ING Bank Annual Report

2011

ING Bank N.V.
2011 Annual Report

Contents

1	**Who we are**	
	Management	3
	ING at a glance	4
2	**Report of the Management Board**	
	Overview	6
	Financial developments business lines	9
	- Retail Banking	9
	- Commercial Banking	10
	Corporate governance	12
	Conformity statement	13
3	**Governance**	
	Report of the Supervisory Board	14
4	**Consolidated annual accounts**	
	Consolidated balance sheet	16
	Consolidated profit and loss account	17
	Consolidated statement of comprehensive income	18
	Consolidated statement of cash flows	19
	Consolidated statement of changes in equity	20
	Accounting policies for the consolidated annual accounts	21
	Notes to the consolidated annual accounts	37
	Risk management	105
	Capital management	139
5	**Parent company annual accounts**	
	Parent company balance sheet	143
	Parent company profit and loss account	144
	Parent company statement of changes in equity	145
	Accounting policies for the parent company annual accounts	146
	Notes to the parent company annual accounts	147
6	**Other information**	
	Independent auditor's report	157
	Proposed appropriation of result	158
7	**Additional information**	
	Additional Pillar 3 information	159

Management

COMPOSITION OF THE BOARDS

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

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

MANAGEMENT BOARD BANKING

Composition on 31 December 2011

Jan H.M. Hommen (68), chairman
J.V. (Koos) Timmermans [(1)] (51), vice-chairman
Patrick G. Flynn (51), chief financial officer
Wilfred F. Nagel [(2)] (55), chief risk officer
William L. Connelly (53), CEO Commercial Banking
C.P.A.J. (Eli) Leenaars (50), CEO Retail Banking Direct and International
Hans van der Noordaa (50), CEO Retail Banking Benelux

(1) Appointed vice-chairman as of 1 October 2011.
(2) Appointed to the Management Board as of 5 October 2011.

SUPERVISORY BOARD

Composition on 31 December 2011

Jeroen van der Veer (64), chairman
Peter A.F.W. Elverding (63), vice-chairman
J.P. (Tineke) Bahlmann (61)
Henk W. Breukink (61)
Sjoerd van Keulen (65)
Piet C. Klaver (66)
Joost Ch.L. Kuiper (64)
Aman Mehta [(1)] (65)
Luc A.C.P. Vandewalle (67)
Lodewijk J. de Waal (61)

(1) Nominated for reappointment as of 14 May 2012.

COMMITTEES OF THE SUPERVISORY BOARD

Composition on 31 December 2011

Audit Committee

Joost Kuiper, chairman
Tineke Bahlmann
Henk Breukink
Aman Mehta
Luc Vandewalle

Risk Committee

Piet Klaver, chairman
Tineke Bahlmann
Sjoerd van Keulen
Joost Kuiper
Luc Vandewalle
Jeroen van der Veer

Remuneration Committee

Peter Elverding, chairman
Sjoerd van Keulen
Piet Klaver
Jeroen van der Veer
Lodewijk de Waal

Nomination Committee

Jeroen van der Veer, chairman
Peter Elverding
Sjoerd van Keulen
Piet Klaver
Lodewijk de Waal

ING at a glance

ING BANK IS PART OF ING GROUP

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

Our profile
ING is a global financial institution of Dutch origin, currently offering banking, investments, life insurance and retirement services to meet the needs of a broad customer base. Going forward, we will concentrate on our position as a strong European bank with attractive home market positions in Northern Europe and growth options in Central and Eastern Europe and Asia, while creating an optimal base for independent futures for our insurance operations (including investment management).

Our strategy
To serve the interests of our stakeholders, increase management focus and create value for our shareholders. ING is moving towards separation of its banking and insurance operations. ING is moving towards separation of its banking and insurance operations. We believe the widespread demand for greater simplicity, reliability and transparency makes this the best course of action. The separation is also part of the restructuring plan submitted to the European Commission in order to get approval for the Dutch state aid received during the financial crisis. In the future, ING Bank intends to be a strong European bank, with leading domestic banking positions in attractive, stable home markets, as well as a leading commercial bank in the Benelux and Central and Eastern Europe. We also intend to continue to selectively evolve our various ING Direct units into more mature full service banking models. These initiatives in Europe, coupled with our positions outside of Europe, should give the bank attractive growth potential in the long term. ING will build on its global presence and international network and capitalise on its leadership position in gathering savings, multi-channel distribution, simple propositions and marketing. We will focus on earning our customers' trust through transparent products, value for money and superior service. This reflects our universal customer ideal: saving and investing for the future should be easier.

Our customers
ING serves a broad customer base, comprising individuals, families, small businesses, large corporations, institutions and governments.

Our stakeholders
ING conducts business on the basis of clearly-defined business principles. In all our activities, we carefully weigh the interests of our various stakeholders: customers, employees, business relations and suppliers, society at large and shareholders.

Our corporate responsibility
ING wants to build its future on sustainable profit based on sound business ethics and respect for its stakeholders and to be a good corporate citizen. It is only by acting with professionalism and integrity that we will maintain our stakeholders' trust and preserve our reputation. Our Business Principles prescribe the corporate values we pursue and the responsibilities we have towards society and the environment: we act with integrity, we are open and clear, we respect each other and we are socially and environmentally responsible.

CREATING STRONGER STANDALONE BUSINESSES
Strategic priorities
Our strategic priorities are to strengthen the company's financial position, to restructure, to streamline the business portfolio, to repay the Dutch state aid and to build stronger banking and insurance/investment management businesses, all based on sound business ethics and good corporate citizenship.

Strong financial position
Solid earnings and a strong capital and funding position enable ING to support its customers also in uncertain times. On the banking side the core Tier 1 ratio, a key measure of financial strength, was at 9.6% at the end of 2011.

Restructuring and streamlining on track
The restructuring of the Group is on track, with our banking and insurance/investment management businesses operating as standalone companies from January 2011. Further progress on separation projects and divestments was made throughout 2011.

Repaying on core Tier 1 securities
It is one of ING's priorities to repay the remaining EUR 3 billion of capital support to the Dutch State as soon as possible. However, in light of the current challenging and changing financial and regulatory environment we take a cautious approach and maintain strong capital ratios as we build towards Basel III and satisfy other regulatory requirements.

ING at a glance continued

Building stronger businesses
One of ING Bank's priorities is to generate capital and reach a core Tier 1 ratio of at least 10% by 2013. From 2013, the bank aims for moderate balance sheet growth in line with GDP growth and a strong focus on deposits generation.

ING BANK
ING Bank is active through two business lines: Retail Banking and Commercial Banking.

Retail Banking
Retail Banking provides retail and direct banking services to individuals and small and medium-sized enterprises throughout Europe, Asia and Canada, with a base in our Northern European home markets. Our ambition is to transform ING Direct into a full-service bank.

Commercial Banking
Commercial Banking offers services such as lending, payments and cash management in more than 40 countries to corporations, governments and other financial institutions.

Overview

ING Bank is a large international player with an extensive global network in over 40 countries. It has leading banking positions in its home markets of the Netherlands, Belgium, Luxembourg, Germany and Poland. Furthermore, ING Bank has key positions in other Western, Central and Eastern European countries and Turkey. This is coupled with options outside of Europe which will give ING Bank interesting growth potential in the long term.

The retail banking operations are focused on delivering simple and transparent retail products at low costs through a multi-channel distribution approach. Commercial Banking supports its global clients through an extensive international network and offers core banking solutions and provides tailored solutions.

Since January 2011, ING Bank has been operating as a stand-alone business under the umbrella of ING Group.

FINANCIAL DEVELOPMENTS

Operating conditions were challenging in 2011, as financial markets continued to be volatile and the macroeconomic environment deteriorated further in the second half of the year. ING Bank's net result was EUR 4,005 million compared with a net result of EUR 4,495 million in 2010. The 2011 net result included EUR 821 million of gains on divestments, mainly related to the sale of ING Car Lease and Real Estate Investment Management, and EUR 66 million of operating net results from divested units. Special items after tax were EUR –450 million, mainly related to various restructuring programmes, costs related to the separation of Bank and Insurance, as well as a value adjustment of the Illiquid Assets Back-up Facility. In 2010, the net impact of divestments was EUR 481 million, mainly reflecting the gain on the sale of the Swiss and Asian Private Banking activities and the operating result from divested units. Special items after tax amounted to EUR –340 million and were related to the Bank's restructuring programs.

Underlying net result for 2011 was EUR 3,568 million, down 18.1% from EUR 4,354 million a year earlier. Underlying net result is derived from total net result by excluding the impact from divestments and special items.

Underlying result before tax dropped 15.4% to EUR 4,986 million from EUR 5,892 million in 2010, mainly reflecting the impact of the sovereign debt crisis in Europe. The decline was mainly due to EUR 588 million of impairments on Greek government bonds and EUR 181 million of losses on selective de-risking at ING Direct, while the previous year included EUR 275 million of capital gains on the sale of two Asian equity stakes. Excluding these items, underlying result before tax rose slightly by 2.5%.

Total underlying income declined 5.1% to EUR 16,115 million in 2011 from EUR 16,984 million in 2010. The underlying net interest result improved 1.2% to EUR 13,895 million, driven by a small increase in volumes, while the underlying interest margin was stable on 1.45%. The total interest margin, however, declined slightly to 1.42% from 1.44% in 2010, mainly due to a value adjustment of the Illiquid Assets Back-up Facility based on higher prepayment behaviour in the underlying Alt-A securities (booked as special item). Underlying commission income remained flat on 2010, as increases in Commercial Banking (mainly Structured Finance) were offset by declines in Retail Banking. Underlying investment and other income dropped to EUR –36 million compared with EUR 1,004 million in 2010. This decline was due to EUR 588 million of impairments on Greek government bonds and EUR 181 million of losses on selective de-risking at ING Direct taken in 2011, while 2010 included EUR 275 million of capital gains on the sale of two Asian equity stakes.

Underlying operating expenses increased by 1.2% to EUR 9,462 million, mainly due to specific investments in the business and a modest year-on-year increase in staff costs. This was largely offset by stringent cost control and lower impairments on real estate development projects. The underlying cost/income ratio increased to 58.7% from 55.1% in 2010, mainly driven by lower income. Excluding market-related impacts, the cost/income ratio was 54.6% in 2011.

The underlying net addition to the provision for loan losses declined 4.3% to EUR 1,667 million from EUR 1,742 million in 2010. Risk costs in 2011 were 52 basis points of average risk-weighted assets compared with 53 basis points in 2010.

The underlying return on IFRS-EU equity was 10.5% in 2011, down from 13.2% in 2010.

BUSINESS DEVELOPMENTS

In 2011, ING Bank continued to show solid results despite the difficult macroeconomic environment and volatile financial markets. In addition to these challenging circumstances the vulnerable financial system remained a concern. The results were affected by the impairments on Greek government bonds. ING Bank withstood the market instability by carefully managing its exposure to sovereign bonds.

ING Bank has delivered on its priorities to strengthen its financial position, reduce risks, meet the restructuring requirements as imposed by the European Commission and to build a stronger bank.

The bank continued to make progress on meeting its Ambition 2013 targets. These are business improvement programme targets, mostly established in October 2009 and involve boosting underlying income, lowering overall costs, reducing risk costs and lifting return on equity.

In 2011, ING Bank's underlying income was EUR 16,115 million, underlying cost/income ratio was 58.7% and underlying return on equity based on IFRS-EU equity was 10.5%.

Given the changing market circumstances, new regulatory requirements and the fact that ING has realised to a large extend its Ambition 2013 goals, new performance goals have been set for 2015. These are: achieving a Return on (IFRS-EU) Equity of 10 – 13% under Basel III, while maintaining a core Tier 1 ratio of at least 10%, and bringing our cost/income ratio down to 50 – 53%.

Overview continued

In 2011, ING Bank proved its ability to generate capital by making a net profit of EUR 4.0 billion. Capital generation is needed to repay the Dutch State and to improve capital ratios while making selective investments to improve services to our clients.

ING Bank comfortably passed the 2011 EU-wide stress test conducted by the European Banking Authority (EBA) confirming the solid capital position of ING Bank thanks to the actions taken to de-risk and de-leverage the balance sheet.

ING Bank's capital position also met the new EBA capital target. By the end of June 2012, European banks must meet a 9% threshold for their core Tier 1 ratio under the EBA definition which includes valuing sovereign bond holdings at market rates. ING Bank already met the 9% requirement in 2011. ING Bank is well prepared to meet the new capital requirements proposed by Basel III and also has focus on the liquidity requirements to be met from 2013.

ING Bank is on the Financial Stability Board's list of Global Systemically Important Financial Institutions (G-SIFIs) which means it will be forced to hold more capital because of its importance to the global financial system. The package of additional policy measures to address SIFI's has been submitted for approval to the G20 in November 2011 by the Financial Stability Board.

ING Bank continued to manage costs carefully. It is more necessary than ever to reduce expenses to adapt to the leaner environment and maintain our competitive position. Streamlining the organisation and enhancing efficiency are therefore key.

Retail Banking Netherlands, for example, is taking steps to further cut costs and improve efficiency through operational excellence. Unfortunately this leads to substantial job cuts. We will effectuate these with the utmost care. The strategic measures are focused on further process improvements by reducing complexity and streamlining workflow.

Additional IT investments will help to reduce costs while delivering faster and more accurate service. They will also enable customers to manage their financial affairs through their preferred banking channel.

In 2011, financial markets were confronted by a worsening of the sovereign debt crisis in Europe. ING Bank maintained a prudent approach to risk, substantially reducing its government bond exposure to southern Europe and de-risking its total investment book. In addition, ING Bank's exposure to asset-backed securities and to real estate development projects and investments declined sharply.

In 2011, ING Bank realised a number of divestments. With the sale of ING Direct USA, ING Bank met one of the principal restructuring requirements of the European Commission. With the divestment of ING Car Lease, ING continued to sharpen the focus on its core banking franchise. The divestment of ING Real Estate Investment Management, completed in October, fits with ING Bank's strategic objectives of reducing exposure to real estate, simplifying the company and further strengthening the capital base. WestlandUtrecht Bank is now run as a separate entity and is being prepared for sale.

ING Bank's large retail deposit base is a significant source of funding. It is among the largest in Europe and underlines that ING Bank has a good funding position compared to other banks. Thanks to our strong funding position, we have increased lending to our customers even in uncertain times. The fact that we continued to provide customers with credit and products underlines our focus on customer centricity and will help build trusting relationships.

ING Bank's net inflow of funds entrusted in 2011 was EUR 18.8 billion compared to EUR 25.1 billion in 2010. The net production of lending in 2011 was equal to 2010: EUR 25.6 billion of which EUR 19.7 billion in mortgages.(net inflow/production is adjusted for foreign-exchange impacts and divestments).

Despite our strong funding position, we need to become even more self-reliant. To achieve this, our One Bank ambition and the further integration of our balance sheet remained a top priority during the year.

OPERATIONAL EXCELLENCE

Achieving true operational excellence is a key priority. It goes far beyond just cost-cutting. Operational excellence is about constantly improving products, processes and systems to structurally and sustainably increase efficiency. For ING Bank it means a simpler organisation with more time to focus on the customer.

An example of progress made in the area of operational excellence, was the integration of the commercial banking business in Germany with ING-DiBa, the direct retail banking business in Germany. The creation of the One Bank in Germany will optimise the banking businesses and customer services by making more efficient use of capital and liquidity. Another example was the launch of a new initiative by ING Direct France which allows customers to open savings accounts through an online-only process.

CUSTOMER CENTRICITY

Customers' needs are constantly evolving, so it is crucial to keep close to them, anticipate their every requirement and provide new products and services.

In the Netherlands, for example, ING Business Banking introduced an innovative and easy tool, based on the bank's in-depth knowledge of every industrial sector, to help clients assess their financial needs.

ING Bank continued working with the Net Promoter Score (NPS), which measures customer loyalty. Feedback from customer service is used to improve ways of doing business. It is therefore a measurement tool as well as a means of changing business culture and driving growth. An example of improved customer centricity is the implementation of customer complaints procedures by ING Bank Slaski and ING Bank Turkey. The changes reduce the amount of time needed to resolve complaints and allow ING Bank to better analyse customer feedback and thus improve its processes, products and services.

Overview continued

Mobile banking and social media initiatives are on the increase.
In several countries mobile banking has been introduced, including in the Netherlands where we launched a mobile banking app for private customers.
ING Bank uses social media like Facebook, Twitter and blogs to get closer to customers, to run special promotions, and to gather feedback to improve existing products and services and develop new ones.

ING Direct Canada, for example, used customer feedback to develop the THRiVE Chequing Account; an online, no-fee, daily checking account that pays interest.

TOP EMPLOYER

Being a top employer is another key priority of ING Bank because banking is a people's business. Having engaged and motivated employees is essential to achieving success.

As an employer, we play an important role in driving engagement. However, we are operating in a very challenging environment and the financial sector as a whole, and ING Bank in particular, is going through many changes. Staff therefore must handle a lot of concerns and uncertainties. It is of the utmost importance to us that our employees feel engaged and motivated, especially in these challenging times.

Several initiatives were taken in 2011 to enhance employee engagement, stimulate personal development and manage talent. ING Bank Slaski, for instance, developed an online programme to help staff map out their career opportunities. The programme is linked in with succession planning, the recruitment process and performance appraisals. As a result ING Bank Slaski has received Top Employer awards and continues to enjoy a strong standing in the Polish labour market.

Across ING Bank as a whole, the ING Commercial Bank Academy and ING Business School provide a coherent global learning and development strategy for staff around the world.

CONCLUSIONS

Looking ahead, ING Bank will continue to remain vigilant and focused on containing costs. This is all the more important as the bank operates in a fierce, competitive environment in difficult economic conditions and with increasing regulatory constraints.

ING Bank presented its banking strategy in January 2012. This strategy takes into account recent market, regulatory, consumer and technology trends.

In the short term the bank's priorities are to manage through the crisis, limiting balance sheet and risk-weighted asset growth and executing on-balance sheet optimisation.

We have strong funding capabilities and attractive home market positions in Northern Europe.

We will invest in IT to improve service and work towards operational excellence. We will continue to simplify the business portfolio and the organisation, while taking a prudent approach to capital and funding in the current unstable market conditions.

With our retail models converging, our ambition is to selectively evolve ING Direct into a full-service bank. ING Bank is well placed to capture growth opportunities in the high-growth markets of Central Europe and Asia. Our experience in lean and competitive markets has made us leaders in innovative distribution at low costs. This puts us in a good position as customers want simple, transparent and fairly priced products.

