in portfolio characteristics and underwriting criteria.
- **Securitisation:** The LGD estimates depend on the type of securitisation. ING Bank does not use internally developed models for securitisation PD's. They are based on external ratings.

AIRB credit exposures by rating model

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

Exposures (READ) per AIRB rating model (1)

		2014	2013
Sovereigns	Government Central	**51,954**	44,154
	Government Implied	**25,149**	24,884
	Government Local	**19,466**	16,430
	Other	**4,194**	2,907
Institutions	Bank Commercial	**44,341**	46,189
	Bank Implied	**20,028**	17,173
	Government Local	**12,963**	11,472
	Other	**33,956**	23,696
Corporate	Corporates Large	**69,293**	60,352
	Commercial Property Finance	**27,822**	28,267
	SME Belgium	**21,363**	20,814
	Other	**108,365**	96,142
Residential mortgages	Mortgages (Residential) Holland	**134,202**	137,396
	Mortgages (Residential) Germany	**64,530**	63,821
	Mortgages (Residential) Australia	**29,577**	28,516
	Other	**47,184**	48,999
Other retail	SB NL Client - Credit Risk Products	**6,322**	6,441
	Retail NL Unsecured	**4,362**	4,452
	SME Belgium	**3,908**	4,068
	Other	**25,146**	20,348
Total		**754,125**	706,520

(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.

AIRB credit exposures by exposure class

The next table gives an overview of the relevant parameters for determining the capital requirements for AIRB models.

AIRB credit exposures by exposure class

	On balance sheet (pre-CCF**)	Off balance sheet (pre-CCF**)	Counterparties*	Average CCF	READ	Average PD	No. obligors	Average LGD	Average Maturity	RWA	RWA density	RECAP	REL	Provisions
Sovereigns	**91,591**	**51,621**	**3,855**	**10.3%**	**100,763**	**0.1%**	**1,207**	**30.4%**	**39**	**6,166**	**6.1%**	**493**	**28**	**11**
Institutions	**50,977**	**80,051**	**47,446**	**16.1%**	**111,288**	**0.9%**	**9,712**	**27.8%**	**29**	**31,015**	**27.9%**	**2,481**	**75**	**22**
Corporates	**98,171**	**106,079**	**7,224**	**38.4%**	**146,076**	**5.4%**	**133,466**	**28.2%**	**36**	**71,705**	**49.1%**	**5,736**	**2,468**	**2,185**
Specialised Lending	**60,259**	**46,005**	**3,043**	**38.0%**	**80,768**	**5.3%**	**6,650**	**21.2%**	**35**	**30,033**	**37.2%**	**2,403**	**1,336**	**1,258**
Retail – Residential mortgages	**269,506**	**8,188**		**66.6%**	**275,492**	**2.9%**	**1,661,674**	**18.8%**		**49,233**	**17.9%**	**3,939**	**1,244**	**1,011**
Retail – SME	**16,910**	**5,479**	**41**	**61.2%**	**20,350**	**11.7%**	**372,838**	**31.2%**		**7,373**	**36.2%**	**590**	**741**	**595**
Retail other	**13,522**	**11,464**	**23**	**48.5%**	**19,388**	**4.9%**	**6,097,401**	**60.5%**		**9,466**	**48.8%**	**757**	**467**	**405**
Total 2014	**600,937**	**308,886**	**61,631**	**29.4%**	**754,125**	**3.3%**	**8,133,472**	**25.2%**	**35**	**204,990**	**27.2%**	**16,399**	**6,359**	**5,487**
Total 2013	581,118	295,337	37,951	29.2%	706,520	3.6%	8,019,923	26.6%	43	194,131	27.5%	15,530	6,962	5,550

Note that the Bank of International Settlements (BIS) requires an exposure class breakdown in this table which differs from the ING Bank exposure classes shown in previous tables.
* Counterparties consists of Securities Financing and Derivative exposures
** CCF – Credit Conversion Factor

The READ increase is mainly the result of volume increases to Corporates and Sovereigns, FX movements and the CRR/CRD IV implementation. Not only READ, but also RWA was influenced by these changes. The RWA density showed a reduction mainly driven by the Masterscale implementation and the update of the Sovereign LGD model.

AIRB credit exposures by internal rating grade

The table below shows the AIRB portfolio per internal rating grade. Under CRR/CRD IV 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 RPD, RLGD and RWA 2014

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	46,182	0.01	31.82	810	0.01	AAA
2	0.01–0.02	28,883	0.02	28.34	802	0.02	AA+
3	0.02–0.04	30,130	0.03	27.52	795	0.03	AA
4	0.04–0.05	23,275	0.04	26.58	2,665	0.10	AA-
5	0.05–0.06	29,284	0.05	31.34	5,840	0.16	A+
6	0.06–0.08	46,244	0.06	24.44	7,375	0.12	A
7	0.08–0.11	40,535	0.09	29.73	7,843	0.18	A-
8	0.11–0.17	50,175	0.14	22.26	7,224	0.14	BBB+
9	0.17–0.29	86,256	0.22	25.73	17,895	0.20	BBB
10	0.29–0.51	85,669	0.36	23.30	19,932	0.23	BBB-
11	0.51–0.89	90,526	0.51	20.69	22,138	0.24	BB+
12	0.89–1.54	78,006	0.75	21.75	23,435	0.30	BB
13	1.54–2.67	43,992	1.31	24.35	20,040	0.45	BB-
14	2.67–4.62	21,964	2.50	27.47	14,726	0.67	B+
15	4.62–8.01	15,431	4.60	25.20	10,196	0.66	B
16	8.01–13.88	6,772	8.84	27.89	6,415	0.95	B-
17	13.88–20.00	7,143	16.85	27.96	8,924	1.22	CCC
18	20.00–30.00	3,590	24.86	24.50	4,735	1.32	CC
19	>30	3,118	43.51	24.78	3,372	1.08	C
Non-performing							
20	100	9,310	100.00	29.57	12,452	1.34	Default
21	100	4,450	100.00	21.61	5,164	1.16	Default
22	100	3,191	100.00	30.65	2,210	0.69	Default
Total		754,125	3.26	25.17	204,990	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.

ING has been working on a project to map the 1-19 rating grades to internal data instead of external rating agency scales. In March 2014, the Dutch National Bank approved the implementation of the new Masterscale (ING Bank internal rating methodology). As of June 2014, PD values of the ING Bank Masterscale are adjusted using internal observed default data history from 2005 until 2012 where previously Standard & Poor's data was used. These adjustments are performed to reflect internal default experience, which is better compared to the predominantly US based Standard & Poor´s data. This has made the Masterscale better fit to the risk profile of ING Bank and has led to a net decrease in RWA. The planning is, within a year, to gradually move to only internal data in place of the external S&P data to arrive at the Masterscale.