For Commercial Banking, we will continue to build on our existing strengths, such as our leading positions in the Benelux and in Structured Finance and Financial Markets, and our extensive international network in Central and Eastern Europe and beyond. Our intention is to sustain and further develop these pillars of our Commercial Banking franchise in order to support growth initiatives elsewhere.

Financial developments business lines

RETAIL BANKING

Retail Banking's underlying result before tax declined to EUR 2,944 million from EUR 3,601 million in 2010 mainly due to EUR 363 million of impairments on Greek government bonds and EUR 181 million of losses from selective de-risking of exposures at ING Direct. Net production in client balances was EUR 51.1 billion, including a net inflow of EUR 22.5 billion in funds entrusted and EUR 27.3 billion in lending, of which EUR 19.7 billion was in residential mortgages and EUR 7.6 billion in other lending. Assets under management reported a net inflow of EUR 1.3 billion.

Total underlying income decreased by 4.4% to EUR 10,903 million. The interest result declined 1.0%, as the impact of higher volumes was more than offset by lower interest margins on most products, especially in the Netherlands. The interest results of ING Direct and Central Europe increased as volume growth outpaced the impact of lower margins. Commission income was 2.8% down as declines in the Benelux and Central Europe were only partly offset by increases in ING Direct and Asia. Investment and other income declined significantly, mainly due to the impairments on Greek government bonds and the losses from selective de-risking of exposures at ING Direct.

Underlying operating expenses were up 3.4% to EUR 6,768 million mainly due to increased staff costs, higher marketing spending, the introduction of new products and investments in the branch network in Spain. The underlying cost/income ratio increased to 62.1% from 57.4% in 2009.

The addition to the loan loss provisions declined 4.9% to EUR 1,191 million in 2011, or 67 basis points of average risk weighted assets compared with 70 basis points in 2010. This decline was mainly caused by lower risk costs in the Benelux, especially in the mid-corporate and SME segments, although the level remained elevated and started to increase again in the last quarter of 2011. Risk costs at ING Direct and Central Europe were higher compared with 2010.

The underlying return on equity, based on a 10% core Tier 1 ratio, dropped to 12.0% from 14.8% in 2010, due to the decline in results. In 2011, total risk-weighted assets increased by 2.0% to EUR 179 billion at year-end, mainly outside the Benelux.

RETAIL NETHERLANDS

The underlying result before tax of Retail Netherlands decreased 8.2% to EUR 1,261 million in 2011 from EUR 1,374 million in 2010, principally driven by lower income and higher expenses, partly offset by a decrease in risk costs. Total underlying income decreased 3.8% to EUR 4,146 million in 2011. This decrease was mainly the result of a 5.3% decline in interest result, due to increased competition for savings putting pressure on margins. Net production in residential mortgages was EUR 3.6 billion, while volumes in other lending decreased EUR 0.2 billion and margins declined. Funds entrusted increased EUR 3.1 billion, mainly driven by a successful marketing campaign for a one-year deposit in the fourth quarter.

Operating expenses rose 2.2% to EUR 2,428 million in 2011, mainly as a consequence of higher pension costs following updated mortality tables and an impairment on software in WestlandUtrecht Bank. The addition to loan loss provisions decreased 18.4% to EUR 457 million, or 93 basis points of average risk-weighted assets, mainly due to lower additions for specific files in the mid-corporate and SME segments, although the level started to increase again in the last quarter of 2011.

RETAIL BELGIUM

The underlying result before tax of Retail Belgium fell 16.4% on 2010, as a slight decline in income was accompanied by higher operating expenses. Income decreased 0.8% compared to 2010, mainly due to EUR 17 million of impairments on Greek government bonds. Interest result remained flat, as a decline in margins was compensated by higher volumes, particularly in savings and lending. Net production in mortgages totaled EUR 3.0 billion in 2011, while production in other lending was EUR 3.2 billion. The net production in funds entrusted was EUR 3.0 billion, mainly driven by the success of the Orange Book savings product in the beginning of the year.

Operating expenses increased 6.5% on 2010 to EUR 1,432 million, mainly reflecting higher staff expenses, increased contribution to the deposit guarantee scheme and higher marketing expenses. The addition to the provision for loan losses declined 9.4%, to EUR 145 million, or 77 basis points of average risk weighted assets, mainly attributable to releases in the mid-corporate segment.

ING DIRECT

The underlying result before tax of ING Direct declined 31.1% to EUR 999 million compared to EUR 1,450 million in 2010. The decrease was due to EUR 326 million higher impairments on debt securities (including EUR 346 million of impairments on Greek government bonds) and EUR 181 million of losses from the selective sale of mainly unsecured and ABS exposures in the investment portfolio. Underlying income decreased to EUR 3,423 million from EUR 3,782 million last year, fully due to abovementioned impairments and losses. The interest result increased by 2.4%, or EUR 91 million, driven by higher volumes while the interest margin remained stable at 1.24%. The interest result in the US continued to benefit from the IFRS treatment on previously impaired bonds, which had a positive impact of EUR 168 million in 2011, down from EUR 230 million in 2010. The total net production in mortgages was EUR 12.4 billion while funds entrusted reported a net inflow of EUR 13.7 billion.

Financial developments business lines continued

Operating expenses increased by 4.0%, reflecting higher marketing expenses (particularly in Germany, Italy, France and Spain) and higher costs to set up a limited number of branches in Spain and further roll out of payment accounts in France, Italy and Canada. The addition to loan loss provisions increased to EUR 462 million, or 61 basis points of average risk-weighted assets, from EUR 446 million in 2010 (or 59 basis points of average risk-weighted assets). The increase was driven by the lower anticipated recovery rates in the US, partially offset by lower risk costs in Germany.

RETAIL CENTRAL EUROPE

The underlying result before tax of Retail Central Europe rose 2.6% to EUR 158 million, driven by higher results in Poland, partly offset by lower results in Turkey due to increased risk costs. Underlying income in Central Europe increased 5.2% as higher income in Poland and Romania was partly offset by lower income in Turkey, mainly due to negative currency effects. Overall volumes in Poland remained relatively stable, while margins improved, particularly in savings and current accounts. In Turkey, a variable savings product was launched which led to a slight decrease in margin and an increase in volumes. In Romania, both volumes and margins remained largely stable in Romania. Net production of lending in Central Europe was EUR 3.5 billion, while the net inflow of funds entrusted was EUR 2.2 billion.

Operating expenses were up 1.6% driven by the increased client activity. The addition to loan loss provisions rose to EUR 97 million, or 42 basis points of average risk-weighted assets, compared with EUR 61 million, or 28 basis points of average risk-weighted assets, in 2010. Risk costs increased mainly in Turkey due to business growth, while the level in 2010 was low due to releases of specific provisions and improved data quality.

RETAIL ASIA

Retail Asia's underlying result before tax declined to EUR 72 million in 2011 from EUR 80 million in 2010. This decline was mainly the result of lower income, primarily as a result of unfavorable currency movements. Excluding currency impacts, underlying income was up, driven by ING Vysya Bank, where higher interest results were coupled with increased fee income and higher other income. Net production in lending was EUR 1.2 billion in 2011, while the net inflow of funds entrusted was EUR 0.5 billion. The increased profit contribution from ING Bank's share in the result of TMB in Thailand and higher dividends from Bank of Beijing were offset by higher funding costs resulting in an overall decline of the interest result.

Operating expenses were down 3.9% to EUR 173 million, but increased adjusted for currency effects, mainly as a result of business expansion in India. The addition to loan loss provisions rose by EUR 4 million to EUR 30 million, or 32 basis points of average risk-weighted assets in 2011, mainly as a result of higher non-performing loans at ING Vysya Bank.

COMMERCIAL BANKING

The underlying result before tax of Commercial Banking decreased 8.9% to EUR 2,020 million from EUR 2,217 million in 2010. ING Real Estate recorded a profit before tax of EUR 34 million compared with a loss of EUR 109 million in 2010. The underlying result before tax of Commercial Banking excluding Real Estate dropped 14.6% to EUR 1,986 million.

The decrease in the underlying result before tax of Commercial Banking excluding Real Estate was largely attributable to Financial Markets, whose result declined by EUR 420 million to EUR 499 million in 2011, partly caused by EUR 225 million of impairments on Greek government bonds. Excluding these impairments, underlying result of Financial Markets declined by EUR 195 million (or -21.2%), following adverse market circumstances as well as the winding down of the proprietary trading book in the US. Underlying result of General Lending and Payments and Cash Management (PCM) declined by 9.9% to EUR 410 million in 2011 from EUR 455 million in 2010. This was mainly driven by impairments on the restructuring portfolio, as well as higher expenses due to selective IT investments in PCM. The result of Structured Finance rose by 21.4% to EUR 1,139 million in 2011, driven by strong volume growth in the first half of 2011 resulting in higher interest results and commission income, while risk costs were lower. The result of Leasing & Factoring declined EUR 5 million to EUR 75 million entirely due to higher risk costs.

ING Real Estate reported an underlying profit before tax of EUR 34 million, compared with a loss of EUR 109 million in 2010. Negative fair value changes on the direct and indirect real estate investments as well as impairments on real estate development projects declined to EUR 273 million in 2011, compared with EUR 434 million in 2010. Excluding revaluations and impairments, underlying result before tax decreased EUR 18 million to EUR 307 million in 2011 from EUR 325 million in 2010, mainly due to higher risk costs at Real Estate Finance.

In 2011, net production of client balances was EUR 5.8 billion negative. Funds entrusted reported a net outflow of EUR 3.6 billion, while lending was EUR 1.7 billion down as demand was subdued. Assets under management declined EUR 0.6 billion.

Total underlying income of Commercial Banking declined 6.1% to EUR 5,023 million, mainly in Financial Markets, which included EUR 225 million of impairments on Greek government bonds in 2011, partly compensated by higher income from Structured Finance.

Underlying operating expenses were 4.4% lower on EUR 2,527 million driven by lower impairments on real estate development projects. The underlying cost/income ratio was 50.3%, slightly up from 49.4% in 2010.

Risk costs decreased to EUR 476 million compared with EUR 489 million in 2010. Declines in Structured Finance and General Lending were partly offset by higher risk costs in Real Estate Finance and Leasing. In 2011, risk costs were 35 basis points of average risk-weighted assets up from 33 basis points in 2010.

Financial developments business lines continued

The underlying return on equity, based on a 10% core Tier 1 ratio, decreased slightly to 11.2% from 11.6% in 2010, due to the decline in results, partly offset by lower average risk-weighted assets supported by positive risk migration. At year-end 2011, however, risk-weighted assets were 3.5% higher than a year ago, due to the implementation of Capital Requirements Directive III in December 2011.

Corporate governance

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

[(1)] Dutch Bulletin of Acts (Staatsblad) 2009, 154.

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

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

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

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

As ING Group is subject to the US Sarbanes-Oxley Act, its Executive Board assessed the effectiveness of its internal control over financial reporting as of 31 December 2011, which was audited by ING Group's external auditor. For more information, please refer to the 2011 Annual Report of ING Group which is available on its website (www.ing.com).

EXTERNAL AUDITOR
After a maximum period of five years of performing the financial audit of ING Bank N.V., the lead audit partners of the external audit firm and the audit partners responsible for reviewing the audits, have to be replaced by other partners of the external audit firm. The Audit Committee provides recommendations to the Supervisory Board regarding these replacements based, among other things, on an annual evaluation of the provided services. In line with this requirement, the lead audit partner of Ernst & Young will be succeeded after the year-end audit 2011. The rotation of other partners involved with the audit of the financial statements of ING is subject to applicable independence legislation.

DUTCH BANKING CODE
Pursuant to the Decree with respect to the contents of the annual report of banks *(Besluit tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag van banken)* [(1)], ING Bank is to report on its application of the Dutch Banking Code *(Code Banken)*. The Banking Code can be downloaded from the website of the Dutch Banking Association (www.nvb.nl). ING Bank's report on its application of the Banking Code can be found in the publication *Application of the Dutch Banking Code by ING Bank N.V.,* which is available on the website of ING Group (www.ing.com).

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

AMSTERDAM, 12 MARCH 2012
THE MANAGEMENT BOARD BANKING

Conformity statement

The Management Board 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 International Financial Reporting Standards (IFRS) as adopted 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 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 judgments and estimates that are prudent and reasonable. It is also responsible for establishing and maintaining internal procedures which ensure that all major financial information is known to the Management Board, 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. 2011 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 entities included in the consolidation taken as a whole;
- the ING Bank N.V. 2011 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 2011 of ING Bank N.V. and the entities included in the consolidation taken as a whole, together with a description of the principal risks ING Bank N.V. is confronted with.

AMSTERDAM, 12 MARCH 2012

JAN H.M. HOMMEN
CEO, chairman of the Management Board

J.V. (KOOS) TIMMERMANS
vice-chairman of the Management Board

PATRICK G. FLYNN
CFO, member of the Management Board

WILFRED F. NAGEL
CRO, member of the Management Board

WILLIAM L. CONNELLY
CEO Commercial Banking, member of the Management Board

C.P.A.J. (ELI) LEENAARS
CEO Retail Banking Direct and International, member of the Management Board

HANS VAN DER NOORDAA
CEO Retail Banking Benelux, member of the Management Board

Report of the Supervisory Board

TO SHAREHOLDERS

The Supervisory Board hereby presents you the 2011 Annual Report of ING Bank N.V. The Annual Report includes the report of the Management Board, the Annual Accounts and Other information.

ANNUAL ACCOUNTS AND DIVIDEND

The Annual Accounts have been prepared by the Management Board and have been discussed by the Supervisory Board. They are presented to you for adoption. On 13 May 2011 ING Bank paid a dividend of EUR 3 billion, from other reserves, to ING Group. It is proposed to appropriate the 2011 result to other reserves.

MEETINGS

The Supervisory Board met nine times in 2011 of which eight meetings were regular meetings. On average, 94% of the Supervisory Board members were present at the scheduled meetings. Apart from closely monitoring the financial results in 2011, the Supervisory Board also frequently discussed the strategy, the progress in executing the restructuring plan of the European Commission (EC) as well as the repayment to the Dutch State. In the second half of 2011 the sovereign debt crisis and the impact on the banking business were also important topics on the agenda.

In 2011, the Audit Committee met five times, with one absentee once, to discuss the annual and quarterly results and the reports from the external auditor. The exposures on the Southern European countries, and more specifically the restructuring and impairment of Greek government bonds, were a topic of frequent debate during the year. Cost development within ING, as well as management actions concerned, were discussed several times during the year. Next to financial reporting, the Audit Committee also discussed topics such as internal control over financial reporting, the implementation of a new payments control framework for commercial payments, capital management and regulatory matters. In November a proposal for evaluation of the performance of the external auditor Ernst & Young was discussed. The results of the evaluation were discussed in the February 2012 Audit Committee meeting. Directly following the Audit Committee meetings, the members of the Audit Committee met with the internal and external auditors to confirm that all relevant topics were discussed in the Audit Committee meeting.

The Risk Committee met four times, with twice one absentee. In each Risk Committee meeting the financial risk reports and the non-financial risk reports were discussed. The risk appetite statements for 2011 were discussed and approved in February 2011. Management reported on the outcome of stress tests for banking. The exposure on the Southern European countries and the possible risks for ING as a result of the European financial crisis were closely monitored by the Risk Committee. Each meeting ended with a general discussion on possible future risks.

The Nomination Committee met four times in 2011, with one absentee once, to discuss the future composition of the Supervisory Board as well as the succession planning of the Management Board. The Nomination Committee discussed various appointments in the Management Board Banking, which were publicly announced in October 2011. The Nomination Committee advised positively on a number of Supervisory Board candidates for appointment in the 2012 Annual General Meeting (AGM). The Nomination Committee advised positively on the proposed Supervisory Board Nomination Procedure.

In 2011, the Remuneration Committee met seven times, with twice one absentee. In February 2011, the 2010 performance of the individual Management Board members was discussed on the basis of the group performance criteria and the individual targets. The impact of the new EU Capital Requirements Directive (CRD III) and the DNB Principles for Sound Remuneration was discussed throughout the year, resulting in positive advice on the proposed remuneration frameworks and implementation plans for ING Bank. During the year the Remuneration Committee advised positively on various retention packages in light of planned divestments.

COMPOSITION OF THE BOARDS

Composition of the Management Board Banking

As of 1 October 2011, Eric Boyer de la Giroday retired from the Management Board Banking as vice-chairman. As of the same date, Koos Timmermans succeeded him as vice-chairman of the Management Board Banking. Wilfred Nagel was appointed chief risk officer and member of the Management Board Banking per 5 October 2011.

COMPOSITION OF THE SUPERVISORY BOARD

Claus Dieter Hoffmann retired from the Supervisory Board at the end of the annual General Meeting in May 2011. Joan Spero stepped down from the Supervisory Board for personal reasons on 27 May 2011. Sjoerd van Keulen, Joost Kuiper and Luc Vandewalle were appointed to the Supervisory Board on 9 May 2011. Following the annual General Meeting, Jeroen van der Veer succeeded Peter Elverding as chairman of the Supervisory Board. Peter Elverding was appointed vice-chairman.

The Supervisory Board has nominated three new candidates for appointment at the 2012 AGM on 14 May 2012: Yvonne van Rooy, Jan Holsboer and Robert Reibestein. For the proposed appointments approval has been obtained from the Dutch central bank.

APPRECIATION FOR THE MANAGEMENT BOARD AND ING EMPLOYEES

The Supervisory Board would like to thank the members of the Management Board Banking for their continued commitment to ING in 2011. During 2011 decisive steps have been taken in executing the EC restructuring agreement. The Supervisory Board would also like to thank the over 70,000 employees of ING Bank N.V. who have continued to serve customers with their best efforts and made a large contribution to ING's results in the past year.