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 in the following paragraph 'changes in risk parameters since last reporting date'.

Model approaches per exposure class for the AIRB portfolio

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2014	Total 2013
Average PD	**0.08%**	**0.87%**	**5.40%**	**2.89%**	**8.38%**	**3.26%**	3.62%
Average LGD	**30.40%**	**27.77%**	**25.71%**	**18.82%**	**45.49%**	**25.17%**	26.59%
READ	**100,763**	**111,288**	**226,843**	**275,492**	**39,738**	**754,125**	706,520
RWA	**6,166**	**31,015**	**101,738**	**49,233**	**16,839**	**204,990**	194,131
RWA density (RWA/READ)	**6.12%**	**27.87%**	**44.85%**	**17.87%**	**42.38%**	**27.18%**	27.48%

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 in the paragraph 'Disclosure of model outcomes', above.

Changes in AIRB risk parameters 2014 compared to 2013 in %

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2014	Total 2013
Average PD	**-33%**	**-20%**	**-21%**	**9%**	**3%**	**-10%**	10%
Average LGD	**-31%**	**-1%**	**2%**	**-1%**	**-4%**	**-5%**	22%
READ	**14%**	**13%**	**10%**	**-1%**	**13%**	**7%**	-6%
RWA	**-9%**	**65%**	**1%**	**-4%**	**1%**	**6%**	12%
RWA density	**-20%**	**46%**	**-8%**	**-3%**	**-10%**	**-1%**	19%

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

Over the course of 2014, average PD and average LGD decreased with 10% and 5% respectively.

The PD decrease observed in the Sovereigns, Institutions and Corporates exposure classes and was mainly caused by the redevelopment of the Masterscale. Furthermore, a refinement was made to the classification of German government guaranteed entities to better reflect their risk weight, which caused a shift of several entities from Institutions to Sovereigns. This improved the average Sovereign PD. Additionally, the sale and write-offs of large defaulted real estate clients resulted in an average PD decrease for Corporates. The PD increase in Residential Mortgages is explained by a shift of forborne assets from performing to non-performing and the 1-year probation period put in place as a result of the implementation of the updated forbearance policy in 2014.

The average LGD decrease was driven by Sovereigns and was the result of a redevelopment of the Sovereign LGD model. The impact of the introduction of CRR/CRD IV was mainly seen in the RWA increase for exposure class Institutions.

The CRR/CRD IV implementation impacted READ and RWA density. This is visible in Institutions, where an opposite movement is seen for RWA density, compared with PD and LGD. The addition of a factor in the risk weight calculation for qualified CCPs for Default Fund Contribution increased RWA density significantly.

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 back-testing 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' (51%) and 'Minor' (40%) model deficiencies.

The table below provides a back-testing of the PD models per exposure class. In order to better quantify the back-testing, ING has analysed the 31 December 2014 portfolio. The average PD of 31 December 2013 per portfolio is split per exposure class. The 31 December 2013 portfolio is followed through 2014 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 2014. This back-test is only representative of the year end 2013 portfolio and can be influenced by small sample sizes or incidents. Nonetheless, the back-test gives a comparison of the predicted PD versus the observed default rate. In the table, 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

2014	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total
Average PD 2013*	0.09%	0.30%	2.25%	1.19%	3.13%	1.32%
Observed Default Rate 2014	0.00%	0.00%	1.72%	1.35%	3.07%	1.17%

Includes the AIRB portfolio only; excludes securitisations, equities and ONCOA.
* Average PD 2013 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 as of 31 December 2013 for the performing portfolio is split per exposure class. The 31 December 2013 portfolio is followed through 2014 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 as of 31 December 2013 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 2013 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

2014	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total
Expected loss rate 2013*	0.0248%	0.0680%	0.5651%	0.2267%	1.2681%	0.3247%
Observed Loss Rate 2014	0.0000%	0.0011%	0.4650%	0.2622%	1.1537%	0.2922%

Includes the AIRB portfolio only; excludes securitisations, equities and ONCOA.
* Expected loss rate 2013 includes performing loans only.

Both of the back-tests show that the expectations are quite in line with the observed default rate and the observed loss rate. For the Residential mortgages portfolio, the default rates and the loss rates exceed the predicted values as a result of shift of forborne assets from performing to non-performing, and the 1-year probation period put in place as a result of the implementation of the updated forbearance policy in 2014.

STANDARDISED APPROACH

A subset of the ING portfolio is treated with the Standardised Approach. The SA approach applies fixed risk weights to each exposure class, split into credit quality steps (based on external ratings) as dictated by the Capital Requirement Directive (CRD). Because the underlying obligors are relatively small, the underlying obligors tend not to have external ratings. As such, the SA Approach is the least sophisticated of the CRR/CRD IV 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 Standardised Approach.

Exposures before and after risk mitigation for the SA portfolio

The table below shows how credit risk mitigation (CRM) in the SA portfolio is distributed over the exposure classes. ING Bank's exposure value is shown before and after credit risk mitigation. There are two principal methods for reducing or mitigating Credit Risk: i) by reduction of Credit Risk through the acceptance of pledged financial assets as collateral or ii) mitigation or shifting of credit risks to a lower risk weighting group by accepting guarantees from unrelated third parties. ING Bank uses both methods to take CRM effects into account. For financial collateral, ING Bank uses the Financial Collateral Comprehensive Method to allow for mitigation effects.

Exposures and RWA before and after credit risk mitigation (CRM) and credit conversion factors (CCF)

	Exposures before CCF and CRM			CRM and CCF effects on exposures	RWA and RWA density	
	On balance sheet amount	Off balance sheet amount	Counterparties	Credit exposure post CCF and post-CRM (a)	RWA (b)	RWA density (b/a)
Sovereigns and their central banks	**2,369**	**244**	**5**	**2,374**	**1,902**	**80.1%**
Non-central government public sector entities	**173**	**118**		**173**	**85**	**48.9%**
Banks	**1,536**	**540**	**287**	**1,979**	**871**	**41.9%**
Corporates	**4,429**	**8,133**	**14**	**5,255**	**5,092**	**96.9%**
Regulatory retail portfolios	**7,296**	**7,319**	**1**	**9,184**	**6,502**	**70.8%**
Secured by residential property	**5,705**	**120**		**5,764**	**2,621**	**45.5%**
Secured by commercial real estate	**3,261**	**1,240**		**3,378**	**2,168**	**64.2%**
Past due loans	**631**	**40**		**299**	**323**	**108.0%**
Total 2014	**25,400**	**17,755**	**307**	**28,408**	**19,564**	**68.7%**
Total 2013	29,411	21,342	610	33,961	25,294	74.5%

Note that the Bank of International Settlements (BIS) requires an exposure class breakdown in this table which differs from the ING Bank exposure classes shown in previous tables.