AMSTERDAM, 12 MARCH 2012
THE SUPERVISORY BOARD

This page was intentionally left blank

Consolidated balance sheet of ING Bank

as at 31 December

amounts in millions of euros	2011	2010
ASSETS		
Cash and balances with central banks 1	**28,112**	9,519
Amounts due from banks 2	**45,323**	51,828
Financial assets at fair value through profit and loss 3		
– trading assets	**123,176**	125,070
– non-trading derivatives	**10,076**	8,990
– designated as at fair value through profit and loss	**2,838**	3,066
Investments 4		
– available-for-sale	**74,935**	99,200
– held-to-maturity	**8,868**	11,693
Loans and advances to customers 5	**577,569**	587,448
Investments in associates 6	**827**	1,494
Real estate investments 7	**435**	562
Property and equipment 8	**2,417**	5,615
Intangible assets 9	**1,743**	2,265
Assets held for sale 10	**62,483**	300
Other assets 11	**22,363**	26,023
Total assets	**961,165**	933,073
EQUITY		
Shareholders' equity (parent) 12	**34,367**	34,452
Minority interests	**693**	617
Total equity	**35,060**	35,069
LIABILITIES		
Subordinated loans 13	**18,408**	21,021
Debt securities in issue 14	**130,926**	125,066
Amounts due to banks 15	**72,233**	72,852
Customer deposits and other funds on deposit 16	**479,364**	519,304
Financial liabilities at fair value through profit and loss 17		
– trading liabilities	**107,682**	108,049
– non-trading derivatives	**18,161**	15,825
– designated as at fair value through profit and loss	**13,021**	12,707
Liabilities held for sale 10	**64,265**	145
Other liabilities 18	**22,045**	23,035
Total liabilities	**926,105**	898,004
Total equity and liabilities	**961,165**	933,073

References relate to the notes starting on page 37. 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	2011	2011	2010	2010	2009	2009
Interest income	**65,204**		68,952		80,348	
Interest expense	**–51,620**		–55,365		–67,586	
Interest result 31		**13,584**		13,587		12,762
Investment income 32		**–544**		447		–1,742
Net result on disposals of group companies 33		**813**		313		–13
Gross commission income	**3,471**		3,556		3,553	
Commission expense	**–976**		–923		–875	
Commission income 34		**2,495**		2,633		2,678
Valuation results on non-trading derivatives 35		**156**		–724		–921
Net trading income 36		**311**		1,195		833
Share of profit from associates 6		**32**		104		–388
Other income 37		**348**		346		456
Total income		**17,195**		17,901		13,665
Addition to loan loss provisions 5		**1,670**		1,751		2,973
Intangible amortisation and other impairments 38		**321**		504		496
Staff expenses 39		**5,506**		5,570		5,243
Other operating expenses 40		**4,399**		4,093		4,453
Total expenses		**11,896**		11,918		13,165
Result before tax		**5,299**		5,983		500
Taxation 41		**1,216**		1,408		–43
Net result (before minority interests)		**4,083**		4,575		543
Attributable to:						
Shareholders of the parent		**4,005**		4,495		684
Minority interests		**78**		80		–141
		4,083		4,575		543

	2011	2010	2009
Dividend per ordinary share (in euros)	**6.45**	0.43	0.00
Total amount of dividend paid (in millions of euros)	**3,000**	200	0

References relate to the notes starting on page 37. 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	2011	2010	2009
Net result	**4,083**	4,575	543
Unrealised revaluations after taxation [1]	**–945**	–760	5,554
Realised gains/losses transferred to profit and loss [1]	**406**	–293	877
Changes in cash flow hedge reserve	**–182**	–167	–344
Exchange rate differences	**–477**	1,089	333
Other revaluations	**–13**	25	–75
Total amount recognised directly in equity (other comprehensive income)	**–1,211**	–106	6,345
Total comprehensive income	**2,872**	4,469	6,888
Comprehensive income attributable to:			
Shareholders of the parent	**2,796**	4,377	7,125
Minority interests	**76**	92	–237
	2,872	4,469	6,888

[1] Reference is made to Note 12 'Shareholders' equity (parent)' for a breakdown of the individual components.

The Unrealised revaluations after taxation comprises EUR –4 million (2010: EUR –10 million; 2009: EUR 2 million) related to the share of other comprehensive income of associates.

The Exchange rate differences comprises EUR –12 million (2010: EUR 100 million; 2009: EUR 70 million) related to the share of other comprehensive income of associates.

Reference is made to Note 41 'Taxation' for the disclosure on the income tax effects on each component of the other comprehensive income, except for the component Net result which is disclosed in the Consolidated profit and loss account.

Consolidated statement of cash flows of ING Bank

for the years ended 31 December

amounts in millions of euros		2011	2010	2009
Result before tax		**5,299**	5,983	500
Adjusted for	– depreciation	**1,338**	1,533	1,488
	– addition to loan loss provisions	**1,670**	1,751	2,973
	– other	**1,227**	971	3,674
Taxation paid		**–1,067**	–488	–551
Changes in	– amounts due from banks, not available on demand	**2,208**	–4,333	8,611
	– trading assets	**1,662**	–14,641	47,893
	– non-trading derivatives	**1,407**	–2,062	827
	– other financial assets at fair value through profit and loss	**432**	1,038	1,878
	– loans and advances to customers	**–26,392**	–19,665	9,489
	– other assets	**–2,095**	1,769	2,298
	– amounts due to banks, not payable on demand	**–6,731**	–9,831	–67,410
	– customer deposits and other funds on deposit	**30,569**	21,052	14,266
	– trading liabilities	**–369**	9,804	–54,366
	– other financial liabilities at fair value through profit and loss	**75**	952	–2,557
	– other liabilities	**–310**	–4,919	–4,733
Net cash flow from operating activities		**8,923**	–11,086	–35,720
Investments and advances	– group companies			–5
	– associates	**–35**	–104	–70
	– available-for-sale investments	**–155,004**	–89,614	–58,424
	– held-to-maturity investments		–141	
	– real estate investments	**–9**	–57	–114
	– property and equipment	**–422**	–450	–541
	– assets subject to operating leases	**–1,188**	–1,284	–1,034
	– other investments	**–263**	–241	–275
Disposals and redemptions	– group companies	**1,384**	1,663	
	– associates	**263**	88	108
	– available-for-sale investments	**155,826**	88,333	62,669
	– held-to-maturity investments	**2,370**	2,620	1,675
	– real estate investments	**83**	289	648
	– property and equipment	**52**	40	65
	– assets subject to operating leases	**43**	53	93
	– loan portfolio	**927**	105	18
	– other investments		3	6
Net cash flow from investing activities 44		**4,027**	1,303	4,819
Proceeds from issuance of subordinated loans		**2,363**	944	1,931
Repayments of subordinated loans		**–5,381**	–1,787	–1,985
Proceeds from borrowed funds and debt securities		**382,664**	318,206	419,224
Repayments of borrowed funds and debt securities		**–380,424**	–308,939	–397,639
Issuance of ordinary shares/capital injection				150
Dividends paid		**–3,000**	–200	
Net cash flow from financing activities		**–3,778**	8,224	21,681
Net cash flow 45		**9,172**	–1,559	–9,220
Cash and cash equivalents at beginning of year		**17,188**	18,170	27,395
Effect of exchange rate changes on cash and cash equivalents		**–143**	577	–5
Cash and cash equivalents at end of year 46		**26,217**	17,188	18,170

As at 31 December 2011 Cash and cash equivalents includes Cash and balances with central banks of EUR 28,112 million (2010: EUR 9,519 million; 2009: EUR 12,602 million). Reference is made to Note 46 ‘Cash and cash equivalents’.

References relate to the notes starting on page 37. These form an integral part of the consolidated annual accounts.

Consolidated statement of changes in equity of ING Bank

for the years ended 31 December

amounts in millions of euros	Share capital	Share premium	Reserves	Total shareholders' equity (parent)	Minority interests	Total equity
Balance as at 1 January 2009	525	16,392	5,972	22,889	1,232	24,121
Unrealised revaluations after taxation			5,554	5,554		5,554
Realised gains/losses transferred to profit and loss			877	877		877
Changes in cash flow hedge reserve			–344	–344		–344
Exchange rate differences			333	333		333
Other revaluations			21	21	–96	–75
Total amount recognised directly in equity			6,441	6,441	–96	6,345
Net result			684	684	–141	543
Total comprehensive income			7,125	7,125	–237	6,888
Employee stock options and share plans			58	58		58
Dividends						
Capital injection		150		150		150
Balance as at 31 December 2009	525	16,542	13,155	30,222	995	31,217
Unrealised revaluations after taxation			–760	–760		–760
Realised gains/losses transferred to profit and loss			–293	–293		–293
Changes in cash flow hedge reserve			–167	–167		–167
Exchange rate differences			1,089	1,089		1,089
Other revaluations			13	13	12	25
Total amount recognised directly in equity			–118	–118	12	–106
Net result			4,495	4,495	80	4,575
Total comprehensive income			4,377	4,377	92	4,469
Employee stock options and share plans			53	53		53
Changes in the composition of the group [1]					–470	–470
Dividends			–200	–200		–200
Balance as at 31 December 2010	525	16,542	17,385	34,452	617	35,069
Unrealised revaluations after taxation			**–945**	**–945**		**–945**
Realised gains/losses transferred to profit and loss			**406**	**406**		**406**
Changes in cash flow hedge reserve			**–182**	**–182**		**–182**
Exchange rate differences			**–477**	**–477**		**–477**
Other revaluations			**–11**	**–11**	**–2**	**–13**
Total amount recognised directly in equity			**–1,209**	**–1,209**	**–2**	**–1,211**
Net result			**4,005**	**4,005**	**78**	**4,083**
Total comprehensive income			**2,796**	**2,796**	**76**	**2,872**
Employee stock options and share plans			**119**	**119**		**119**
Dividends			**–3,000**	**–3,000**		**–3,000**
Balance as at 31 December 2011	**525**	**16,542**	**17,300**	**34,367**	**693**	**35,060**

[1] Changes in the composition of the group in 2010 mainly relates to the sale of ING Summit Industrial Fund LP. Reference is made to Note 26 'Companies acquired and companies disposed'.

In 2009, an amount of EUR 150 million additional share premium was received from ING Group to strengthen solvency.

Reserves include Revaluation reserve of EUR 550 million (2010: EUR 1,457 million; 2009: EUR 2,329 million), Currency translation reserve of EUR 209 million (2010: EUR 500 million; 2009: EUR –241 million) and Other reserves of EUR 16,541 million (2010: EUR 15,428 million; 2009: EUR 11,067 million). Changes in individual components are presented in Note 12 'Shareholders' equity (parent)'.

Accounting policies for the consolidated annual accounts of ING Bank

AUTHORISATION OF ANNUAL ACCOUNTS

The consolidated annual accounts of ING Bank N.V. ('ING Bank') for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Management Board on 12 March 2012. 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.

BASIS OF PRESENTATION

ING Bank applies International Financial Reporting Standards as adopted by the European Union ('EU').

The following standards, interpretations and amendments to standards and interpretations became effective for ING Bank in 2011:
- Amendment to IAS 32 'Classification of Rights Issues';
- Amendment to IAS 24 'Related Party Disclosures';
- Amendment to IFRIC 14 'Prepayments of a Minimum Funding Requirement';
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'; and
- 2010 Annual Improvements to IFRS.

None of these new or revised standards and interpretations had a significant effect on the consolidated annual accounts.

The following new or revised standards and interpretations were issued by the IASB, which become effective for ING Bank after 2011, if and when endorsed by the EU:
- Amendments to IFRS 7 'Disclosures – Transfers of Financial Assets', effective as of 2012;
- Amendments to IAS 12 'Deferred tax – Recovery of Underlying Assets', effective as of 2012;
- IFRS 10 'Consolidated Financial Statements', effective as of 2013;
- IFRS 11 'Joint Arrangements', effective as of 2013;
- IFRS 12 'Disclosure of Interests in Other Entities', effective as of 2013;
- IFRS 13 'Fair Value Measurement', effective as of 2013;
- IAS 28 'Investments in Associates and Joint Ventures', effective as of 2013;
- Amendments to IAS 1 'Presentation of Financial Statements – Presentation of Items of Other income', effective as of 2013;
- Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities', effective as of 2013; and
- Amendments to IAS 32 'Offsetting Financial Assets and Liabilities', effective as of 2014.

Although these new requirements are still being analysed and the final impact is not yet known, ING Bank does not expect the adoption of these new or revised standards and interpretations to have a significant effect on the equity and/or result of ING Bank.

Furthermore, in 2009 IFRS 9 'Financial Instruments' was issued, which was initially effective as of 2013. However in December 2011 the International Accounting Standards Board decided to amend this standard and to postpone the mandatory application of IFRS 9 until 2015. This standard is not yet endorsed by the EU and, therefore, is not yet part of IFRS-EU. Implementation of IFRS 9 – if and when endorsed by the EU – may have a significant impact on equity and/or result of ING Bank.

In June 2011 the revised IAS 19 'Employee Benefits' was issued, which will become effective as of 2013 if endorsed by the EU. At this moment, the revised standard is being analysed and the full impact is not yet known. One of the changes in the revised standard results in immediate recognition in equity of 'unrecognised actuarial gains and losses' as of the effective date. Unrecognised actuarial gains and losses as at 31 December 2011 are disclosed in Note 18 'Other liabilities' and amount to EUR 613 million (pre-tax). The impact of the revised standard will be affected by movements in the unrecognised actuarial gains and losses until the effective date and the impact of other changes in the revised standard.

International Financial Reporting Standards as adopted by the EU provide several options in accounting policies. ING Bank's accounting policies under these Standards and its decision on the options available are set out in the section 'Principles of valuation and determination of results' below.

In this document 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 International Financial Reporting Standards as adopted by the EU.

As explained in the section 'Principles of valuation and determination of results' and in Note 21 '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.

Accounting policies for the consolidated annual accounts of ING Bank continued

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 have 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.

The comparison of balance sheet items between 31 December 2011 and 31 December 2010 is impacted by the disposed companies as disclosed in Note 26 'Companies acquired and companies disposed' and by the held for sale classification as disclosed in Note 10 'Assets and liabilities held for sale'.

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 the loan loss provision, the determination of the fair values of real estate and financial assets and liabilities, impairments and employee benefits. In each case, the determination of these items is fundamental to the financial condition and results of operations, and requires management to make complex judgements based on information and financial data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgements as to future events and are subject to change, as the use of different assumptions or data could produce materially 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.

The valuation of real estate involves various assumptions and techniques. The use of different assumptions and techniques could produce significantly different valuations. 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

In certain markets that have become significantly less liquid or illiquid, the range of prices for the same security from different price sources can be significant. Selecting the most appropriate price within this range requires judgement. The choice of different prices could produce significantly 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.

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

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 (the combination of) 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 impairment 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

EMPLOYEE BENEFITS

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

The liability recognised in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains and losses and unrecognised past service costs.

The determination of the defined benefit plan liability is based on internal and external actuarial models and calculations. The defined benefit obligation is calculated using the projected unit credit method. Inherent in these actuarial models are assumptions including discount rates, rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs, consumer price index, and the expected return on plan assets. The assumptions are based on available market data and the historical performance of plan assets and are updated annually.

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 liabilities and future pension costs. The effects of changes in actuarial assumptions and experience adjustments are not recognised in the profit and loss account unless the accumulated changes exceed 10% of the greater of the defined benefit obligation and the fair value of the plan assets. If such is the case the excess is then amortised over the employees' expected average remaining working lives. Reference is made to Note 18 'Other liabilities' for the weighted averages of basic actuarial assumptions in connection with pension and other post-employment benefits.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULTS

CONSOLIDATION

ING Bank ('the Bank') comprises ING Bank N.V. and all subsidiaries. The consolidated financial statements of ING Bank comprise the accounts of ING Bank N.V. and all entities in which it either owns, directly or indirectly, more than half of the voting power or over which it has control of their operating and financial policies, through situations including, but not limited to:

- Ability to appoint or remove the majority of the board of directors;
- Power to govern such policies under statute or agreement; and
- Power over more than half of the voting rights through an agreement with other investors.

A list of principal subsidiaries is included in Note 25 'Principal subsidiaries'.

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

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

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

All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Bank companies are eliminated. Where necessary, the accounting policies used by subsidiaries are changed to ensure consistency with ING Bank's policies. In general, the reporting dates of subsidiaries are the same as the reporting date of ING Bank N.V.

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

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

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

Accounting policies for the consolidated annual accounts of ING Bank continued

Disposal groups held for sale
Disposal groups held for sale are measured at the lower of their carrying amount or fair value less cost to sell. Disposal groups (and 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 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.

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
An operating 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 operating 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 36 '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 Net result on disposals of group companies. Reference is made to Note 12 'Shareholders' equity (parent)', 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 shareholders' 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

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 30 'Fair values of financial assets and liabilities' for the basis of the determination of the fair values of financial instruments.

FINANCIAL ASSETS

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. In transfers where control over the asset is retained, ING Bank continues to recognise the asset to the extent of its continuing involvement. The extent of continuing involvement is determined by the extent to which ING Bank is exposed to changes in the value of the asset.

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.

Accounting policies for the consolidated annual accounts of ING Bank continued

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 using the effective interest method. 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. 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

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

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

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

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

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

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

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

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

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

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

Accounting policies for the consolidated annual accounts of ING Bank continued

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 or Amounts due from banks, 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.

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.

Accounting policies for the consolidated annual accounts of ING Bank continued

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 uncollectible, 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.

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

INVESTMENTS IN ASSOCIATES

Associates are all entities over which ING Bank has significant influence but not control. Significant influence generally results from a shareholding of between 20% and 50% of the voting rights, but also is the ability to participate in the financial and operating policies through situations including, but not limited to one or more of the following:

- Representation on the board of directors;
- Participation in the policymaking process; and
- Interchange of managerial personnel.

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

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

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

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

Accounting policies for the consolidated annual accounts of ING Bank continued

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 rental 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 large real estate portfolio, widely diversified by region, by investment segment (Office, Retail and Residential) and by investment type (Core, Value Add and Opportunistic). 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. For ING's main direct properties in its main locations, the yields applied in the 2011 year-end valuation generally are in the range of 5% to 8%.

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 shareholders’ 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

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. Reference is made to the section 'Leases'.

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

Accounting policies for the consolidated annual accounts of ING Bank continued

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 attains control) and the resulting gain or loss, if any, is recognised in the profit or 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 or loss account, where such treatment would be appropriate if that interest were disposed of. Acquisition-related costs are recognised in the profit or 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 shareholders' 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

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

FINANCIAL LIABILITIES

Financial liabilities at amortised cost

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

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

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

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

Financial liabilities at fair value through profit and loss

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

Financial guarantee contracts

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

OTHER LIABILITIES

Employee benefits – pension obligations

ING Bank companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. ING Bank has both defined benefit and defined contribution plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses and unrecognised past service costs. The defined benefit obligation is calculated annually by internal and external actuaries using the projected unit credit method.

The expected value of assets is calculated using the expected rate of return on plan assets. Differences between the expected return and the actual return on these plan assets and actuarial changes in the defined benefit obligation are not recognised in the profit and loss account, unless the accumulated differences and changes exceed 10% of the greater of the defined benefit obligation and the fair value of the plan assets. The excess is recognised in the profit and loss account over employees' remaining working lives. In accordance with IFRS-EU transition provisions, the corridor was reset to nil at the date of transition to IFRS-EU.

The value of any plan asset recognised is restricted to the sum of any past service costs not yet recognised and the present value of any economic benefit available in the form of refunds from the plan or reductions in the future contributions to the plan.

Accounting policies for the consolidated annual accounts of ING Bank continued

For defined contribution plans, ING Bank pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. ING Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as staff expenses 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 material using a pre-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

Accounting policies for the consolidated annual accounts of ING Bank continued

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

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

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

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

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

Notes to the consolidated annual accounts of ING Bank

Amounts in millions of euros, unless stated otherwise

ASSETS

1 CASH AND BALANCES WITH CENTRAL BANKS

Cash and balances with central banks		
	2011	2010
Amounts held at central banks	**26,481**	7,983
Cash and bank balances	**1,631**	1,536
	28,112	9,519

2 AMOUNTS DUE FROM BANKS

Amounts due from banks						
	Netherlands		International		Total	
	2011	2010	**2011**	2010	**2011**	2010
Loans and advances to banks	**13,752**	14,416	**29,556**	34,640	**43,308**	49,056
Cash advances, overdrafts and other balances	**1,322**	1,754	**700**	1,039	**2,022**	2,793
	15,074	16,170	**30,256**	35,679	**45,330**	51,849
Loan loss provision			**–7**	–21	**–7**	–21
	15,074	16,170	**30,249**	35,658	**45,323**	51,828

As at 31 December 2011, Amounts due from banks included receivables with regard to securities, which have been acquired in reverse repurchase transactions amounting to EUR 2,925 million (2010: EUR 4,621 million), and receivables related to finance lease contracts amounted to EUR 76 million (2010: EUR 82 million).

As at 31 December 2011, the balance sheet value included debt securities which were lent or sold in repurchase transactions amounting to nil (2010: nil) and EUR 2,267 million (2010: EUR 1,381 million), respectively.

As at 31 December 2011, the non-subordinated receivables amounted to EUR 45,304 million (2010: EUR 51,788 million) and the subordinated receivables amounted to EUR 19 million (2010: EUR 40 million).

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

3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial assets at fair value through profit and loss		
	2011	2010
Trading assets	**123,176**	125,070
Non-trading derivatives	**10,076**	8,990
Designated as at fair value through profit and loss	**2,838**	3,066
	136,090	137,126

Trading assets by type		
	2011	2010
Equity securities	**3,264**	5,310
Debt securities	**18,207**	27,925
Derivatives	**59,139**	42,390
Loans and receivables	**42,566**	49,445
	123,176	125,070

The increase in trading derivatives and other non-trading derivatives for which no hedge accounting is applied is mainly due to changes in fair value resulting from changes in market interest rates. The increase is substantially mitigated by a similar increase in Trading derivates and Other non-trading derivatives (liabilities) as disclosed in Note 17 'Financial liabilities at fair value through profit and loss'.

As at 31 December 2011, the balance sheet value included equity securities which were lent or sold in repurchase transactions amounting to EUR 591 million (2010: EUR 69 million) and nil (2010: nil), respectively. As at 31 December 2011, the balance sheet value included debt securities which were lent or sold in repurchase transactions amounting to EUR 47 million (2010: EUR 65 million) and EUR 1,752 million (2010: EUR 667 million) respectively.

Notes to the consolidated annual accounts of ING Bank continued

As at 31 December 2011, Trading assets included receivables of EUR 40,904 million (2010: EUR 47,894 million) with regard to reverse repurchase transactions.

Non-trading derivatives by type		
	2011	2010
Derivatives used in		
– fair value hedges	**2,885**	3,714
– cash flow hedges	**4,069**	2,876
– hedges of net investments in foreign operations	**136**	72
Other non-trading derivatives	**2,986**	2,328
	10,076	8,990

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

Designated as at fair value through profit and loss by type		
	2011	2010
Equity securities	**30**	142
Debt securities	**1,808**	2,354
Loans and receivables	**1,000**	570
	2,838	3,066

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 64 million (2010: EUR 205 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 –1 million (2010: nil) and the change for the current year is nil (2010: nil).

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.

4 INVESTMENTS

Investments by type		
	2011	2010
Available-for-sale investments		
– equity securities	**2,466**	2,741
– debt securities	**72,469**	96,459
	74,935	99,200
Held-to-maturity investments		
– debt securities	**8,868**	11,693
	8,868	11,693
	83,803	110,893

The fair value of the securities classified as held-to-maturity amounts to EUR 8,835 million as at 31 December 2011 (2010: EUR 11,854 million).

Notes to the consolidated annual accounts of ING Bank continued

Exposure to debt securities

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

Debt securities	2011	2010
Available-for-sale investments	**72,469**	96,459
Held-to-maturity investments	**8,868**	11,693
Loans and advances to customers	**22,435**	27,866
Due from banks	**7,321**	8,122
Available-for-sale investments and Assets at amortised cost	**111,093**	144,140
Trading assets	**18,207**	27,925
Designated as at fair value through profit and loss	**1,808**	2,354
Financial assets at fair value through profit and loss	**20,015**	30,279
	131,108	174,419

ING Bank’s total exposure to debt securities included in available-for-sale investments and assets at amortised cost of EUR 111,093 million (2010: EUR 144,140 million) is specified as follows by type of exposure:

Debt securities by type and balance sheet line (total)	Available-for-sale investments		Held-to-maturity investments		Loans and advances to customers		Due from banks		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Government bonds	**47,255**	49,973	**881**	950	**1,081**	1,037			**49,217**	51,960
Covered bonds	**6,537**	4,974	**7,209**	9,212	**7,469**	7,818	**6,591**	6,943	**27,806**	28,947
Corporate bonds	**1,088**	904			**425**	162			**1,513**	1,066
Financial institution bonds	**15,192**	24,015	**421**	425	**134**	244	**736**	1,179	**16,483**	25,863
Bond portfolio (excluding ABS)	**70,072**	79,866	**8,511**	10,587	**9,109**	9,261	**7,327**	8,122	**95,019**	107,836
US agency RMBS	**402**	10,921		10					**402**	10,931
US prime RMBS	**18**	706							**18**	706
US Alt-A RMBS	**156**	2,431							**156**	2,431
US subprime RMBS	**22**	87							**22**	87
Non-US RMBS	**1,128**	1,381		50	**9,549**	13,245	**–6**		**10,671**	14,676
CDO/CLO	**55**	77			**416**	497			**471**	574
Other ABS	**441**	592	**357**	358	**2,190**	3,540			**2,988**	4,490
CMBS	**175**	397		689	**1,171**	1,323			**1,346**	2,409
ABS portfolio	**2,397**	16,592	**357**	1,107	**13,326**	18,605	**–6**		**16,074**	36,304
	72,469	96,458	**8,868**	11,694	**22,435**	27,866	**7,321**	8,122	**111,093**	144,140

In 2011, changes in debt securities include the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 10 'Assets and liabilities held for sale'.

Asset backed security portfolio

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

Notes to the consolidated annual accounts of ING Bank continued

Exposures, revaluations and losses on pressurised ABS bonds

	31 December 2011		Change in 2011			31 December 2010	
	Balance Sheet Value [1]	Pre-tax revaluation reserve	Changes through equity (pre-tax)	Changes through profit and loss (pre-tax)	Other changes	Balance Sheet Value [1]	Pre-tax revaluation reserve
US Subprime RMBS	**22**		**–6**	**–8**	**–51**	87	6
US Alt-A RMBS	**206**	**–34**	**–248**	**–77**	**–1,957**	2,488	214
CDO/CLOs	**702**	**–36**	**–43**	**–22**	**–32**	799	7
CMBS	**1,349**	**–57**	**92**	**–1**	**–1,163**	2,421	–149
Total	**2,279**	**–127**	**–205**	**–108**	**–3,203**	5,795	78

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

Other changes includes mainly redemptions/prepayments and the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 10 'Assets and liabilities held for sale'.

Reference is made to Note 30 'Fair value of financial assets and liabilities' for disclosure by fair value hierarchy and Note 32 'Investment income' for impairments on available-for-sale debt securities.

Greece, Italy, Ireland, Portugal and Spain

In the first half of 2010 concerns arose regarding the creditworthiness of several southern European countries, which later spread to a few other European countries. As a result of these concerns the value of sovereign debt decreased and exposures in those countries are being monitored closely. With regard to troubled European countries, ING Bank's main focus is on Greece, Italy, Ireland, Portugal and Spain as these countries have either applied for support from the European Financial Stability Facility ('EFSF') or receive support from the ECB via government bond purchases in the secondary market. Within these countries, ING Bank's main focus is on exposure to Government bonds and Unsecured Financial institutions' bonds. The following disclosure focuses in particular on ING Bank's balance sheet exposure with regard to Government bonds and Unsecured Financial institutions' bonds in Greece, Italy, Ireland, Portugal and Spain. At 31 December 2011, ING Bank's balance sheet value of 'Government bonds' and Unsecured Financial institutions' bonds to Greece, Italy, Ireland, Portugal and Spain and the related pre-tax revaluation reserve in equity was as follows:

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

2011	Balance Sheet value	Pre-tax revaluation reserve	Pre-tax impairments [2]	Amortised cost value	Fair value for investments held-to-maturity
Greece					
Government bonds available-for-sale	**151**		**–588**	**739**	
Italy					
Government bonds available-for-sale	**826**	**–224**		**1,050**	
Government bonds at amortised costs (loans)	**97**			**97**	
Financial institutions available-for-sale	**549**	**–41**		**590**	
Financial institutions at amortised costs (held-to-maturity)	**30**			**30**	**28**
Financial institutions at amortised costs (loans)	**131**			**131**	
Ireland					
Financial institutions available-for-sale	**44**	**–1**		**45**	
Financial institutions at amortised costs (held-to-maturity)	**34**			**34**	**35**
Financial institutions at amortised costs (loans)	**122**			**122**	
Portugal					
Government bonds available-for-sale	**438**	**–211**		**649**	
Financial institutions available-for-sale	**78**	**–15**		**93**	
Spain					
Government bonds available-for-sale	**324**	**–85**		**409**	
Government bonds at amortised costs (held-to-maturity)	**170**			**170**	**170**
Financial institutions available-for-sale	**95**	**–5**		**100**	
Financial institutions at amortised costs (loans)	**85**	**–1**		**86**	
Total	**3,174**	**–583**	**–588**	**4,345**	**233**

[1] Exposures are included based on the parent country of the issuer.
[2] Pre-tax impairments relate to bonds held at 31 December 2011. In addition, no impairments were recognised in 2011 on Greek government bonds that were no longer held at 31 December 2011. The total amount of impairments recognised on Greek Government bonds in 2011 is therefore EUR 588 million as explained below.

Notes to the consolidated annual accounts of ING Bank continued

The impact on ING Bank's revaluation reserve in relation to sovereign and unsecured financial institutions debt is limited per 31 December 2011: the negative impact on troubled countries is offset by opposite positive movements in bonds of financially stronger European countries and by the positive impact from lower interest rates in general. Furthermore, in the course of 2011, ING Bank reduced its sovereign debt exposure to these troubled countries.

On 21 July 2011 a Private Sector Initiative to support Greece was announced. This initiative involves a voluntary exchange of existing Greek government bonds together with a Buyback Facility. Based on this initiative, ING Bank impaired its Greek government bonds maturing up to 2020 in the second quarter of 2011 (EUR 187 million). The decrease in market value in the third quarter of 2011 of these impaired bonds was recognised as re-impairment (EUR 91 million). Due to the outcome of the EC meeting on 26 October 2011, the Greek government bonds maturing from 2020 were impaired in the third quarter of 2011 (EUR 177 million). ING Bank impaired all its Greek Government bonds to market value at 31 December 2011. This resulted in a re-impairment in the fourth quarter of 2011 of EUR 133 million, bringing the total impairments on Greek government bonds to EUR 588 million. The total Greek government bond portfolio has now been written down by approximately 80%.

Reference is made to Note 30 'Fair value of financial assets and liabilities' for disclosure by fair value hierarchy and Note 32 'Investment income' for impairments on available-for-sale debt securities.

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

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

	Available-for-sale equity securities		Available-for-sale debt securities		Held-to-maturity		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Opening balance	**2,741**	3,682	**96,459**	88,500	**11,693**	14,409	**110,893**	106,591
Additions	**134**	162	**154,870**	89,452		141	**155,004**	89,755
Amortisation			**169**	98	**–14**	–13	**155**	85
Transfers and reclassifications	**384**	12		282		–282	**384**	12
Changes in the composition of the group and other changes	**–35**	–10	**–22,587**		**–444**		**–23,066**	–10
Changes in unrealised revaluations	**–464**	–225	**1,336**	297			**872**	72
Impairments	**–65**	–32	**–734**	–146			**–799**	–178
Reversal of impairments			**74**				**74**	
Disposals and redemptions	**–258**	–905	**–157,172**	–85,582	**–2,369**	–2,620	**–159,799**	–89,107
Exchange rate differences	**29**	57	**54**	3,558	**2**	58	**85**	3,673
Closing balance	**2,466**	2,741	**72,469**	96,459	**8,868**	11,693	**83,803**	110,893

In 2011, Changes in the composition of the group and other changes relates mainly to the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 10 'Assets and liabilities held for sale'.

Reference is made to Note 32 'Investment income' for details on impairments.

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	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
To/from held-to-maturity				282				282
To/from available-for-sale						–282		–282
To/from Investments in associates	**384**	12					**384**	12
	384	12		282		–282	**384**	12

In 2011, To/from investment in associates in relation to available-for-sale equity securities relates mainly to the real estate funds for which significant influence ceased to exist due to the sale of ING Real Estate Investment Management.

Notes to the consolidated annual accounts of ING Bank continued

Held-to-maturity debt securities – sale and reclassification to available-for-sale investments (2010)
In the second quarter of 2010 EUR 51 million of Greek government bonds that were classified as held-to-maturity investments were sold. Furthermore, EUR 282 million of Greek government bonds were reclassified from held-to-maturity to available-for-sale investments. As the decisions to sell and reclassify were based on the significant deterioration in the issuer's creditworthiness compared to the credit rating at initial recognition, this sale and reclassification does not impact the intent for the remainder of the held-to-maturity investment portfolio.

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.

Notes to the consolidated annual accounts of ING Bank continued

Reclassifications to Loans and advances to customers and Amounts due from banks	Q1 2009	Q4 2008
As per reclassification date		
Fair value	22,828	1,594
Range of effective interest rates (weighted average)	2.1% - 11.7%	4.1% - 21%
Expected recoverable cash flows	24,052	1,646
Unrealised fair value losses in shareholders' equity (before tax)	–1,224	–69
Recognised fair value gains (losses) in shareholders' 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 shareholders' 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:		
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 shareholders' equity (before tax) as at 31 December	**–446**	**–8**
Effect on shareholders' equity (before tax) as at 31 December if reclassification had not been made	**–1,169**	**15**
Effect on result (before tax) if reclassification had not been made	**nil**	**nil**
Effect on result (before tax) for the year (mainly interest income)	**390**	**28**
Recognised impairments (before tax)	**nil**	**nil**
Recognised provision for credit losses (before tax)	**nil**	**nil**
2010		
Carrying value as at 31 December	16,906	857
Fair value as at 31 December	16,099	889
Unrealised fair value losses recognised in shareholders' equity (before tax) as at 31 December	–633	–65
Effect on shareholders' 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 shareholders' equity (before tax) as at 31 December	–902	–67
Effect on shareholders' 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 shareholders' equity (before tax) as at 31 December	–192	–79
Effect on shareholders' equity (before tax) as at 31 December if reclassification had not been made	n/a	–28
Effect on result (before tax) if reclassification had not been made	n/a	nil
Effect on result (before tax) after the reclassification until 31 December (mainly interest income)	n/a	9
Recognised impairments (before tax)	nil	nil
Recognised provision for credit losses (before tax)	n/a	nil

Notes to the consolidated annual accounts of ING Bank continued

Available-for-sale equity securities – listed and unlisted		
	2011	2010
Listed	**1,722**	2,159
Unlisted	**744**	582
	2,466	2,741

As at 31 December 2011, the balance sheet value included equity securities which were lent in repurchase transactions amounting to nil (2010: nil). As at 31 December 2011, the balance sheet value included debt securities which were lent or sold in repurchase transactions amounting to EUR 143 million and EUR 21,183 million respectively (2010: EUR 2,477 million and EUR 14,275 million).

5 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers analysed by type						
		Netherlands		International		Total
	2011	2010	**2011**	2010	**2011**	2010
Loans to, or guaranteed by, public authorities	**29,281**	28,671	**25,867**	27,282	**55,148**	55,953
Loans secured by mortgages	**168,382**	161,938	**160,404**	172,801	**328,786**	334,739
Loans guaranteed by credit institutions	**379**	308	**8,260**	8,356	**8,639**	8,664
Personal lending	**5,012**	5,125	**19,389**	16,618	**24,401**	21,743
Asset backed securities			**13,328**	18,605	**13,328**	18,605
Corporate loans	**48,504**	52,195	**103,706**	100,723	**152,210**	152,918
	251,558	248,237	**330,954**	344,385	**582,512**	592,622
Loan loss provisions	**–2,002**	–1,932	**–2,941**	–3,242	**–4,943**	–5,174
	249,556	246,305	**328,013**	341,143	**577,569**	587,448

Loans and advances to customers analysed by subordination		
	2011	2010
Non-subordinated	**571,970**	582,025
Subordinated	**5,599**	5,423
	577,569	587,448

At 31 December 2011, the balance sheet value included debt securities which were lent or sold in repurchase transactions amounting to nil (2010: nil) and EUR 1,778 million (2010: EUR 727 million), respectively.

As at 31 December 2011, Loans and advances to customers included receivables with regard to securities which have been acquired in reverse repurchase transactions related to the banking operations amounting to EUR 1,228 million (2010: EUR 1,609 million).