Overall, the table shows a decrease of the total SA portfolio from EUR 34.0 billion to EUR 28.0 billion. Due to new regulations in India, ING Vysya Bank is no longer part of ING Bank. The de-consolidation resulted in an exposure decrease of EUR 7.8 billion. This decrease was offset throughout the year mainly due to growth in the Turkey and Poland retail portfolios which enlarged the SA portfolio with EUR 1.3 billion and EUR 0.7 billion, respectively.

ING Bank, as an AIRB Bank, implicitly strives to facilitate the possibility for clients and portfolios to be transferred from the SA portfolio to the AIRB portfolio. In line with this strategy/goal, a shift of the Dutch Private Banking portfolio occurred in the first quarter of 2014 from the SA portfolio to the AIRB portfolio. This reduced the exposure of the SA portfolio with EUR 300 million mainly seen in the regulatory retail portfolios.

In spite of the portfolio growth, the RWA density decreased from 74.4% to 68.7%. This improvement is mainly due to the revision of the definition for "secured by immovable property" as the previous definition did not capture all covers correctly. The improvement is mainly seen for the exposure class "secured by commercial real estate" in the Australia retail portfolio.

Risk weights per exposure class

The table below gives more insight in how the SA portfolio per exposure class is broken down into the regulatory risk weight buckets.

Exposure per risk weight bucket per exposure class

	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total
Sovereigns and their central banks	**1**				**943**		**1,430**			**2,374**
Non-central government public sector entities			**6**		**167**					**173**
Banks			**1,062**		**601**		**314**	**2**		**1,979**
Corporates							**5,230**	**25**		**5,255**
Regulatory retail portfolios						**9,184**				**9,184**
Secured by residential property				**4,832**			**932**			**5,764**
Secured by commercial real estate					**2,074**		**1,304**			**3,378**
Past due loans					**19**		**213**	**67**		**299**
Total 2014	**1**		**1,069**	**4,832**	**3,805**	**9,184**	**9,424**	**93**		**28,408**
Total 2013	2		204	5,177	5,226	10,447	12,603	302		33,961

Note that the Bank of International Settlements (BIS) requires an exposure class breakdown in this table which differs from the ING Bank exposure classes shown in previous tables.

Excluding the impact of the de-consolidation of ING Vysya Bank, which was mainly seen in the 50% and the 100% risk weight buckets, there is an increase in the SA portfolio. The increase was mainly due to growth in Turkey and Poland Retail and was seen mainly in the 50% risk weight bucket. A decline in the 75% bucket was seen due to a transfer of the Dutch Private Banking portfolio from SA to AIRB approach.

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 is given in the Risk Management paragraph.

Reconciliation of non-performing loans disclosures[4]

	Commercial Banking	Retail Banking Benelux	Retail Banking International	Total ING Bank
Impaired loan book movements				
Impaired loans at 1 January 2014[1]	6,417	7,233	2,271	15,921
Classified as impaired during the year[2]	2,277	3,351	930	6,558
Outflow from impaired excluding write-offs	-1,856	-1,277	-587	-3,720
Amounts written off	-715	-716	-298	-1,729
Changes in composition of the bank			-272	-272
Exchange rate and other movements[3]	122	1	7	130
At 31 December 2014	6,245	8,593	2,051	16,889
Impairment allowances - movements				
Impairment allowances at 1 January 2014[1]	2,459	2,264	1,431	6,154
Changes in the composition of the Bank	0	0	-170	-170
Amounts written off	-715	-716	-298	-1,729
Recoveries of amounts written off in previous years	49	48	8	105
Addition to loan loss provisions (from income statement)	500	857	237	1,594
Exchange rate and other movements	-34	76	-1	41
At 31 December 2014	2,259	2,529	1,207	5,995

(1) Equals the amount as of 31 December 2013.
(2) Unadjusted for exchange rate fluctuations.
(3) Based on start and end date of the outstanding positions, unadjusted for inflow and outflow.
(4) At the end of 2014, the stock of provisions included provisions for amounts due from banks: EUR 6 million (2013: 19 million)

The total risk costs for the year 2014 were just under EUR 1.6 billion confirming the downward trend since the end of 2013. Where the average quarterly risk costs over the years 2012 and 2013 were at EUR 550 million, since the beginning of this year they have trended downwards to stabilise at around EUR 400 million per quarter. The total stock of provisions decreased to EUR 6.0 billion due to the deconsolidation of ING Vysya Bank and slightly higher write-offs due to the sale of non-performing loans.

As of 31 December 2014, ING Bank holds specific (ISFA) and collective (INSFA) provisions of EUR 3,722 million and EUR 1,507 million, respectively (2013: EUR 3,729 million and EUR 1,589 million respectively), representing the difference between the amortized cost of the portfolio and the estimated recoverable amount discounted at the effective rate of interest. In addition, there is EUR 766 million (2013: EUR 835 million) in provisions (IBNR) against the performing portfolio.

Risk costs decreased across all business lines. Particularly, Commercial Banking saw a big decrease due to continued lower risk costs in Real Estate Finance (while risk costs for the Business Lending portfolio in Retail Banking Benelux also showed a reduction). The deconsolidation of ING Vysya Bank caused a reduction of EUR 170 million in the stock of provisions for Retail Banking International.

There was a decrease in coverage ratio to 35.5% (2013: 38.6%) mainly due to an increased inflow into the non-performing loan portfolio in Q4 2014 after implementation of the new EBA rules for forbearance which enforce a broader definition of non-performing clients.

Large parts of the Investment portfolio are not accounted 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 ING Bank Impairment Meeting is a quarterly process held with the ING Provisioning Committee (IPC) that reviews all assets that are subject to an IFRS impairment test.

Credit quality 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 tables below show the non-performing exposure and provisions per NAICS industry and should be read in conjunction with the information and statements made in the Risk Management section.

Non-performing exposure (READ) by industry

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2014	2013
Private Individuals			**3**	**5,290**	**851**	**6,143**	4,779
Real Estate			**2,935**	**13**	**345**	**3,294**	4,475
Commercial Banks		**674**	**579**			**1,253**	1,023
Builders & Contractors			**719**		**245**	**964**	1,036
Natural Resources			**935**		**17**	**952**	528
Transportation & Logistics			**679**		**111**	**790**	939
General Industries			**648**		**117**	**764**	688
Services		**1**	**478**		**237**	**716**	623
Food, Beverages & Personal Care			**585**		**100**	**686**	805
Retail			**268**		**102**	**370**	421
Utilities			**338**		**5**	**343**	125
Chemicals, Health & Pharmaceuticals			**218**		**33**	**250**	272
Automotive			**157**		**48**	**205**	207
Media			**138**		**42**	**179**	282
Other	**6**	**49**	**153**		**73**	**281**	393
Total	**6**	**724**	**8,831**	**5,303**	**2,326**	**17,190**	16,596

Includes both AIRB and SA portfolios; only Lending and Investments are included; excludes securitisations, equities and ONCOA.