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

Notes to the consolidated annual accounts of ING Bank continued

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

Finance lease receivables

	2011	2010
Maturities of gross investment in finance lease receivables		
– within 1 year	5,386	5,060
– more than 1 year but less than 5 years	9,407	9,700
– more than 5 years	5,875	6,089
	20,668	20,849
Unearned future finance income on finance leases	–3,228	–3,328
Net investment in finance leases	17,440	17,521
Maturities of net investment in finance lease receivables		
– within 1 year	4,697	4,363
– more than 1 year but less than 5 years	8,035	8,294
– more than 5 years	4,708	4,864
	17,440	17,521
Included in		
– Amounts due from banks	76	82
– Loans and advances to customers	17,364	17,439
	17,440	17,521

The allowance for uncollectible finance lease receivables included in the loan loss provisions amounted to EUR 223 million as at 31 December 2011 (2010: EUR 177 million).

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

Loan loss provisions analysed by type

	Netherlands		International		Total	
	2011	2010	2011	2010	2011	2010
Loans to, or guaranteed by, public authorities	1		2	3	3	3
Loans secured by mortgages	503	416	712	1,183	1,215	1,599
Loans guaranteed by credit institutions	4	1	5	22	9	23
Personal lending	119	131	597	536	716	667
Asset backed securities			2		2	
Corporate loans	1,375	1,384	1,630	1,519	3,005	2,903
	2,002	1,932	2,948	3,263	4,950	5,195
Included in						
– Amounts due from banks			7	21	7	21
– Loans and advances to customers	2,002	1,932	2,941	3,242	4,943	5,174
	2,002	1,932	2,948	3,263	4,950	5,195

Changes in the loan loss provisions

	2011	2010
Opening balance	5,195	4,399
Changes in the composition of the group	–3	
Write-offs	–1,304	–1,166
Recoveries	112	105
Increase in loan loss provisions	1,670	1,751
Exchange rate differences	–83	155
Other changes	–637	–49
Closing balance	4,950	5,195

In 2011, Other changes relates for EUR 565 million to the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 10 ‘Assets and liabilities held for sale’.

Notes to the consolidated annual accounts of ING Bank continued

6 INVESTMENTS IN ASSOCIATES

Investments in associates

2011	Interest held (%)	Fair value of listed invest-ment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	25	424	485	16,100	14,847	377	301
ING Real Estate Asia Retail Fund Ltd	26		87	868	512	81	37
ING European Infrastructure Fund	29		32	636	546	11	45
ING Real Estate Asia Value Fund LP	26		29	256	140	12	8
Other investments in associates			194				
			827				

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

Accumulated impairments of EUR 38 million (2010: EUR 71 million) have been recognised.

As a result of the sale of ING Real Estate Investment Management in 2011, as disclosed in Note 26 ‘Companies acquired and companies disposed’, ING Bank is no longer the investment manager of certain funds. Significant influence therefore ceased to exist for these funds.

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

In general the reporting dates of all material associates are consistent with the reporting date of ING Bank. However, for practical reasons, the reporting dates of certain associates differ slightly from the reporting date of ING Bank, but, in any case, the difference between the reporting date of the largest associates and that of ING Bank is no more than three months.

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

Investments in associates

2010	Interest held (%)	Fair value of listed invest-ment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	25	644	474	14,055	12,826	321	262
ING Real Estate Asia Retail Fund	28		107	782	450	51	53
Lion Properties Fund	4		86	3,412	1,428	1,606	1,150
Lion Industrial Trust	8		85	2,691	1,583	247	130
ING Industrial Fund Australia	8	81	85	1,830	756	162	86
Steadfast Capital Fund II LP	68		74	145		3	2
Lion Value Fund	30		69	341	109	53	10
ING REI Investment DOF B.V.	3		59	2,235	414	199	175
ING European Infrastructure Fund	29		47	775	614	698	670
Lion Gables Apartment Fund LP	6		44	1,767	984	231	35
ING Nationale-Nederlanden PTE	20		40	194	9	85	38
ING Office Fund Australia	2	29	37	1,972	391	1,920	1,574
Lion Mexico Fund	7		27	384	6	34	18
Other investments in associates			260				
			1,494				

Notes to the consolidated annual accounts of ING Bank continued

Changes in investments in associates		
	2011	2010
Opening balance	**1,494**	1,396
Additions	**35**	104
Changes in the composition of the group		–4
Transfers to and from Investments	**–384**	–12
Revaluations	**–4**	–10
Share of results	**52**	107
Dividends received	**–71**	–129
Disposals	**–263**	–88
Impairments	**–20**	–3
Exchange rate differences	**–46**	167
Other changes	**34**	–34
Closing balance	**827**	1,494

In 2011, Transfers to and from Investments relates mainly to the real estate funds for which significant influence ceased to exist due to the sale of ING Real Estate Investment Management.

In 2011, share of results of EUR 52 million (2010: EUR 107 million) less impairment of EUR 20 million (2010: EUR 3 million) are presented in the profit and loss account in Share of result from associates for EUR 32 million (2010: EUR 104 million).

7 REAL ESTATE INVESTMENTS

Changes in real estate investments		
	2011	2010
Opening balance	**562**	2,283
Additions	**9**	57
Changes in the composition of the group		–1,621
Transfers to and from Other assets		–23
Transfers to and from Property in own use	**–31**	
Fair value gains/(losses)	**–22**	–50
Disposals	**–83**	–289
Exchange rate differences		205
Closing balance	**435**	562

In 2010, Changes in the composition of the group comprises the sale of ING Summit Industrial Fund LP. Reference is made to Note 26 'Companies acquired and companies disposed'.

The total amount of rental income recognised in profit and loss for the year ended 31 December 2011 was EUR 111 million (2010: EUR 234 million). The total amount of contingent rent recognised in the profit and loss account for the year ended 31 December 2011 was nil (2010: 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 2011 was EUR 84 million (2010: EUR 101 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 2011 was EUR 2 million (2010: EUR 6 million).

Real estate investments by year of most recent appraisal by independent qualified valuers	
in percentages	**2011**
Most recent appraisal in 2011	**75**
Most recent appraisal in 2010	**25**
	100

Notes to the consolidated annual accounts of ING Bank continued

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

Real estate exposure		
	2011	2010
Real estate investments	**435**	883
Investments in associates	**238**	833
Other assets – property development and obtained from foreclosures	**1,512**	2,088
Property and equipment – property in own use	**1,244**	1,329
Investments – available-for-sale	**262**	38
	3,691	5,171

Furthermore, the exposure is impacted by third party interests, leverage in funds and off-balance commitments, resulting in an overall exposure of EUR 4.2 billion (2010: EUR 5.2 billion). Reference is made to the section 'Risk management'.

8 PROPERTY AND EQUIPMENT

Property and equipment by type		
	2011	2010
Property in own use	**1,244**	1,329
Equipment	**1,167**	1,231
Assets under operating leases	**6**	3,055
	2,417	5,615

Changes in property in own use		
	2011	2010
Opening balance	**1,329**	1,364
Additions	**38**	45
Changes in de composition of the group	**–12**	
Transfers to and from Other assets	**–32**	–4
Transfers to and from Real Estate investments	**31**	
Depreciation	**–24**	–26
Revaluations	**–14**	–24
Impairments	**–29**	–26
Reversal of impairments	**11**	5
Disposals	**–25**	–17
Exchange rate differences	**–29**	12
Closing balance	**1,244**	1,329
Gross carrying amount as at 31 December	**2,040**	2,140
Accumulated depreciation as at 31 December	**–641**	–669
Accumulated impairments as at 31 December	**–155**	–142
Net carrying value	**1,244**	1,329
Revaluation surplus		
Opening balance	**485**	492
Revaluation in year	**–31**	–7
Closing balance	**454**	485

The cost or the purchase price amounted to EUR 1,586 million (2010: EUR 1,655 million). Cost or the purchase price less accumulated depreciation and impairments would have been EUR 790 million (2010: EUR 844 million) had property in own use been valued at cost instead of at fair value.

Notes to the consolidated annual accounts of ING Bank continued

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

in percentages	2011
Most recent appraisal in 2011	57
Most recent appraisal in 2010	12
Most recent appraisal in 2009	12
Most recent appraisal in 2008	10
Most recent appraisal in 2007	9
	100

Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2011	2010	2011	2010	2011	2010
Opening balance	309	293	922	919	1,231	1,212
Additions	154	147	230	258	384	405
Changes in the composition of the group	–2	–4	–14	–1	–16	–5
Disposals	–16	–8	–11	–15	–27	–23
Depreciation	–146	–138	–201	–218	–347	–356
Impairments		–1				–1
Exchange rate differences	–6	8	–13	11	–19	19
Other changes	5	12	–44	–32	–39	–20
Closing balance	298	309	869	922	1,167	1,231
Gross carrying amount as at 31 December	1,408	1,447	2,226	2,228	3,634	3,675
Accumulated depreciation as at 31 December	–1,109	–1,137	–1,357	–1,306	–2,466	–2,443
Accumulated impairments as at 31 December	–1	–1			–1	–1
Net carrying value as at 31 December	298	309	869	922	1,167	1,231

Changes in assets under operating leases

	Cars		Other leased-out assets		Total	
	2011	2010	2011	2010	2011	2010
Opening balance	3,053	2,986	2	5	3,055	2,991
Additions	1,188	1,284			1,188	1,284
Changes in the composition of the group	–3,250	–3			–3,250	–3
Disposals	–43	–53			–43	–53
Depreciation	–594	–784	–2	–3	–596	–787
Exchange rate differences	–12	13			–12	13
Transfer and other changes	–336	–390			–336	–390
Closing balance	6	3,053		2	6	3,055
Gross carrying amount as at 31 December	16	4,617		18	16	4,635
Accumulated depreciation as at 31 December	–10	–1,564		–16	–10	–1,580
Net carrying value as at 31 December	6	3,053		2	6	3,055

In 2011, Changes in the composition of the group comprises the sale of ING Car Lease. Reference is made to Note 26 'Companies acquired and companies disposed'.

Depreciation of assets under operating leases is included in the profit and loss account in Other income as a deduction from operating lease income.

Transfer and other changes relates mainly to the transfer of cars under operating lease to Other assets due to the expiration of the lease contract.

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

Notes to the consolidated annual accounts of ING Bank continued

ING Bank leases assets to third parties under operating leases as lessor. The future minimum lease payments to be received under non-cancellable operating leases are as follows:

Future minimum lease payments by maturity		
	2011	2010
Within 1 year	**1**	1,155
More than 1 year but less than 5 years	**4**	1,887
More than 5 years	**1**	13
	6	3,055

9 INTANGIBLE ASSETS

Changes in intangible assets								
		Goodwill		Software		Other		Total
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Opening balance	**1,502**	1,463	**589**	669	**174**	245	**2,265**	2,377
Capitalised expenses			**129**	114			**129**	114
Additions			**134**	127			**134**	127
Disposals				–2		–1		–3
Amortisation			**–332**	–312	**–39**	–52	**–371**	–364
Impairments	**–32**		**–15**	–28			**–47**	–28
Reversal of impairments						1		1
Changes in the composition of the group	**–54**		**–3**	3	**–15**	–19	**–72**	–16
Exchange rate differences	**–140**	47	**–7**	6	**–16**	11	**–163**	64
Other changes	**–97**	–8	**–19**	12	**–16**	–11	**–132**	–7
Closing balance	**1,179**	1,502	**476**	589	**88**	174	**1,743**	2,265
Gross carrying amount as at 31 December	**1,211**	1,502	**1,779**	1,799	**187**	343	**3,177**	3,644
Accumulated amortisation as at 31 December			**–1,280**	–1,161	**–99**	–161	**–1,379**	–1,322
Accumulated impairments as at 31 December	**–32**		**–23**	–49		–8	**–55**	–57
Net carrying value as at 31 December	**1,179**	1,502	**476**	589	**88**	174	**1,743**	2,265

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

Goodwill
Changes in Goodwill
A goodwill impairment of EUR 32 million was recognised in 2011. The impairment relates to the reporting unit ING Real Estate. In 2011, Changes in the composition of the group relates mainly to the disposal of ING Car Lease. Other changes relates to the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 10 ‘Assets and liabilities held for sale’. No goodwill impairment was recognised in 2010.

Notes to the consolidated annual accounts of ING Bank continued

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

Goodwill allocation to reporting units		
	2011	2010
Retail Central Europe	**738**	870
Retail Belgium	**50**	49
Retail Netherlands	**1**	1
ING Direct	**364**	468
Commercial Banking - Lease	**11**	68
ING Real Estate		32
Commercial Banking - Other	**14**	14
	1,178	1,502

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

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

More details on this additional analysis and the outcome thereof are presented below for each of the relevant reporting units. For other reporting units, the goodwill allocated to these reporting units was fully supported in the first step.

ING Real Estate
During 2011 the ING Real Estate business changed significantly. The Real Estate Development business was reduced by selling/closing development projects and ING sold REIM (the ING Real Estate Investment Management business). As a consequence, there were indications in the fourth quarter of 2011 that the recoverable amount of the reporting unit ING Real Estate had fallen below book value. A full goodwill impairment review was performed for the reporting unit ING Real Estate in the fourth quarter of 2011. The reporting unit Real Estate equals the segment ING Real Estate as disclosed in Note 42 'Operating segments'. The 2010 impairment test for ING Real Estate showed that the recoverable amount based on fair value using market multiples for Price/Book was at least equal to book value. The outcome of the impairment test performed in the fourth quarter of 2011 indicated that the fair value has become less than book value by an amount that exceeded the goodwill of ING Real Estate, indicating that the full amount of goodwill relating to ING Real Estate is impaired. As a result, the goodwill of EUR 32 million (pre-tax) was written down. The related charge is included in the profit and loss account in the line Intangibles amortisation and other impairments. Goodwill is recognised in the Corporate Line segment and, therefore, this charge is included in the segment reporting in the Corporate Line Bank segment.

Retail Central Europe
For the reporting unit Retail Central Europe the recoverable amount is determined as the sum of the recoverable amounts of the most important components. For certain components, a market price is available based on listed equity securities. In such case, the listed market price is used to determine the recoverable amount. For certain other components, the recoverable amount is determined by a cash flow model taking into account recent market related developments. The most important assumptions in the model are the estimated expected profit based on internal financial budgets/forecasts (4 years medium term plan plus additional 2 years longer term forecast), the terminal growth rate thereafter (approximately 3.5%), the required capital level (ultimately migrating to approximately 10%) and the discount rate (between approximately 10% and 13%). It was concluded that the goodwill allocated to Retail Central Europe is not impaired.

Notes to the consolidated annual accounts of ING Bank continued

10 ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities held for sale include 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 or a sale is highly probable at the balance sheet date but for which the transaction has not yet fully closed. For 31 December 2011 this relates to ING Direct USA. For 31 December 2010 this relates mainly to ING Real Estate Investment Management (ING REIM) and Clarion Real Estate Securities.
Reference is made to Note 26 'Companies acquired and companies disposed' for more details on occurred and expected significant disposals.

Assets held for sale

	2011	2010
Cash and balances with central banks	4,980	
Amounts due from banks	314	
Financial assets at fair value through profit and loss	3	5
Available-for-sale investments	22,605	
Held to maturity investments	444	
Loans and advances to customers	31,805	100
Investments in associates		43
Property and equipment	75	9
Intangible assets	166	15
Other assets	2,091	128
	62,483	300

Liabilities held for sale

	2011	2010
Customer deposits and other funds on deposit	64,103	
Other liabilities	162	145
	64,265	145

Cumulative other comprehensive income include EUR 244 million (2010: EUR 1 million) related to Assets and liabilities held for sale.

In addition to the entities presented as Held for sale above, ING is considering potential divestments, including those that are listed under the European Commission Restructuring plan in Note 29 'Related parties'. However, none of these businesses qualify as held for sale as at 31 December 2011 as the potential divestments are not yet available for immediate sale in their present condition and/or a sale is not yet highly probable to occur.

11 OTHER ASSETS

Other assets by type

	2011	2010
Deferred tax assets	2,437	2,969
Property development and obtained from foreclosures	1,512	2,088
Income tax receivable	459	401
Accrued interest and rents	11,183	12,836
Other accrued assets	530	930
Pension assets	2,511	2,266
Other	3,731	4,533
	22,363	26,023

Other includes EUR 1,840 million (2010: EUR 1,875 million) related to transactions still to be settled at balance sheet date.

Disclosures in respect of deferred tax assets and pension assets are provided in Note 18 'Other liabilities'.

Accrued interest and rents includes EUR 4,172 million (2010: EUR 4,911 million) accrued interest on assets measured at amortised cost under the IAS 39 classification Loans and receivables.

The total amount of borrowing costs relating to Property development and obtained from foreclosures, capitalised in 2011 is EUR 7 million (2010: EUR 18 million).

Notes to the consolidated annual accounts of ING Bank continued

Property development and obtained from foreclosures		
	2011	2010
Property under development	**400**	821
Property developed	**1,055**	1,016
Property obtained from foreclosures	**57**	251
	1,512	2,088
Gross carrying amount as at 31 December	**2,648**	3,175
Accumulated impairments as at 31 December	**–1,136**	–1,087
Net carrying value	**1,512**	2,088

Notes to the consolidated annual accounts of ING Bank continued

EQUITY
12 SHAREHOLDERS' EQUITY (PARENT)

Shareholders' equity (parent)	2011	2010	2009
Share capital	**525**	525	525
Share premium	**16,542**	16,542	16,542
Revaluation reserve	**550**	1,457	2,329
Currency translation reserve	**209**	500	–241
Other reserves	**16,541**	15,428	11,067
Shareholders' equity (parent)	**34,367**	34,452	30,222

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

As at 31 December 2011, Other reserves included an amount of EUR 836 million (2010: EUR 741 million; 2009: EUR 645 million) related to the former Stichting Regio Bank and former Stichting Vakbondsspaarbank SPN.

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	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
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 shares have been issued during 2011, 2010 or 2009.

Preference shares are presented in the balance sheet under liabilities. Reference is made to Note 18 'Other liabilities'.

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

The authorised ordinary share capital of ING Bank consists of 1,600 million shares of which as at 31 December 2011 465 million shares have been issued and fully paid.

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

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

Notes to the consolidated annual accounts of ING Bank continued

Changes in revaluation reserve

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

Changes in revaluation reserve

2010	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	387	2,414	–472	2,329
Unrealised revaluations after taxation	–37	–375		–412
Realised gains/losses transferred to profit and loss		–293		–293
Changes in cash flow hedge reserve			–167	–167
Closing balance	350	1,746	–639	1,457

Changes in revaluation reserve

2009	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	436	–4,165	–128	–3,857
Unrealised revaluations after taxation	–49	5,702		5,653
Realised gains/losses transferred to profit and loss		877		877
Changes in cash flow hedge reserve			–344	–344
Closing balance	387	2,414	–472	2,329

Changes in currency translation reserve

	2011	2010	2009
Opening balance	500	–241	–475
Unrealised revaluations after taxation	186	–348	–99
Exchange rate differences	–477	1,089	333
Closing balance	209	500	–241

The unrealised revaluations after taxation relate to changes in the value of hedging instruments that are designated as net investment hedges.

Changes in other reserves

2011	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	14,661	26		741	15,428
Result for the year	3,918			87	4,005
Dividend	–3,000				–3,000
Employee stock options and share plans	119				119
Other	–552	313		228	–11
Closing balance	15,146	339		1,056	16,541

Changes in other reserves

2010	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	10,422			645	11,067
Result for the year	4,399			96	4,495
Dividend	–200				–200
Employee stock options and share plans	53				53
Other	–13	26			13
Closing balance	14,661	26		741	15,428

Notes to the consolidated annual accounts of ING Bank continued

Changes in other reserves

2009	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	9,610	128		566	10,304
Result for the year	684				684
Employee stock options and share plans	58				58
Other	70	–128		79	21
Closing balance	10,422	0		645	11,067

Notes to the consolidated annual accounts of ING Bank continued

LIABILITIES
13 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 6,850 million (2010: EUR 8,438 million) of loans that qualify as Tier 1 capital. These loans have been placed with ING Bank N.V. by ING Group.

The average interest rate on the subordinated loans is 4.7% (2010: 5.4%). The interest expense during the year 2011 was EUR 867 million (2010: EUR 1,024 million).

On 12 December 2011 ING announced the launch of three separate exchange offers in Europe and tender offers in the United States of America, on a total of seven series of outstanding subordinated securities of ING entities with a total nominal value of approximately EUR 5.8 billion. All tender and exchange offers announced on 12 December 2011 were successfully completed on 23 December 2011 with an average participation of approximately 60%. As part of this initiative, EUR 1.6 billion intercompany debt from ING Bank N.V. to ING Groep N.V. was repaid. In addition ING Bank issued two new senior bonds with a nominal value of GBP 0.4 billion and EUR 0.4 billion respectively. The overall transaction resulted in a total gain of EUR 93 million (EUR 71 million after tax) for ING Bank N.V., including related hedge results and transaction costs. This gain is recognised in Other income.

14 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

	2011	2010
Fixed rate debt securities		
Within 1 year	**51,459**	63,472
More than 1 year but less than 2 years	**5,800**	6,177
More than 2 years but less than 3 years	**10,347**	5,816
More than 3 years but less than 4 years	**5,943**	9,580
More than 4 years but less than 5 years	**7,541**	5,648
More than 5 years	**20,182**	10,516
Total fixed rate debt securities	**101,272**	101,209
Floating rate debt securities		
Within 1 year	**14,873**	12,259
More than 1 year but less than 2 years	**7,590**	4,321
More than 2 years but less than 3 years	**3,569**	2,555
More than 3 years but less than 4 years	**1,207**	2,038
More than 4 years but less than 5 years	**162**	864
More than 5 years	**2,253**	1,820
Total floating rate debt securities	**29,654**	23,857
Total debt securities	**130,926**	125,066

As of 31 December 2011, ING Bank had unused lines of credit available including the payment of commercial paper borrowings relating to debt securities in issue of EUR 8,118 million (2010: EUR 6,462 million).

The following bonds were all issued under the Credit Guarantee Scheme of the State of the Netherlands and are part of ING Group's regular medium-term funding operations. ING pays a fee of 84 basis points over the issued bonds to the Dutch State to participate in the Credit Guarantee Scheme.

- ING Bank issued 3 year government guaranteed senior unsecured bonds amounting to USD 6 billion in January 2009. USD 5 billion of the issue was priced at a fixed rate of 80 basis points over mid-swaps. USD 1 billion was priced at a variable rate of 80 basis points over 3 month LIBOR.
- 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.
- ING Bank issued a 5 year USD 2 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.

Notes to the consolidated annual accounts of ING Bank continued

15 AMOUNTS DUE TO BANKS

Amounts due to banks include non-subordinated debt due to banks, other than amounts in the form of debt securities. As at 31 December 2011 liabilities concerning securities sold in repurchase transactions amounted to EUR 11,145 million (2010: EUR 12,200 million).

Amounts due to banks by type

	Netherlands		International		Total	
	2011	2010	**2011**	2010	**2011**	2010
Non-interest bearing	**1,350**	1,893	**808**	701	**2,158**	2,594
Interest bearing	**40,648**	37,429	**29,427**	32,829	**70,075**	70,258
	41,998	39,322	**30,235**	33,530	**72,233**	72,852

16 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

Customer deposits and other funds on deposit

	2011	2010
Savings accounts	**291,516**	324,581
Credit balances on customer accounts	**114,362**	128,553
Corporate deposits	**61,990**	55,024
Other	**11,496**	11,146
	479,364	519,304

Customer deposits and other funds on deposit by type

	Netherlands		International		Total	
	2011	2010	**2011**	2010	**2011**	2010
Non-interest bearing	**13,294**	13,522	**9,447**	6,773	**22,741**	20,295
Interest bearing	**146,229**	140,253	**310,394**	358,756	**456,623**	499,009
	159,523	153,775	**319,841**	365,529	**479,364**	519,304

In 2011, the decrease in Customer deposits and other funds on deposits is mainly caused by the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 10 'Assets and liabilities held for sale'.

No funds have been entrusted to ING Bank by customers on terms other than those prevailing in the normal course of business. As at 31 December 2011 Customer deposits and other funds on deposit included liabilities with regard to securities sold in repurchase transactions amounting to EUR 5,730 million (2010: EUR 5,272 million).

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.

17 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial liabilities at fair value through profit and loss

	2011	2010
Trading liabilities	**107,682**	108,049
Non-trading derivatives	**18,161**	15,825
Designated as at fair value through profit and loss	**13,021**	12,707
	138,864	136,581

Trading liabilities by type

	2011	2010
Equity securities	**3,332**	4,811
Debt securities	**9,607**	16,707
Funds on deposit	**38,696**	44,767
Derivatives	**56,047**	41,764
	107,682	108,049

The increase in trading derivatives and other non-trading derivatives for which no hedge accounting is applied is mainly due to changes in fair value resulting from changes in market interest rates. The increase is substantially mitigated by a similar increase in Trading derivates and Other non-trading derivatives (assets) as disclosed in Note 3 'Financial assets at fair value through profit and loss'.

Notes to the consolidated annual accounts of ING Bank continued

As at 31 December 2011, the Funds on deposit include amounts payable of EUR 38,011 million (2010: EUR 43,995 million) with regard to mainly repurchase transactions.

Non-trading derivatives by type		
	2011	2010
Derivatives used in		
– fair value hedges	**9,168**	8,216
– cash flow hedges	**6,054**	4,820
– hedges of net investments in foreign operations	**146**	108
Other non-trading derivatives	**2,793**	2,681
	18,161	15,825

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

Designated as at fair value through profit and loss by type		
	2011	2010
Debt securities	**11,271**	10,533
Funds entrusted	**632**	934
Subordinated liabilities	**1,118**	1,240
	13,021	12,707

In 2011, the change in the fair value of financial liabilities designated as at fair value through profit and loss attributable to changes in the credit risk of that liability is EUR 377 million (2010: EUR 179 million) and EUR 595 million (2010: EUR 218 million) on a cumulative basis. This change has been determined as the amount of change in fair value of the financial liability that is not attributable to changes in market conditions that gave rise to market risk (i.e. mainly interest rate risk based on yield curves).

The amount that ING Bank is contractually required to pay at maturity to the holders of financial liabilities designated as at fair value through profit and loss is EUR 13,726 million (2010: EUR 12,438 million).

18 OTHER LIABILITIES

Other liabilities by type		
	2011	2010
Deferred tax liabilities	**1,735**	1,385
Income tax payable	**806**	1,066
Pension benefits	**99**	143
Post-employment benefits	**105**	98
Other staff-related liabilities	**609**	665
Other taxation and social security contributions	**750**	724
Accrued interest	**10,550**	11,624
Costs payable	**1,322**	1,745
Reorganisation provision	**521**	333
Other provisions	**500**	385
Prepayments received under property under development	**83**	173
Amounts to be settled	**1,568**	2,139
Other	**3,397**	2,555
	22,045	23,035

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

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

Other mainly relates to year-end accruals in the normal course of business none of which are individually material.

As at 31 December 2011 Other liabilities includes an amount of EUR 7.91 (2010: EUR 7.91) for seven preference shares with a par value of EUR 1.13 each.

Notes to the consolidated annual accounts of ING Bank continued

Changes in deferred tax

	Net liability 2010	Change through equity	Change through net result	Changes in the composition of the group	Exchange rate differences	Other	Net liability 2011
Investments	–318	**–79**	**–12**	**–2**	**–1**	**266**	**–146**
Real estate investments						**2**	**2**
Financial assets and liabilities at fair value through profit and loss	–552		**–162**		**7**		**–707**
Depreciation	6	**1**	**22**	**9**	**2**		**40**
Other provisions	–58	**1**	**–45**	**2**	**5**		**–95**
Receivables	–22		**–9**	**–10**	**–2**		**–43**
Loans and advances to customers	462	**97**	**208**	**–1**	**7**	**97**	**870**
Cash flow hedges	–197	**–91**	**6**				**–282**
Pension and post-employment benefits	420	**1**	**48**		**–1**		**468**
Unused tax losses carried forward	–1,183	**–1**	**286**	**22**	**29**	**224**	**–623**
Other	–142	**–64**	**52**		**–4**	**–28**	**–186**
	–1,584	**–135**	**394**	**20**	**42**	**561**	**–702**
Comprising							
– deferred tax liabilities	1,385						**1,735**
– deferred tax assets	–2,969						**–2,437**
	–1,584						**–702**

In 2011, the amounts presented in the column Other relate mainly to the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 10 'Assets and liabilities held for sale'.

Changes in deferred tax

	Net liability 2009	Change through equity	Change through net result	Changes in the composition of the group	Exchange rate differences	Other	Net liability 2010
Investments	–513	39	203		–50	3	–318
Financial assets and liabilities at fair value through profit and loss	–333	–18	–192		3	–12	–552
Depreciation	18		5	–10		–7	6
Other provisions	–69	–1	38	6	–24	–8	–58
Receivables	–188	–1	155	6	–7	13	–22
Loans and advances to customers	717		–215	–5	–15	–20	462
Cash flow hedges	–172	–20			–4	–1	–197
Pension and post-employment benefits	426		13			–19	420
Unused tax losses carried forward	–1,143	1	–23	–2	–23	7	–1,183
Other	–402	–8	246	3	–1	20	–142
	–1,659	–8	230	–2	–121	–24	–1,584
Comprising							
– deferred tax liabilities	1,499						1,385
– deferred tax assets	–3,158						–2,969
	–1,659						–1,584

Notes to the consolidated annual accounts of ING Bank continued

Deferred tax in connection with unused tax losses carried forward	2011	2010
Total unused tax losses carried forward	**3,173**	4,895
Unused tax losses carried forward not recognised as a deferred tax asset	**881**	716
Unused tax losses carried forward recognised as a deferred tax asset	**2,292**	4,179
Average tax rate	**27.2%**	28.3%
Deferred tax asset	**623**	1,183

The following tax loss carry forwards 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	
	2011	2010	**2011**	2010
Within 1 year	**19**	12	**10**	27
More than 1 year but less than 5 years	**150**	189	**134**	78
More than 5 years but less than 10 years	**267**	157	**896**	2,857
More than 10 years but less than 20 years	**299**	267		621
Unlimited	**146**	91	**1,252**	596
	881	716	**2,292**	4,179

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

The deferred tax asset includes balances for which the utilisation is dependent on future taxable profits whilst the related entities have incurred losses in either the current or the preceding year. The aggregate amount for the most significant entities where this applies is EUR 281 million (2010: EUR 857 million). This can be specified by jurisdiction as follows:

Breakdown by jurisdiction	2011	2010
The Netherlands		190
United States		508
Great Britain	**116**	89
Australia	**36**	40
Spain		11
Germany	**5**	19
France	**66**	
Mexico	**32**	
Italy	**26**	
	281	857

In 2011 the deferred tax assets for banking operations for which the utilisation is dependent on future taxable profits, as disclosed above, decreased significantly compared to 2010, as a result of the announced sale of ING Direct USA. Reference is made to Note 26 ‘Companies acquired and companies disposed’.

In 2011, ING Group has reconsidered its method of determining the breakdown by jurisdiction. The recoverability is now determined at the level of the fiscal unity within that jurisdiction and not at the level of the individual company. Also the offsetting of deferred tax assets with deferred tax liabilities was revised. The comparatives provided in this table have been adjusted accordingly.

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.

Notes to the consolidated annual accounts of ING Bank continued

As of 31 December 2011 and 31 December 2010, ING Bank had no significant temporary differences associated with the parent company's investments in subsidiaries, branches and associates and interest in joint ventures as any economic benefit from those investments will not be taxable at parent company level.

Changes in reorganisation provision		
	2011	2010
Opening balance	**333**	490
Changes in the composition of the group	**1**	29
Additions	**396**	167
Interest	**5**	5
Releases	**–9**	–58
Charges	**–214**	–303
Exchange rate differences	**2**	5
Other changes	**7**	–2
Closing balance	**521**	333

As at 31 December 2011, the provision for reorganisation, of which EUR 385 million relates to termination benefits, mainly related to Dutch Retail Banking activities and as well as other restructuring activities.

As at 31 December 2010, the provision for reorganisation, of which EUR 224 million relates to termination benefits, mainly related to the merger of the Dutch Retail Banking activities as well as other restructuring activities.

Changes in other provisions						
		Litigation		Other		Total
	2011	2010	**2011**	2010	**2011**	2010
Opening balance	**249**	270	**136**	305	**385**	575
Changes in the composition of the group		–27	**–2**	–1	**–2**	–28
Additions	**12**	–1	**135**	29	**147**	28
Charges	**–14**	–5	**–22**	–19	**–36**	–24
Exchange rate differences	**–3**	2	**10**	3	**7**	5
Other changes	**11**	10	**–12**	–181	**–1**	–171
Closing balance	**255**	249	**245**	136	**500**	385

In general, Reorganisation and 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.

Pension and post-employment benefits

Summary of pension benefits					
	2011	2010	2009	2008	2007
Defined benefit obligation	**10,410**	10,424	9,234	9,049	9,253
Fair value of plan assets	**13,435**	11,551	10,208	8,670	9,463
	–3,025	–1,127	–974	379	–210
Unrecognised actuarial gains/(losses)	**613**	–996	–816	–1,117	260
Net liability (asset) recognised in the balance sheet	**–2,412**	–2,123	–1,790	–738	50
Presented as					
– Other liabilities	**99**	143	240	374	489
– Other assets	**–2,511**	–2,266	–2,030	–1,112	–439
	–2,412	–2,123	–1,790	–738	50

Notes to the consolidated annual accounts of ING Bank continued

Summary of post-employment benefits

	2011	2010	2009	2008	2007
Defined benefit obligation	107	98	86	97	94
	107	98	86	97	94
Unrecognised past service costs	1	1	2	1	2
Unrecognised actuarial gains/(losses)	–3	–1	1		1
	105	98	89	98	97

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

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

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.

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 current liabilities.

Actuarial gains and losses related to pensions and post-employment benefits for the year ended 31 December 2011 includes EUR 1,279 million (2010: EUR 675 million; 2009: EUR 283 million; 2008: EUR -1,678 million; 2007: EUR -481 million) experience gain adjustments for assets and EUR -43 million (2010: EUR 117 million; 2009: EUR 37 million; 2008: EUR 73 million; 2007: EUR 11 million) experience gain adjustments for liabilities.

Changes in defined benefit obligation

	Pension benefits		Post-employment benefits other than pensions	
	2011	2010	2011	2010
Opening balance	10,424	9,234	98	86
Current service cost	220	196	3	5
Interest cost	550	510	5	4
Participants contributions	2	3		
Benefits paid	–416	–407	–1	–1
Actuarial gains and losses	–356	864	1	4
Past service cost	–9	–1		
Changes in the composition of the group and other changes	17	–17		
Effect of curtailment or settlement	–47	–4		
Exchange rate differences	25	46	1	
Closing balance	10,410	10,424	107	98
Relating to				
– funded plans	10,355	10,365		
– unfunded plans	55	59	107	98
	10,410	10,424	107	98

Notes to the consolidated annual accounts of ING Bank continued

In 2011, effect of curtailment or settlement relates mainly to a curtailment in relation to the restructuring in Retail Netherlands.

The estimated unrecognised past service cost and unrecognised actuarial gains and losses for the defined benefit plans to be amortised to pension and other staff-related liability costs during 2012 are nil and EUR 18 million, respectively.

Changes in fair value of plan assets

	Pension benefits	
	2011	2010
Opening balance	**11,551**	10,208
Expected return on plan assets	**569**	590
Employer's contribution	**380**	453
Participants contributions	**15**	2
Benefits paid	**–396**	–402
Actuarial gains and losses	**1,266**	675
Changes in the composition of the group and other changes	**9**	–19
Exchange rate differences	**41**	44
Closing balance	**13,435**	11,551

The actual return on the plan assets amounted to EUR 1,835 million (2010: EUR 1,265 million) and exceeds the expected return on plan assets. This resulted in a large movement with regard to Actuarial gains and losses. The difference is caused by the decreased market interest rate that has an impact on the valuation of the debt securities in the plan assets.

No plan assets are expected to be returned to ING Bank during 2012.