Non-performing exposure increased mainly in Private Individuals. This was the result of the implementation of the updated ING Bank forbearance policy based on the EBA recommendations issued in July 2014. More stringent definitions issued by EBA, inclusion of the required history and implementation of the probation periods increased the amount of forborne assets. Also the implementation of the stricter default triggers on forborn assets led to a shift from the performing to non-performing book. Increases were also seen in Natural Resources and Other and were driven by Ukrainian and Russian corporates. These increases were offset by sales of large distressed real estate exposures resulting in several write offs.

ING Bank has made conservative choices in Retail Banking for what concerns curing from default. The majority of units only allow curing from default once there are no more days overdue. If ING Bank would allow curing from default once the client is < 90 days overdue and this, only if there is no forbearance, then the total non-performing loans READ would reduce to EUR 15.6 billion.

Cumulative provisions by industry [2]

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2014	2013
Private Individuals			**1**	**870**	**463**	**1,335**	1,224
Real Estate	**5**		**1,173**	**5**	**133**	**1,316**	1,547
Builders & Contractors			**363**	**2**	**114**	**479**	575
Services			**279**	**21**	**167**	**468**	421
Food, Beverages & Personal Care			**362**	**2**	**67**	**430**	430
General Industries			**314**	**13**	**71**	**399**	410
Transportation & Logistics			**282**	**2**	**54**	**338**	345
Natural Resources			**293**		**11**	**304**	215
Retail			**133**	**3**	**74**	**211**	222
Chemicals, Health & Pharmaceuticals			**134**	**1**	**20**	**155**	158
Utilities			**115**		**3**	**118**	69
Automotive			**91**		**25**	**117**	104
Media			**88**		**23**	**111**	128
Non-Bank Financial Institutions		**7**	**37**		**21**	**65**	85
Other[1]	**6**	**14**	**37**	**32**	**60**	**149**	220
Total	**11**	**22**	**3,703**	**953**	**1,307**	**5,995**	6,154

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 2014, the stock of provisions included provisions for amounts due from banks: EUR 6 million (2013: 19 million)

The Real Estate sector saw a big reduction in provisions due to improved risk profile over the year and sale of non-performing assets. This improvement was however dampened due to the increased flow to non-performing loans in the private individuals sector which was due to the enforcement of the new Forbearance regulations. An increase in provisions set aside for Structured Finance business in Ukraine and Russia has caused the rise seen in the Natural Resources sector.

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 but not non-performing consumer loans (based on outstandings)

	Residential mortgages	Other retail	Total	Total
			2014	2013
Private Individuals	**3,939**	**382**	**4,321**	6,067
Other (1)		**822**	**822**	744
Total	**3,939**	**1,204**	**5,143**	6,810

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
(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 outstandings decreased over the year mainly due to new forbearance policy resulting in a shift from performing loans to non-performing loans, due to better collection of arrears and due to an overall improvement seen in the economic conditions. The de-consolidation of ING Vysya Bank decreased the past due loans with EUR 0.5 billion mainly in the Private Individuals portfolio.

Credit quality by geographic area

The tables below are based on the country of residence of the obligor. The Non-performing exposure table should be read in conjunction with the information and statements made in the Risk Management Paragraph.

Non-performing exposure (READ) by geographic area

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2014	2013
Netherlands	**5**	**686**	**3,659**	**3,374**	**734**	**8,458**	7,761
Belgium			**1,150**	**747**	**574**	**2,472**	2,292
Germany			**63**	**746**	**164**	**973**	938
Other Europe		**30**	**3,456**	**242**	**850**	**4,577**	4,719
Americas			**335**	**5**	**1**	**341**	491
Asia / Pacific		**8**	**169**	**189**	**1**	**366**	392
ROW(1)	**1**			**1**	**1**	**3**	3
Total	**6**	**724**	**8,831**	**5,303**	**2,326**	**17,190**	16,596

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
(1) Rest of the World

Non-performing exposure increased mainly in the Netherlands and Belgium, especially in the Residential mortgages exposure class. This was the result of the implementation of the updated ING Bank forbearance policy based on the EBA recommendations issued in July 2014. More stringent definitions issued by EBA, inclusion of the required history and implementation of the probation periods increased the amount of forborne assets. Also the implementation of the stricter default triggers on forborn assets led to a shift from the performing to non-performing book. Write-offs on large real estate clients led to decreases in non-performing exposures in Other Europe and Americas.

ING Bank has made conservative choices in Retail Banking with respect to curing from default. The majority of units only allow curing from default once there are no more days overdue. If ING Bank would allow curing from default once the client is < 90 days overdue and this, only if there is no forbearance, then the total non-performing loans READ would reduce to EUR 15.6 billion.

Cumulative provisions by geographic area [1]

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2014	2013
Netherlands	**5**	**3**	**1,573**	**388**	**359**	**2,328**	2,287
Belgium		**1**	**415**	**60**	**215**	**691**	673
Germany			**45**	**389**	**174**	**609**	606
Other Europe	**4**	**11**	**1,469**	**109**	**558**	**2,151**	2,154
Americas		**1**	**114**	**1**	**1**	**116**	173
Asia / Pacific		**6**	**85**	**6**		**97**	258
ROW[2]	**1**	**1**	**1**			**3**	3
Total	**11**	**22**	**3,703**	**953**	**1,307**	**5,995**	6,154

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
Excludes revaluations made directly through the equity account.
(1) At the end of 2014, the stock of provisions included provisions for amounts due from banks: EUR 6 million (2013: 19 million)
(2) Rest of the World

The relatively high level of provisions compared to the non-performing exposure in Germany is due to the level of collateral and the enforcement regime which has an impact on the recovery rate which drives LGD higher. The decline in the stock of provisions in Asia is due to the deconsolidation of ING Vysya Bank.