Pension investment strategy

The primary financial objective of ING Employee Benefit Plans (the Plans) is to secure participant retirement benefits. As such, the key objective in the Plans' financial management is to promote stability and, where appropriate, growth in funded status (i.e. the ratio of market value of assets to liabilities). The investment strategy for the Plans' portfolio of assets (the Funds') balances the requirement to generate returns with the need to control risk. The asset mix is recognised as the primary mechanism to influence the reward and risk structure of the Funds in an effort to accomplish the Plans' funding objectives. Desirable target allocations amongst identified asset classes are set and within each asset class, careful consideration is given to balancing the portfolios among industry sectors, geographical areas, interest rate sensitivity, dependence on economic growth, currency and other factors affecting investment returns. The assets are managed by professional investment firms. They are bound by precise mandates and are measured against specific benchmarks. Factors considered by the fund managers include, balancing security concentration, investment style, and reliance on particular active investment strategies. The asset mixes of the Funds are reviewed on a regular basis. Generally, the Funds' asset mixes will be rebalanced to the target mixes as individual portfolios approach their minimum or maximum levels.

Categories of plan assets in percentages

	Target allocation	Percentage of plan assets		Weighted average expected long term rate of return	
	2012	**2011**	2010	**2011**	2010
Equity securities	**18**	**18**	35	**6.9**	7.5
Debt securities	**76**	**76**	51	**3.8**	4.3
Other	**6**	**6**	14	**5.2**	6.0
	100	**100**	100	**5.7**	5.7

Equity securities include ING Groep N.V. ordinary shares of nil (0.00% of total plan assets) at 31 December 2011 (2010: EUR 1 million, 0.01% of total plan assets). Debt securities include investments in ING Groep N.V. of EUR 28 million (0.30% of total plan assets) as at 31 December 2011 (2010: EUR 36 million, 0.42% of total plan assets). Other includes mainly real estate. Plan assets do not include any real estate or other assets used by the Bank.

Determination of expected return on assets

An important aspect of financial reporting is the assumption used for return on assets (ROA). The ROA is updated at least annually, taking into consideration the Plans' asset allocation, historical returns on the types of assets held in the Funds, and the current economic environment. Based on these factors, it is expected that the Funds' assets will earn an average annual percentage in the long-term. This estimate takes into account a reduction for administrative expenses and non-ING investment manager fees paid from the Funds. For estimation purposes, it is assumed the long-term asset mixes will be consistent with the current mixes. Changes in the asset mixes could impact the amount of recognised pension income or expense, the funded status of the Plan, and the need for future cash contributions.

Notes to the consolidated annual accounts of ING Bank continued

Weighted averages of basic actuarial assumptions in annual % as at 31 December				
	Pension benefits		Post-employment benefits other than pensions	
	2011	2010	**2011**	2010
Discount rates	**5.30**	5.40	**4.10**	4.70
Mortality rates	**1.00**	1.00	**1.00**	1.00
Expected rates of salary increases (excluding promotion increases)	**2.00**	2.70	**2.70**	2.70
Medical cost trend rates			**6.10**	6.10
Indexation	**1.80**	1.80	**2.00**	2.00

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

The presented discount rate is the weighted average of the discount rates that are applied in different countries. These rates are based on AA corporate bond yields of the specific countries with durations matching the pension liabilities.

An increase of 1% in the assumed medical cost trend rate for each future year would have resulted in an additional accumulated defined benefit obligation of EUR 5 million as at 31 December 2011 (2010: EUR 5 million) and an increase in the charge for the year of EUR 1 million (2010: EUR 1 million). A decrease of 1% in the medical cost trend rate for each future year would have resulted in lower defined benefit obligation of EUR 5 million as at 31 December 2011 (2010: EUR 5 million) and a decrease in the charge for the year of EUR 2 million (2010: EUR 2 million).

The actuarial assumption for Indexation for inflation decreased to 1.8% in 2010 mainly as a result of a revised best estimate assumption for future indexation in the pension plan in the Netherlands. As a result of the uncertain circumstances the probability of granting indexation in the short-term future decreased. In 2011, this assumption remained at 1.8% reflecting the uncertainty of granting indexation in the short-term future.

Expected cash flows
For 2012 the expected contributions to pension plans are EUR 353 million.

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

Benefit payments	
	Pension benefits
2012	**348**
2013	**324**
2014	**308**
2015	**335**
2016	**313**
Years 2017-2021	**2,128**

Notes to the consolidated annual accounts of ING Bank continued

19 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

2011	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	28,112						28,112
Amounts due from banks	26,168	4,420	5,211	8,146	1,378		45,323
Financial assets at fair value through profit and loss							
– trading assets	40,037	7,797	12,062	25,727	37,553		123,176
– non-trading derivatives	358	217	1,038	4,495	3,968		10,076
– designated as at fair value through profit and loss	58	78	766	1,031	905		2,838
Investments							
– available-for-sale	3,395	2,513	8,445	32,121	25,995	2,466	74,935
– held-to-maturity	285	999	1,029	6,314	241		8,868
Loans and advances to customers	72,243	14,703	34,874	144,691	311,058		577,569
Intangible assets			157	317		1,269	1,743
Assets held for sale (2)		62,483					62,483
Other assets	8,714	2,331	6,010	1,879	3,429		22,363
Remaining assets (where maturities are not applicable) (3)						3,679	3,679
Total assets	179,370	95,541	69,592	224,721	384,527	7,414	961,165

(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 10 'Assets and liabilities held for sale'. The maturity is based on the classification as disposal group held for sale.
(3) Included in remaining assets where 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

2010	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	9,519						9,519
Amounts due from banks	30,770	4,608	4,706	9,447	2,297		51,828
Financial assets at fair value through profit and loss							
– trading assets	42,785	8,873	11,564	34,456	27,392		125,070
– non-trading derivatives	320	81	484	4,144	3,961		8,990
– designated as at fair value through profit and loss	120	46	737	1,145	1,018		3,066
Investments							
– available-for-sale	4,067	2,996	9,111	45,573	34,712	2,741	99,200
– held-to-maturity	328	880	1,142	8,786	557		11,693
Loans and advances to customers	70,931	14,592	34,282	139,693	327,950		587,448
Intangible assets			196	393		1,676	2,265
Assets held for sale (2)			300				300
Other assets	10,065	2,092	6,502	3,048	4,316		26,023
Remaining assets (where maturities are not applicable) (3)						7,671	7,671
Total assets	168,905	34,168	69,024	246,685	402,203	12,088	933,073

(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 10 'Assets and liabilities held for sale'. The maturity is based on the classification as disposal group held for sale.
(3) Included in remaining assets where maturities are not applicable are property and equipment, real estate investments and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Notes to the consolidated annual accounts of ING Bank continued

20 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

2011	Less than 1 month [(1)]	1-3 months	3-12 months	1-5 years	Over 5 years	Adjust-ment [(2)]	Total
Subordinated loans	1,634		23	3,988	12,252	511	18,408
Debt securities in issue	28,883	24,725	12,723	42,162	20,469	1,964	130,926
Amounts due to banks	49,608	11,691	3,825	1,808	5,317	–16	72,233
Customer deposits and other funds on deposit	397,750	25,895	40,658	12,205	2,080	776	479,364
Financial liabilities at fair value through profit and loss							
– other trading liabilities	38,507	3,109	907	2,774	5,705	633	51,635
– trading derivatives	3,026	4,373	11,493	26,834	23,103	–12,782	56,047
– non-trading derivatives	769	620	3,868	11,518	7,421	–6,035	18,161
– designated as at fair value through profit and loss	301	398	2,062	6,006	4,526	–272	13,021
Financial liabilities	520,478	70,811	75,559	107,295	80,873	–15,221	839,795
Liabilities held for sale [(3)]		64,265					64,265
Other liabilities	8,474	2,482	6,587	3,071	1,431		22,045
Remaining liabilities (where maturities are not applicable)							
Non-financial liabilities	8,474	66,747	6,587	3,071	1,431		86,310
Total liabilities	528,952	137,558	82,146	110,366	82,304	–15,221	926,105
Coupon interest due on financial liabilities	6,799	1,053	4,550	10,364	41,339		64,105

(1) Includes liabilities on demand.
(2) This column reconciles the contractual undiscounted cash flows on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting, and for derivatives, to the fact the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
(3) Liabilities held for sale consist of the liabilities of the disposal groups classified as held for sale as disclosed in Note 10 'Assets and liabilities held for sale'. The maturity is based on the classification as disposal group held for sale.

Notes to the consolidated annual accounts of ING Bank continued

Liabilities by contractual maturity

2010	Less than 1 month [(1)]	1–3 months	3–12 months	1–5 years	Over 5 years	Adjust-ment [(2)]	Total
Subordinated loans	243	1,151		3,525	15,700	402	21,021
Debt securities in issue	20,577	36,140	19,014	36,999	11,871	465	125,066
Amounts due to banks	44,480	15,781	6,082	2,154	4,371	–16	72,852
Customer deposits and other funds on deposit	451,926	25,142	28,132	12,376	1,728		519,304
Financial liabilities at fair value through profit and loss							
– other trading liabilities	46,084	5,329	1,182	9,377	3,779	534	66,285
– trading derivatives	3,096	3,255	9,615	27,747	18,930	–20,879	41,764
– non-trading derivatives	357	101	4,462	18,218	5,978	–13,291	15,825
– designated as at fair value through profit and loss	260	472	1,014	6,094	4,996	–129	12,707
Financial liabilities	567,023	87,371	69,501	116,490	67,353	–32,914	874,824
Liabilities held for sale [(3)]			145				145
Other liabilities	8,697	2,203	7,043	3,401	1,691		23,035
Non-financial liabilities	8,697	2,203	7,188	3,401	1,691		23,180
Total liabilities	575,720	89,574	76,689	119,891	69,044	–32,914	898,004
Coupon interest due on financial liabilities	2,803	1,565	3,559	11,484	50,711		70,122

(1) Includes liabilities on demand.
(2) This column reconciles the contractual undiscounted cash flows on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting, and for derivatives, to the fact the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
(3) Liabilities held for sale consist of the liabilities of the disposal groups classified as held for sale as disclosed in Note 10 ‘Assets and liabilities held for sale’. The maturity is based on the classification as disposal group held for sale.

21 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 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.

Notes to the consolidated annual accounts of ING Bank continued

With respect to exchange rate and interest rate derivative contracts, the notional or contractual amounts 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 2011, ING Bank recognised EUR –1,122 million (2010: EUR –747 million) of fair value changes on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was offset by EUR 1,155 million (2010: EUR 754 million) fair value changes recognised on hedged items. This resulted in EUR 33 million net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2011 the fair values of outstanding derivatives designated under fair value hedge accounting was EUR –6,283 million (2010: EUR –4,502 million), presented in the balance sheet as EUR 2,885 million (2010: EUR 3,714 million) positive fair values under assets and EUR 9,168 million (2010: EUR 8,216 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' 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 Shareholders' 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 2011, ING Bank recognised EUR –182 million (2010: EUR –167 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 2011 was EUR –1,104 million (2010: EUR –836 million) gross and EUR –821 million (2010: EUR –639 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 47 years, with the largest concentration in the range of 1 year to 6 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in a loss of EUR 1 million (2010: EUR 2 million gain), that was recognised in the profit and loss account.

As at 31 December 2011, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR –1,985 million (2010: EUR –1,944 million), presented in the balance sheet as EUR 4,069 million (2010: EUR 2,876 million) positive fair values under assets and EUR 6,054 million (2010: EUR 4,820 million) negative fair values under liabilities.

As at 31 December 2011 the fair value of outstanding non-derivatives designated as hedging instruments for cash flow hedge accounting purposes was nil (2010: nil).

Notes to the consolidated annual accounts of ING Bank continued

Included in Interest income and interest expense on non-trading derivatives is EUR 2,630 million (2010: EUR 3,243 million) and EUR 2,821 million (2010: EUR 2,951 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 Shareholders' 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 2011, the fair values of outstanding derivatives designated under net investment hedge accounting was EUR –10 million (2010: EUR –36 million), presented in the balance sheet as EUR 136 million (2010: EUR 72 million) positive fair values under assets and EUR 146 million (2010: EUR 108 million) negative fair values under liabilities.

As at 31 December 2011, there were EUR 1,180 million (2010: EUR 1,751 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 2011 on derivatives and non-derivatives designated under net investment hedge accounting was EUR 8 million (2010: EUR 5 million).

22 ASSETS NOT FREELY DISPOSABLE
The assets not freely disposable consist primarily of interest bearing securities pledged to secure 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

	2011	2010
Investments	1,359	8,405
Loans and advances to customers	28,417	35,977
Banks	18,033	15,027
Other assets	4,431	5,630
	52,240	65,040

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, not freely disposable, includes the loan to the Dutch State in connection with the Illiquid Assets Back-Up Facility agreement as disclosed in Note 29 'Related parties' and loans that for liquidity purposes have been pledged as collateral in the United States of EUR 9 billion (2010: EUR 7 billion), Germany of EUR 5 billion (2010: EUR 5 billion) and Canada of nil (2010: EUR 5 billion).

The table does not include assets relating to repurchase and stock lending transactions. Reference is made to Note 3 'Financial assets at fair value through profit and loss', Note 4 'Investments' and Note 5 'Loans and advances to customers' for the relevant amounts.

There are no terms and conditions relating to the collateral represented in the above table which are individually significant.

Notes to the consolidated annual accounts of ING Bank continued

23 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

2011	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				2
– guarantees	18,614	867	820	1,484	3,832	25,617
– irrevocable letters of credit	9,271	6,156	1,569	193	17	17,206
– other	452	45	65	8		570
	28,338	7,069	2,454	1,685	3,849	43,395
Irrevocable facilities	35,972	14,858	5,211	24,354	5,793	86,188
	64,310	21,927	7,665	26,039	9,642	129,583

Contingent liabilities and commitments

2010	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	1			3
– guarantees	15,555	472	1,132	1,350	3,202	21,711
– irrevocable letters of credit	7,333	6,070	1,914	192	31	15,540
– other	333	22	64	9		428
	23,222	6,565	3,111	1,551	3,233	37,682
Irrevocable facilities	38,082	16,552	5,251	24,686	5,456	90,027
	61,304	23,117	8,362	26,237	8,689	127,709

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:

Notes to the consolidated annual accounts of ING Bank continued

Future rental commitments for operating lease contracts

2012	**234**
2013	**193**
2014	**148**
2015	**140**
2016	**120**
Years after 2016	**248**

24 SPECIAL PURPOSE ENTITIES AND SECURITISATION

Securitisation

ING Bank as originator

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 with securitisation Special Purpose Entities (SPEs), in relation to which ING Bank purchases credit protection in respect of residential mortgage loans and loans to small and medium-sized enterprises. The SPEs have in turn 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 substantial part of the credit risk related to these loan portfolios to third-party investors. In general, the third-party investors in securities issued by the SPE have recourse only to the assets of the SPE and not to ING Bank.

After securitisation of these assets ING Bank continues to recognise them on its balance sheet under Loans and advances to customers. These transactions are therefore not off-balance sheet arrangements.

Assets under synthetic securitisation programmes

	2011	2010
Loans to small and medium-sized enterprises	**5,251**	5,273
Mortgages	**6,245**	6,476
Total	**11,496**	11,749

ING Bank as sponsor of multi-seller conduit

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 SPE. The SPE issues asset-backed commercial paper to the market to fund the purchases. ING Bank, in its role as administrative agent, facilitates these transactions by providing structuring, accounting, funding and operations services.

ING Bank supports the commercial paper programmes by providing the SPE with short-term standby liquidity facilities. These liquidity facilities are intended primarily to cover temporarily 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. 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. The SPE is included in the consolidation of ING Bank. These transactions are therefore not off-balance sheet arrangements.

The normal non-structured standby liquidity facilities and the structured facilities are reported under irrevocable facilities.

Collateralised debt obligations (CDO)-transactions

Within ING Bank, SPEs are used for CDO transactions. In a typical CDO transaction an SPE is used to issue structured, rated securities which are backed (or collateralised) by a pool of transferable debt securities. Besides investing in CDOs ING Bank often has different roles in these transactions:

- the arranger of the transaction; ING Bank structures the SPE, acquires the assets for the SPE and sells the CDOs to investors;
- collateral manager of the assets in the SPE; ING Bank manages the assets based on strict conditions of the SPEs charter.

ING Bank receives market-rate fees for structuring, asset managing and distributing CDO-securities to investors. The total amount of these fees is not significant.

Notes to the consolidated annual accounts of ING Bank continued

ING Bank as investor
As part of its investment activities, ING Bank invests in securitisations by purchasing notes or by selling credit protection in the market using credit default swaps from securitisation SPEs. For certain own asset securitisation programmes ING Bank acts as a market maker and holds limited positions in this capacity.

Other entities
ING Bank is also a party to other SPEs used in, for example, structured finance and leasing transactions.

Investment funds
ING Bank as fund manager and investor
ING Bank sets up investment funds for which it acts as a fund manager and sole investor at the inception of the fund. Subsequently, ING Bank will seek third-party investors to invest in the fund, thereby reducing the interest of ING Bank. In general, ING Bank will maintain a small percentage of interest in these funds. These funds are included in the consolidated financial statements of the ING Bank if and when control exists, taking into account both ING Bank's financial interests for own risk and its role as investment manager.

ING Bank as fund manager
ING Bank acts as fund manager for several funds. Fees related to these management activities are charged on an arm's-length basis. In general, as a fund manager ING Bank will hold these funds in a fiduciary capacity. These funds are therefore generally not included in the consolidated financial statements of ING Bank.

25 PRINCIPAL SUBSIDIARIES
The principal subsidiaries of ING Bank N.V. and their place of incorporation are as follows:

Bank Mendes Gans N.V.	The Netherlands
ING Lease Holding N.V.	The Netherlands
ING Corporate Investments B.V.	The Netherlands
ING Vastgoed Management Holding B.V.	The Netherlands
ING Commercial Finance B.V.	The Netherlands
WestlandUtrecht Bank N.V.	The Netherlands
ING België N.V.	Belgium
Record Bank N.V.	Belgium
ING Luxembourg S.A.	Luxembourg
ING Bank Slaski S.A.	Poland
ING Financial Holdings Corporation	United States of America
ING Vysya Bank Ltd.	India
ING Direct N.V.	Canada, Germany, Spain, Australia, France, United States of America, Italy, United Kingdom
ING Bank A.S.	Turkey

26 COMPANIES ACQUIRED AND COMPANIES DISPOSED
Acquisitions effective in 2011
There were no significant acquisitions in 2011.

Disposals effective in 2011
ING REIM Europe, ING REIM Asia and Clarion Real Estate Securities (CRES)
ING announced in February 2011 that it has reached agreement with CB Richard Ellis Group, Inc., to sell ING REIM Europe, ING REIM Asia and Clarion Real Estate Securities (CRES), ING REIM's US-based manager of listed real estate securities, as well as part of ING's equity interests in funds managed by these businesses.