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 but not non-performing consumer loans by geographic area (based on outstandings)

	Residential mortgages	Other retail	Total	Total
			2014	2013
Netherlands	**1,592**	**2**	**1,594**	2,700
Belgium	**1,323**	**758**	**2,081**	2,207
Germany	**169**	**13**	**182**	227
Other Europe	**295**	**430**	**725**	587
Americas	**3**		**3**	5
Asia / Pacific	**556**		**556**	1,084
ROW[1]	**1**		**1**	1
Total	**3,939**	**1,204**	**5,143**	6,810

Includes both AIRB and SA portfolios; excludes securitisations, equities and ONCOA.
[1] Rest of the World

The decrease in past due loans is driven by the movements in the Dutch Residential Mortgages portfolio and the deconsolidation of ING Vysya Bank. In the Netherlands, past due outstandings decreased over the year mainly due to new forbearance policy resulting in a shift from performing loans to non-performing loans, due to better collection of arrears and due to an overall improvement seen in the economic conditions.

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
						2014	2013
Under SA approach			**384**	**176**	**3,677**	**4,237**	4,872
Under AIRB Approach	**292**	**5,732**	**63,753**	**8,188**	**13,219**	**91,184**	80,904
0% risk weight	**162**	**1,818**	**9,528**	**7,076**	**7,597**	**26,182**	25,873
10% risk weight	**51**	**1,400**	**10,173**	**711**	**1,648**	**13,983**	14,374
20% risk weight	**75**	**979**	**17,020**	**258**	**1,371**	**19,702**	16,922
35% risk weight		**913**	**11,908**	**80**	**858**	**13,758**	10,272
50% risk weight		**228**	**9,112**	**42**	**759**	**10,141**	6,772
75% risk weight	**1**	**183**	**2,912**	**9**	**541**	**3,646**	3,706
100% risk weight	**2**	**108**	**2,297**	**9**	**367**	**2,784**	2,145
150% risk weight		**70**	**371**	**2**	**54**	**497**	358
200% risk weight		**33**	**432**	**2**	**22**	**490**	481
1250% risk weight							
Total	**292**	**5,732**	**64,137**	**8,364**	**16,896**	**95,421**	85,776

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

ING Bank has seen many of its Large Corporate customers obtain funding from capital markets in the course of 2014. This often leads to large undrawn commitments with ING Bank. These stand-by commitments are usually for top rated Corporates which have historically shown a reluctance to draw these facilities. In 2014, an increase in the undrawn commitments is mainly seen for Large Corporates in the Natural Resource industry of Structured Finance and Corporate and FI Lending as new limits were granted in these specific departments.

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 13.6%. As part of its Regulatory EAD models, ING Bank makes an estimate of how much of these unused commitments would be drawn under normal circumstances. The effect is included in the calculation of RWA, together with a similar effect applied to uncommitted facilities, albeit at a lower rate.

COUNTERPARTY CREDIT RISK

The main activities that qualify under counterparty credit risk are derivatives trading activities and securities financing. As part of these activities, 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 CRR/CRD IV 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
						2014	2013
Interest Rate Derivatives	**2,410**	**25,962**	**5,586**	**0**	**34**	**33,993**	19,381
Foreign Exchange Derivatives	**269**	**3,615**	**1,744**	**0**	**21**	**5,649**	3,400
Equity Derivatives	**0**	**2,555**	**104**	**0**	**9**	**2,668**	2,239
Exchange Traded Products		**1,901**				**1,901**	1440
Credit Derivatives	**0**	**428**	**2**	**0**	**0**	**430**	484
Commodity Derivatives	**15**	**68**	**1,243**	**0**	**0**	**1,327**	321
Derivatives	**0**	**222**	**153**	**0**	**0**	**375**	315
Total	**2,695**	**34,752**	**8,832**	**0**	**64**	**46,343**	27,581

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

The derivative portfolio of ING Bank primarily facilitates client related business including hedging of mortgage portfolios. Majority of the counterparties in this derivative portfolio are based in the UK, Netherlands, Belgium, Germany and France. Exposure (READ) for the derivatives portfolio showed a significant jump in the first quarter of 2014 due to the introduction of CRR/CRD IV regulations. READ for derivatives grew by EUR 12.0 billion due to the introduction of an increased holding period and a ‘haircut’ (reduction of the collateral value to reflect potential adverse price changes) in risk-weighted assets calculations for OTC Derivatives. Excluding from this regulatory requirement, the portfolio showed an increase mainly driven by the interest rates business. Increased fluctuations seen in the FX and commodity markets have caused a rise in FX and Commodity derivatives.

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 traded 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

		2014		2013
	Notional	**MtM**	Notional	MtM
OTC derivatives				
CCP	**1,824,940**	**–3,608**	1,728,308	–5,444
Non-CCP	**1,723,101**	**–2,555**	1,717,477	–1,446
ETD derivatives	**53,800**	**–3**	36,200	–3
Total	**3,601,841**	**–6,166**	3,481,985	–6,894

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

From the total notional value of OTC derivatives transactions that are not cleared by a CCP, 85% has been documented under bilateral (92%) and unilateral (8%) Collateral Support Annex (CSA) agreement.

- The notional value of transactions that are done under bilateral CSA agreements relates for 74% to Interest Rate derivatives, for 20% to FX derivatives and for 6% 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 (51%) and FX Derivatives (44%).

Securities financing by product type
The table below is based on the marked-to-market plus (regulatory) add-on methodology used for calculating CRR/CRD IV 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
						2014	2013
Bond Financing Given	**1,111**	**4,207**	**17**	**0**	**0**	**5,335**	3,412
Equity Financing Given	**0**	**5,217**	**1,366**	**0**	**0**	**6,583**	5,208
Bond Financing Taken	**53**	**2,020**	**6**	**0**	**0**	**2,079**	1234
Equity Financing Taken	**0**	**1,538**	**59**	**0**	**0**	**1,597**	1,127
Total	**1,165**	**12,982**	**1,448**	**0**	**0**	**15,595**	10,981

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

Like the derivatives portfolio, there was a big impact of CRR/CRD IV regulations on the READ of the Securities Financing portfolio. Of the total increase seen in this portfolio, READ of this portfolio grew by EUR 3.9 billion due to the enforcement of these new regulations. In terms of READ, the Equity Financing portfolio seems larger (52.5%), however, in terms of notionals the Equity Financing portfolio is relatively small (14.2%). Excluding the regulatory impact, growth in the portfolio was seen in Bond and Equities Financing Given and was mainly concentrated in US and UK institutions, while Bond and Equities Financing taken saw a decline in volume. Compared to 2013, a decline was seen in Bond Financing Given to Sovereigns and was mainly due to reductions implemented in Russia.

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 and SA portfolios 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. Those figures are based on original cover values although some business units attempt to update to current market values. This is inherently difficult in volatile markets. Some facilities will have multiple levels of collateral while others have no collateral. The total figures may not reflect the collateral value per facility.

Maximum Exposure to Credit Risk per 31 December 2014

					Cover Values	Cover Values	Cover Values	Cover Values
	Gross MtM before netting and collateral	MtM after netting	MtM after netting and collateral	Outstanding	Mortgages	Eligible Financial Collateral	Guarantees	Other CRR/CRD IV eligible
AIRB								
Sovereigns				94,067	836	29	2,175	312
of which Pre Settlement	8,426	3,890	3,403	2,375				
Institutions				98,854	1,349	5,110	4,379	1,578
of which Pre Settlement	162,348	47,381	34,779	36,840				
Corporates				196,612	90,032	11,519	44,865	77,284
of which Pre Settlement	12,254	10,568	10,367	11,904				
Residential Mortgages				269,832	424,231	2,636	29,867	217
of which Pre Settlement								
Other Retail				31,199	24,006	1,016	7,048	5,313
of which Pre Settlement	136	65	63	149				
Securitisations				6,927				
of which Pre Settlement	112	112	112	158				
SA								
Sovereigns				2,380				
of which Pre Settlement	5	5	5	10				
Institutions				2,069			86	1
of which Pre Settlement	361	287	113	117				
Corporates				8,279	3,422	128	128	6
of which Pre Settlement	19	14	14	47				
Residential Mortgages				5,780	12,868	1		
of which Pre Settlement								
Other Retail				9,160	1,929	235	4	15
of which Pre Settlement	1	1	1	2				
Securitisations								
of which Pre Settlement								
Total Bank				725,159	558,673	20,673	88,552	84,726
of which Pre Settlement	183,662	62,324	48,857	51,602				

Include both AIRB and SA portfolios; excludes equities and ONCOA.
AIRB collateral values are before haircut, SA collateral values used are values after haircut.

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, sub-limits or a particular outstanding of a borrower, the latter being the most common.

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 CRR/CRD IV 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 CRR/CRD IV capital base.

Credit risks from credit risk derivatives

	2014	2013
Credit derivatives used for hedging purposes		
– credit protection bought	70	238
– credit protection sold		

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

CDS positions which were held in Amsterdam no longer exist. Hence the decline in the credit protection bought.

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

Exposures secured by guarantees received

From time to time, ING Bank extends loans for which it receives a specific financial guarantee from a non-related counterparty or obligor. The figures in the table below represent the READ that has been guaranteed by these non-related parties. It does not include 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 secured by third party guarantees received

	Sovereigns	Institutions	Corporate	Residential mortgages	Other retail	Total 2014	Total 2013
Under AIRB Approach	2,086	4,187	42,508	29,867	6,975	85,622	96,334
Total	2.4%	4.9%	49.6%	34.9%	8.1%	100.0%	100.0%

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 below 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 runoff profile. 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 tenor 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
						2014	2013
Current Outstandings	**96,441**	**100,876**	**196,040**	**270,285**	**37,843**	**701,484**	685,745
1 month	**90,021**	**77,007**	**187,770**	**269,562**	**37,257**	**661,616**	643,551
3 month	**83,774**	**69,271**	**178,406**	**268,821**	**36,682**	**636,955**	617,819
6 month	**82,092**	**64,314**	**165,640**	**267,767**	**35,725**	**615,537**	594,712
1 year	**76,072**	**55,030**	**132,966**	**264,763**	**29,518**	**558,349**	531,475
2 years	**71,765**	**46,041**	**105,553**	**260,051**	**25,260**	**508,671**	484,241
3 years	**64,885**	**39,175**	**85,244**	**255,194**	**21,644**	**466,142**	445,632
5 years	**53,771**	**25,076**	**47,101**	**243,778**	**15,731**	**385,457**	369,501
7 years	**41,465**	**15,985**	**27,930**	**225,336**	**11,380**	**322,096**	321,876
10 years	**19,333**	**6,641**	**16,315**	**199,788**	**8,119**	**250,196**	251,212

Includes AIRB portfolio only; excludes securitisations, equities and ONCOA.
Non-performing loans (rating 20-22) are excluded in the figures above.

The large increase in outstandings is mainly related to growth. Investment exposure to Sovereigns and lending exposure to Corporates increased during the year which is mainly visible in the long term tenor buckets.

SECURITISATIONS

The following information is prepared taking into account the ‘Industry Good Practice Guidelines on Pillar III disclosure requirements for securitisations’ (the Guidelines) issued by the European Banking Federation and other industry associations on 31 January 2010 and the CRR/CRD IV 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 CRR/CRD IV, 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. The securitisation exposure for which each rating agency is used is given in the following table.

Securitisation exposure per rating agency (READ)

	S&P	Fitch	Moody’s	IAA approach	Total	Total
					2014	2013
Residential Mortgage Backed Securities	**1,133**	**1,349**	**1,542**		**4,025**	5,273
Asset Backed Securities	**620**	**1,588**	**10**		**2,218**	2,088
Securitisation Liquidity				**947**	**947**	1,618
Revolvers						378
Interest Rate Derivatives				**106**	**106**	177
Other	**54**	**12**	**48**	**405**	**519**	325
Total	**1,807**	**2,949**	**1,601**	**1,458**	**7,815**	9,858

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.

Securitisations – credit risk disclosure

		2014	2013	Delta %
Securitisations	**Geography**			
	America	**3,483**	4,285	–18.7%
	Asia	**53**	112	–52.7%
	Australia	**32**	85	–61.9%
	Europe	**4,247**	5,376	–21.0%
		7,815	9,858	–20.7%
	Europe			
	Spain	**1,692**	2,176	–22.2%
	United Kingdom	**862**	1,294	–33.4%
	Netherlands	**758**	553	37.0%
	Italy	**417**	827	–49.6%
	Rest of Europe	**518**	525	–1.4%
		4,247	5,376	–21.0%
Securitisations	**Product Type**			
	Residential Mortgage Backed Securities	**4,025**	5,273	–23.7%
	Asset Backed Securities	**2,218**	2,088	6.2%
	Securitisation Liquidity (1)	**947**	1,618	–41.5%
	Interest Rate Derivatives	**106**	177	–39.9%
	Revolvers		378	–100.0%
	Other	**519**	325	59.7%
		7,815	9,858	–20.7%
Securitisations	**Exposure Class** (2)			
	Securitisation Investor	**6,357**	7,544	–15.7%
	Securitisation Sponsor	**1,458**	2,314	–37.0%
	Total	**7,815**	9,858	–20.7%

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) Securitisation benefits are excluded. Own originated securitisations are explained in a separate section.

ING exposure to securitisations has continued to decline in all regions and asset classes due to targeted efforts to decrease impairment risk, credit migration and concentration risk on ING's non-trading books . Reduced liquidity facilities provided to the Mont Blanc conduit are reflected in the reduction in Sponsor securitisations. Decrease in Spain and United Kingdom was observed due to reduced investments in RMBS's.

There are two notable exceptions mainly: 1) an increase in the Netherlands driven by an NN Bank Originated RMBS position where ING Bank participated in the primary offering; and 2) an increase in Asset Backed Securities as explained in the section below on Investor securitisations.

Investor securitisations
ING Bank's goal is to maintain a portfolio of high quality liquid assets that meets the regulatory requirements of CRR/CRD IV and final Delegated Act of October 2014 regarding liquidity. In line with ING's internal rating policy, securitisation exposures are rated using the worst external rating provided by either Fitch, Moody's or S&P. ING keeps close track of the securitisation investment positions via monthly monitoring reports. During 2014 and as a result of the inclusion of high quality Residential Mortgage Backed Securities (RMBS) and Asset Backed Securities (ABS) in Level 2B of the EU liquidity framework, ING has invested in a limited amount of high quality Auto-ABS's.

In the table below, the investor securitisations are given, broken down by underlying exposure.

Investor securitisation activities

2014	Traditional	Synthetic	Total
Retail			
Of which residential mortgage	**4,025**		**4,025**
Of which credit card			
Of which other retail exposures	**2,287**		**2,287**
Of which re-securitisation			
Commercial Banking			
Of which loans to corporates			
Of which commercial mortgage	**45**		**45**
Of which lease and receivables			
Of which re-securitisation			

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 CRR/CRD IV after consideration of credit conversion factors (CCFs) where applicable as used for the purpose of Pillar I, but prior to the application of credit risk mitigants on securitisation positions.

Purchased exposures per risk weight band

		2014		2013
	READ	**RWA**	READ	RWA
Risk weight band 1 <= 10%	**4,037**	**325**	4,628	359
Risk weight band 2 >10% and <= 18%	**625**	**79**	249	33
Risk weight band 3 >18% and <= 35%	**992**	**216**	1,515	445
Risk weight band 4 >35% and <= 75%	**255**	**157**	602	376
Risk weight band 5 >75% and <1250%	**400**	**483**	505	646
Risk weight 1250%	**47**	**593**	45	567
Total	**6,357**	**1,853**	7,544	2,427

Excludes equities and ONCOA.

Capital requirements for investment positions in securitisations

	Exposure values (by RW bands)					Exposure values (by regulatory approach)			RWA (by regulatory approach)			Capital charge after cap		
	<= 20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW	IRB RBA (incl. IAA)	1250%	Total Exposure 2014	IRB RBA (inc. IAA)	12.50% Risk Weight	Total RWA 2014	IRB RBA (inc. IAA)	12.50% Risk Weight	Total Capital 2014
Traditional securitisation	**5,605**	**72**	**604**	**29**	**47**	6,310	47	6,357	**1,259**	**593**	**1,853**	101	47	148
Of Which securitisation	**5,605**	**72**	**604**	**29**	**47**	6,310	47	6,357	**1,259**	**593**	**1,853**	101	47	148
Of which retail underlying	**5,580**	**52**	**604**	**29**	**46**	6,265	46	6,311	**1,245**	**579**	**1,824**	100	46	146
Of which non-retail underlying	**25**	**20**			**1**	45	1	46	**14**	**14**	**28**	1	1	2
Of which re-securitisation														
Synthetic Securitisation														
Total exposure 2014	**5,605**	**72**	**604**	**29**	**47**	6,310	47	6,357	**1,259**	**593**	**1,853**	101	47	148
Total exposure 2013	**5,541**	**878**	**985**	**94**	**45**	7,498	45	7,544	**1,860**	**567**	**2,427**	149	45	194

In the table above an overview of Investor Securitization exposures and their respective capital requirements are shown. In line with ING's policy and Risk Appetite the vast majority of positions are rated AA- and above, and almost the entire portfolio remains within the investment grade. Positions that have deteriorated in credit quality have been adequately provisioned and have been reduced significantly. Capital consumption remains relatively low given the risk profile of this asset class, with an average risk weight of 29%.

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 896.2 million. The drawn liquidity amount as at 31 December 2014 is EUR 0 million.

Mont Blanc has no investments in securitisation positions that ING Bank has securitised. Nor are there entities either managed or advised by ING Bank that invest in Mont Blanc.

The normal non-structured standby liquidity facilities and the structured facilities are reported under irrevocable facilities. All facilities, which vary in risk profile, are granted to the SPE subject to normal ING Bank credit and liquidity risk analysis procedures. The fees received for services provided and for facilities are charged subject to market conditions. Mont Blanc is consolidated by ING Bank. These transactions are therefore on-balance sheet arrangements.

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

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

The first transactions (Moon and Memphis 2003) were repaid in 2008 with no loss for the investors. The following transactions were also repaid, still with no loss for the investors: Mars 2004 in 2009, Memphis 2005 and Mars 2006 in 2012, Flipper in January 2013 and Memphis 2006 in April 2013 and BEL SME 2006 in March 2014 meaning that, as of 31 December 2014, there were no synthetic transactions left.

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 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, and therefore that transaction is treated for RWA purposes as if it was not securitised.

On 31 December 2014 ING Bank had no originator exposure left. The last securitisation for which ING Bank acted as originator was BEL SME 2006 and it ran-off in March 2014.

Liquidity and funding
Although the most senior tranches in securitisations are no longer efficient to release regulatory capital under CRR/CRD IV, 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 2014 position of approximately EUR 82 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.

SIMPLE RISK WEIGHT METHOD

ING Bank N.V. does not use the simple risk weight method for specialised lending. It uses the PD, LGD and EAD approach instead. A small part of ING's portfolio – some of the equity exposure – is subject to the simple risk weight method for calculating the regulatory capital. The table below shows more details on the equity exposure for which this method is used.

Equity exposure – Simple risk weight method

	On balance sheet amount		Off balance sheet amount		RW	Exposure amount		RWA		Capital requirements	
	2014	2013	**2014**	2013		**2014**	2013	**2014**	2013	**2014**	2013
Private equity exposures	**479**	376			190%	**479**	376	**910**	714	**73**	57
Exchange traded equity exposures	**128**	49			290%	**128**	49	**371**	143	**30**	11
Other equity exposures					370%						
Total	**607**	425				**607**	425	**1,281**	857	**102**	69

Compared to 2013, the increase in exchange traded equity exposures is mainly due to a new investment of EUR 73 million under ING Corporate Investment. As a result of IFRS 11 being effective as per 1 January 2014, joint ventures are now reported by means of equity accounting instead of proportionate consolidation. The increase in private equity exposures is mainly due to the inclusion of joint ventures of Real Estate Development (exposure of EUR 100 million).

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 section 'Ongoing changes in the regulatory environment' in the Risk Management Paragraph.

Market Risk Weighted Assets movement by key driver

amounts in millions of euros	VaR	Stressed VaR	IRC	Standardised Model	Total RWA
Opening amount	732	2,126	5,476	463	8,797
Movement in risk levels and market movement	478	694	1,105	284	2,561
Model updates/changes	–	–	– 1,250	–	– 1,250
Acquisitions and disposals	– 32	– 18	–	665	616
Total movement	446	676	– 145	949	1,926
Closing amount	1,178	2,802	5,331	1,412	10,723

Key changes

Over the year, the ING Bank Market Risk Weighted Assets (MRWA) increased by EUR 1.9 billion to EUR 10.7 billion. The key changes are the following:

- MRWA increased by EUR 2.6 billion as a result of a combination of position changes and market movements.
- The LGD parameter update for the Central and Local Government portfolios led to a decreased IRC in Q4 2014, which subsequently resulted in a EUR 1.3 billion decrease in MRWA.
- The deconsolidation of ING Vysya Bank led to an increase in MRWA of EUR 0.6 billion mainly related to the Foreign Exchange risk of the equity stake in ING Vysya Bank.

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 rates, equity prices and real estate prices on the volatility of IFRS-EU and common equity 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 common equity tier1 ratio for foreign exchange movements, as the RWA are impacted as well by these market movements.

Risk profile

Capital Elements & Market Risk Impact on Capital

Market Risk Sensitivity (before tax), excluding pension fund	IFRS–EU	Basel III*	Interest Rate +100bp	Credit Spread +40bp	Equity Prices –10%	Real Estate –10%	Foreign Exchange +10%
Capital elements							
Reserve							
Property revaluation reserve	●	●				-102	
Cash flow hedge reserve	●		-2,204				
Available-for-sale reserve							
Debt securities	●	●	-977	-1,680			
Equity securities	●	●			-253		-225
Currency translations reserve	●	●					-847
P&L							
All items impacting P&L, excluding DVA	●	●	-99	-174	-179	-39	-145
DVA own issued debt/structured notes	●			194			
DVA derivatives	●		5	32			-9
Impact on capital							
IFRS-EU Equity			-3,276	-1,628	-432	-141	-1,227
Core Tier 1 Equity (Basel III, fully loaded)			-1,076	-1,854	-432	-141	-1,218

* 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, equity securities and for currency translations will be part of Basel III equity. The revaluation reserve for cash flow hedges will not 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 III equity. Debit valuation adjustments of own issued debt only impacts IFRS-EU equity and not Basel III equity. Debit valuation adjustments of derivatives will not be part of Basel III equity.

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 millions	**2014**	2013
Cash and holdings at central bank	**4,499**	6,099
Securities issued or guaranteed by sovereigns, central banks and multilateral development bank	**86,863**	74,334
Liquid assets eligible at central banks (not included in above)	**88,199**	92,871
Other liquid assets	**3,320**	6,700
Total	**182,880**	180,004

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 slight increase of the buffer in 2014 in comparison with 2013 is due to an overall increase in liquid securities.

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. The presented templates of ING Bank's encumbered and unencumbered assets are based on the CRR (Part Eight) and the related guidance from the European Banking Authority (EBA). The data is as per 31 December 2014 and as this is the first data set based on these requirements, comparison with previous periods is not available. However, based on internal metrics it can be stated that the level of encumbrance has only slightly increased in 2014.

Asset encumbrance ING Bank

in EUR millions	Carrying amount of encumbered assets 010	Fair value of encumbered assets 040	Carrying amount of unencumbered assets 060	Fair value of unencumbered assets 090
010 Assets of the reporting institution	**99,648**	**–**	**728,954**	**–**
030 Equity instruments	8,666	8,666	11,254	11,254
040 Debt securities	7,620	7,511	123,143	123,351
120 Other assets	2,200	–	76,646	–

Collateral received ING Bank

in EUR millions	Fair value of encumbered collateral received or own debt securities issued 010	Fair value of collateral received or own debt securities issued available for encumbrance 040
130 Collateral received by the reporting	**61,805**	**40,506**
150 Equity instruments	3,721	15,787
160 Debt securities	57,876	24,432
230 Other collateral received	–	114
240 Own debt securities issued other than	**–**	**–**

Encumbered assets/collateral received and associated liabilities

in EUR millions	Matching liabilities, contingent liabilities or securities lent 010	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered 030
010 Carrying amount of selected financial	**100,935**	**141,156**

Information on importance of encumbrance

ING Bank manages it balance sheet prudently whereby a variety of funding sources is readily available. Given this situation, the level of encumbrance of ING Bank's balance sheet is relatively low.

Encumbered assets on ING Bank's balance sheet comprise to a large extent mortgages and other loans which are used as cover pool for covered bond programs issued by subsidiaries in the Netherlands, Belgium and Germany, as well as external securitisations and other types of collateralized deposits. Of the total encumbered assets of the Bank, EUR 69 billion are loans and advances, mostly mortgages, that serve as collateral for these type of liabilities. ING Bank retains also a part of the issued securitization transactions and covered bonds within the Group. The issued securitisations and especially the covered bonds have over collateralisation, meaning that the assets in the cover pool are higher than the issuance.

Furthermore, assets are encumbered as a result of the repo- and securities lending business and cash and securities collateral posted for derivative and clearing transactions in which pledging collateral is a requirement. As part of its normal securities financing and derivatives trading activities ING enters into standard master agreements such as ISDA and Global Master Repurchase Agreements (GMRA), which contain Credit Support Annexes (CSA) or other similar clauses. The main part of ING Bank's repo- and reverse repo activities are short-term dated. Repo transactions are mostly conducted with securities which have been obtained as collateral in reverse repo transactions, which are not recognized on the balance sheet. Where securities recognized on the balance sheet have been used in a repo transaction, these remain recognized on the balance sheet and are reported as encumbered.

Of the unencumbered other assets included in the table 'Assets', the vast majority of the assets is not available for encumbrance.

DISCLAIMER

Certain of the statements contained in this Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in ING Bank's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) break-up of the euro, (4) the implementation of ING's restructuring plan to separate banking and insurance operations, (5) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations, (14) changes in the policies of governments and/or regulatory authorities, (15) conclusions with regard to purchase accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit ratings, (18) ING's ability to achieve projected operational synergies and (19) the other risks and uncertainties detailed in the risk factors section contained in the most recent annual report of ING Groep N.V.

Any forward-looking statements made by or on behalf of ING speak only as of the date they are made, and, ING assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. See 'Risk factors' and 'Risk management' sections of this Annual Report

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