In July 2011 ING announced the completion of the sale of Clarion Real Estate Securities (CRES) to CB Richard Ellis. The sale resulted in a net gain on divestment of EUR 182 million. CRES was previously included in the segment ING Real Estate.

In October 2011 ING announced that it had completed the sale of REIM's Asian and European operations to US-based CBRE Group Inc., thereby completing the divestment of ING REIM. The divestment of ING REIM has resulted in an after-tax gain on disposal of approximately EUR 245 million. As a result of the agreement at closing ING continues to have certain contingent income and expenses however no significant impact on the result on divestment is expected. REIMs Asian and European operations were previously included in the segment ING Real Estate.

Clarion Partners
In June 2011 ING announced the completion of the sale of the private market real estate investment manager of its US operations, Clarion Partners, to Clarion Partners management in partnership with Lightyear Capital LLC for USD 100 million. The sale resulted in a net gain on divestment of EUR 39 million. Clarion Partners was previously included in the segment ING Real Estate.

Notes to the consolidated annual accounts of ING Bank continued

ING Car Lease
In September 2011 ING completed the sale of ING Car Lease to BMW Group fleet management division Alphabet for total proceeds of EUR 696 million and a net transaction result of EUR 347 million. ING Car Lease was previously partly included in both the Commercial Banking and Retail Banking segments.

Disposals occurred in 2012
ING Direct USA
In June 2011 ING announced that it 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 are approximately USD 9.0 billion (or approximately EUR 6.9 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 has resulted in a positive result after tax of approximately EUR 0.5 billion.

In 2011 ING Direct USA is still included in the segment ING Direct. After this sale, ING Direct USA will no longer be consolidated.

In connection with the divestment of ING Direct USA, ING also completed the adjustment of the agreement with the Dutch State concerning the structure of the Illiquid Assets Back-up Facility (IABF) which was also announced on 16 June 2011. The amendment serves to de-link the IABF from ING Direct USA by putting ING Bank in its place as counterparty for the Dutch State. The IABF is further amended to ensure a continued alignment between ING and the State regarding exposure to the Alt-A portfolio. Only the part of the IABF covering ING Direct USA, currently approximately 85% of the total IABF-portfolio, is adjusted in the amendment. The ING Insurance part of the IABF remains unaltered. Reference is made to Note 29 'Related Parties' for details on the original agreement and the amendments made.

Most significant companies disposed in 2011

	Clarion Partners	Clarion Real Estate securities	ING REIM Asia and Europe	ING Car Lease	Total
Sales proceeds					
Cash proceeds [1]	69	224	365	696	1,354
Sales proceeds	69	224	365	696	1,354
Assets					
Loans and advances to customers			1	104	105
Amounts due from banks	1	3	94	103	201
Financial assets at fair value through profit and loss	5				5
Property and equipment				3,275	3,275
Miscellaneous other assets	20	44	82	341	487
Liabilities					
Amounts due to banks				101	101
Customer deposits and other funds on deposit				3,028	3,028
Miscellaneous other liabilities	10	19	116	333	478
Net assets	16	28	61	361	466
% disposed	100%	100%	100%	100%	
Net assets disposed	16	28	61	361	466
Gain/loss on disposal [2]	39	182	245	347	813

[1] Cash outflow / inflow on group companies in the cash flow statement includes cash outflows / inflows on individually immaterial disposals in addition to the cash flow presented.
[2] The gain/loss on disposal comprises the sales proceeds, the net assets disposed, the expenses directly related to the disposal and the realisation of unrealised reserves.

Acquisitions effective in 2010
There were no significant acquisitions in 2010.

Disposals effective in 2010
In October 2009 ING reached an agreement to sell its Asian Private Banking business for a consideration of USD 1,463 million (EUR 985 million). The Asia franchise offers private banking services in 11 markets, including Hong Kong, the Philippines and Singapore. The transaction generated a net profit for ING of EUR 332 million. The sale was completed in the first half of 2010. The Asian Private Banking Business was previously included in the segment Retail Asia.

Notes to the consolidated annual accounts of ING Bank continued

In October 2009 ING reached an agreement to sell its Swiss Private Banking business to Julius Baer for a consideration of EUR 345 million (CHF 520 million) in cash. The transaction generated a net profit for ING of EUR 73 million. The sale was completed in January 2010. The Swiss Private Banking business was included in the segment Retail CE.

In August 2010 ING announced that it has agreed to sell its 50% stake in ING Summit Industrial Fund LP (‘Summit’), a Canadian light industrial property portfolio to a joint venture between KingSett Capital and Alberta Investment Management Corporation (AIMCo). The sale was completed in November 2010. The transaction value for 100% of Summit is CAD 2.0 billion (EUR 1.4 billion) and includes assumed debt. In addition to its direct investment in Summit, ING has an indirect participation through its 7.8% unit holding of ING Industrial Fund (IIF), an ING-managed listed property fund in Australia which owns the remaining 50% in Summit. As part of the transaction, IIF has agreed to simultaneously sell its stake in Summit to KingSett/AIMCo. Consequently, ING’s indirect participation in Summit will end as well. Separately, ING sold ING Real Estate Canada, the manager of Summit, to KingSett/AIMCo for an undisclosed amount. The transaction had no material impact on ING Group’s 2010 results and capital ratios. The transaction resulted in a net loss of EUR 26 million in 2010. Summit was previously included in the segment ING Real Estate.

Most significant companies disposed in 2010

	Asia Private Banking business [3]	Swiss Private Banking business [3]	ING Summit Industrial Fund LP	Total
Sales proceeds				
Cash proceeds [1]	985	345	333	1,663
Sales proceeds	985	345	333	1,663
Assets				
Cash assets	4	179		183
Investments	41	236		277
Loans and advances to customers	2,390	816	6	3,212
Amounts due from banks	1,171	1,177	39	2,387
Financial assets at fair value through profit and loss	397	8		405
Real estate investments			1,620	1,620
Miscellaneous other assets	20	46	57	123
Liabilities				
Amounts due to banks	180	755	952	1,887
Customer deposits and other funds on deposit	3,098	1,382		4,480
Miscellaneous other liabilities	92	53	52	197
Net assets	653	272	718	1,643
% disposed	100%	100%	50% [4]	
Net assets disposed	653	272	359	1,284
Gain/loss on disposal [2]	332	73	–26	379

(1) Cash outflow / inflow on group companies in the cash flow statement includes cash outflows / inflows on individually immaterial disposals in addition to the cash flow presented.
(2) The gain/loss on disposal comprises the sales proceed, the net assets disposed, the expenses directly related to the disposal and the realisation of unrealised reserves.
(3) As per 31 December 2009 recognised as a disposal group held for sale.
(4) After disposal of the 50% stake ING has no remaining stake in Summit.

2009

Goodwill recognised in 2009 amounted to EUR 39 million as disclosed in Note 9 ‘Intangible assets’. This includes EUR 26 million in relation to the consolidation of 3W Holding B.V as disclosed above. There were no significant acquisitions in 2009.

In August 2009 ING obtained control of its 50% owned joint venture 3W Holding B.V., a real estate development company. ING obtained a majority representation in the Supervisory Board of 3W Holding B.V. and entered into an option agreement that allows ING to acquire the remaining 50%. As a result of obtaining control, 3W Holding B.V. is fully included in the consolidation as of September 2009. Net assets upon consolidation amounted to EUR –21 million. The estimated consideration payable for obtaining the remaining 50% under the option agreement is approximately EUR 5 million. Therefore, goodwill of EUR 26 million is recognised. This goodwill is mainly attributable to operational synergies arising from obtaining control of the professional network of 3W and the future business potential in the southern Netherlands where 3W is active.

Notes to the consolidated annual accounts of ING Bank continued

	3W Holding B.V.
General	
Date of full consolidation	1 September 2009
Purchase consideration payable	5
Assets	
Miscellaneous other assets	51
Liabilities	
Customer deposits and other funds on deposit	21
Miscellaneous other liabilities	51
Net assets	–21
Goodwill recognised	26
Profit since date of full consolidation	–16
Income if fully consolidated as of start of year	–5
Profit if fully consolidated as of start of year	–19

Disposals effective in 2009
In 2009 there were no significant disposals.

27 LEGAL PROCEEDINGS
ING Bank companies are involved in litigation and arbitration proceedings in the Netherlands and in a number of foreign jurisdictions, including the United States, involving claims by and against them which arise in the ordinary course of their businesses, including in connection with their activities as insurers, lenders, employers, investors and taxpayers. In certain of such proceedings, very large or indeterminate amounts are sought, including punitive and other damages. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, the Company's management is of the opinion that neither it nor any of its subsidiaries is aware of any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have in the recent past had a significant effect on the financial position or profitability of the Company.

Because of the geographic spread of its business, ING may be subject to tax audits in numerous jurisdictions at any point in time. Although ING believes that it has adequately provided for all its tax positions, the ultimate resolution of these audits may result in liabilities which are different from the amounts recognised.

Purported class litigation has been filed in the United States District Court for the Southern District of New York alleging violations of the federal securities laws with respect to disclosures made in connection with the 2007 and 2008 offerings of ING's Perpetual Hybrid Capital Securities. The Court has determined that the claims relating to the 2007 offerings were without merit and has dismissed them. The challenged disclosures that survived the Court's ruling relate solely to the June 2008 offering, and primarily to ING Group's investments in certain residential mortgage-backed securities. At this moment it is not practicable to provide an estimate of the (potential) financial effect.

In January 2010 ING lodged an appeal with the General Court of the European Union against specific elements of the European Commission's decision regarding ING's restructuring plan. In its appeal, ING contests the way the Commission has calculated the amount of state aid ING received and the disproportionality of the price leadership restrictions specifically and the disproportionality of restructuring requirements in general. In July 2011 the appeal case was heard orally by the General Court of the European Union. On 2 March 2012, the Court partially annulled the Commission's decision of 18 November 2009 and as a result a new decision must be issued by the Commission. Interested parties can file an appeal against the General Court's judgment before the Court of Justice of the European Union within two months and ten days after the date of the General Court's judgment.

In January 2011 the Association of Stockholders (Vereniging van Effectenbezitters, "VEB") has issued a writ alleging that investors were misled by the prospectus that was issued with respect to the September 2007 rights issue of Fortis N.V. (now: Ageas N.V.) against Ageas N.V., the underwriters of such rights issue, including ING Bank, and former directors of Fortis N.V. According to the VEB the prospectus shows substantive incorrect and misleading information. The VEB states that the impact and the risks of the subprime crisis for Fortis and Fortis' liquidity position have been reflected incorrectly in the prospectus. The VEB requests a declaratory decision stating that the summoned parties have acted wrongfully and are therefore responsible for the damages suffered by the investors in Fortis. The amount of damages of EUR 18 billion

Notes to the consolidated annual accounts of ING Bank continued

has not been substantiated yet. ING will defend itself against this claim; at this time ING is not able to assess the future outcome. Therefore at this moment it is not practicable to provide an estimate of the (potential) financial effect.

In July 2011, the Dutch ING Pensioners' Collective Action Foundation (Stichting Collectieve Actie Pensioengerechtigden ING Nederland), together with two trade unions (FNV Bondgenoten and CNV Dienstenbond) and a number of individual pensioners, instituted legal proceedings against ING's decision not to provide funding for indexing pensions insured with Stichting Pensioenfonds ING (the Dutch ING Pension Fund) per 1 January 2011. In July 2011, also the Interest Group ING General Managers' Pensions (Belangenvereniging ING-Directiepensioenen), together with a number of individual retired Dutch General Managers of ING, instituted legal proceedings against ING's decision not to provide funding for indexing Dutch General Managers' pensions per 1 January 2011. It is not feasible to predict the ultimate outcome of these legal proceedings although legal proceedings instituted by Stichting Pensioenfonds ING on the same issue were ruled in ING's favour. 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 addition to the foregoing procedures, ING Bank remains in discussions with authorities in the US concerning ING Bank's compliance with Office of Foreign Asset Control requirements. ING Bank has received requests for information from US Government agencies including the US Department of Justice and the New York County District Attorney's Office. ING Bank is cooperating fully with the ongoing investigations and is engaged in discussions to resolve these matters with the US authorities; however, it is not yet possible to reliably estimate the timing or amount of any potential settlement, which could be significant. At this moment it is not practicable to provide an estimate of the (potential) financial effect.

28 JOINT VENTURES

Joint ventures are included proportionally in the consolidated financial statements as follows:

Most significant joint ventures

2011	Interest held (%)	Assets	Liabilities	Income	Expenses
Postkantoren B.V.	50	57	69	16	21
		57	69	16	21

Most significant joint ventures

2010	Interest held (%)	Assets	Liabilities	Income	Expenses
Postkantoren B.V.	50	91	100	30	28
		91	100	30	28

29 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. Transactions 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.

Transactions with joint ventures and associates

	Joint ventures		Associates	
	2011	2010	2011	2010
Receivables	122	114	1,156	1,236
Liabilities	5	41	12	38
Income received	6	6	144	127
Expenses paid			20	11

In addition to the transactions with joint ventures and associates, ING Bank also enters into transactions with ING Group, ING Insurance and its subsidiaries. ING Bank together with ING Insurance forms the ING Group. These transactions vary from financing activities to regular purchases and sales transactions.

Notes to the consolidated annual accounts of ING Bank continued

Transactions with ING Groep N.V. and ING Verzekeringen N.V.

	ING Groep N.V.		ING Verzekeringen N.V.	
	2011	2010	**2011**	2010
Receivables	**2,869**	736	**1,888**	3,141
Liabilities	**7,515**	9,411	**13,211**	8,541
Income received	**306**	194	**542**	343
Expenses paid	**868**	825	**338**	236

Liabilities to ING Groep N.V. mainly include long-term funding. Liabilities to ING Verzekeringen N.V. mainly include short-term deposits made by ING Verzekeringen N.V.

As part of the exchange offers disclosed in Note 13 'Subordinated loans' EUR 1.6 billion intercompany debt from ING Bank N.V. to ING Groep N.V. was repaid.

In 2011, EUR 1.7 billion (2010: EUR 1.8 billion) ING Bank mortgages were sold through the ING Insurance intermediary sales agents.

In March 2009 ING Insurance and ING Bank agreed to put in place a liquidity facility under which ING Insurance can borrow up to EUR 1.5 billion (USD 2 billion) from ING Bank. The terms of this facility are at arm's length.

ING Bank provides various letters of credit directly and indirectly to ING Insurance operating companies. At 31 December, 2011 none of these Letters of Credit have been drawn.

The overall risk exposure of ING Insurance on ING Bank is mitigated through collateralisation.

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 18 'Other liabilities'.

In 2011, ING made a number of changes in the composition of the Management Board for Banking. Two 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 Board) [1]

2011 amounts in thousands of euros	**Executive Board of ING Groep N.V. [2]**	**Management Board of ING Bank N.V. [3]**	**Total**
Base salary and variable compensation in cash	**2,666**	**4,526**	**7,192**
Pension costs	**315**	**1,602**	**1,917**
Retirement benefit		**1,828**	**1,828**
Fair market value of variable compensation in stock		**1,147**	**1,147**
Total compensation	**2,981**	**9,103**	**12,084**

[1] In January 2011, an additional Board member was added to the Management Board Banking. In October 2011 a Board Member stepped down from the Management Board Banking. His successor and another member joined the Management Board that same month.
[2] Includes the compensation earned in the capacity as Executive Board member. One Executive Board member stepped down from the Executive Board as per 1 October 2011, therefore his compensation is included till October 2011.
[3] Excluding members that are also members of the Executive Board of ING Groep N.V.

Key management personnel compensation (Executive Board and Management Board)

2010 amounts in thousands of euros	Executive Board of ING Groep N.V.	Management Board of ING Bank N.V. [1]	Total
Base salary and variable compensation in cash	2,853	3,650	6,503
Pension costs	292	542	834
Fair market value of variable compensation in stock		1,150	1,150
Total compensation	3,145	5,342	8,487

[1] Excluding three members that are also members of the Executive Board of ING Groep N.V.

The Executive Board members decided to forego the variable remuneration in relation to performance year 2010. The above table outlines the actual situation,

Notes to the consolidated annual accounts of ING Bank continued

Key management personnel compensation (Supervisory Board)		
amounts in thousands of euros	**2011**	2010
Base salary	**857**	1,010
Total compensation	**857**	1,010

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

Loans and advances to key management personnel						
	Amount outstanding 31 December		Average interest rate		Repayments	
amounts in thousands of euros	**2011**	2010	**2011**	2010	**2011**	2010
Executive Board members ING Groep N.V. (1)	**1,968**	1,968	**3.6%**	3.6%		
Management Board members of ING Bank N.V.	**750**	13	**3.3%**	4.3%		4
Supervisory Board members	**282**	282	**8.6%**	8.6%		
Total	**3,000**	2,263				4

(1) Includes the Executive Board member that stepped down from the Executive Board as per 1 October 2011

In 2011, the total remuneration costs amounted to EUR 3.0 million (2010: EUR 3.1 million) for members and former members of the Executive Board, of these remuneration costs EUR 1.5 million (2010: EUR 1.6 million) was allocated to ING Bank. The total remuneration costs amounted EUR 0.9 million (2010: EUR 1.0 million) for members and former members of the Supervisory Board, of these remuneration costs EUR 0.5 million (2010: EUR 0.5 million) was allocated to ING Bank.

There are no significant provisions for doubtful debts or individually significant bad debt expenses recognised on outstanding balances with related parties.

Transactions with the Dutch State

Illiquid Assets Back-up Facility

ING Group and the Dutch State reached an agreement on an Illiquid Assets Back-Up Facility (‘IABF’) on 26 January 2009. The transaction closed on 31 March 2009. The Facility covers the Alt-A portfolios of ING Direct USA, with a par value of approximately EUR 26 billion. Under the IABF, ING transferred 80% of the economic ownership of its Alt-A portfolio to the Dutch State. As a result, an undivided 80% interest in the risk and rewards on the portfolio was transferred to the Dutch State. ING retained 100% of the legal ownership of its Alt-A portfolio. The transaction price was 90% of the par value with respect to the 80% proportion of the portfolio of which the Dutch State had become the economic owner. The transaction price remains payable by the Dutch State to ING and will be redeemed over the remaining life. Furthermore, under the IABF ING pays a guarantee fee to the State and receives a funding fee and a management fee. As a result of the transaction ING derecognised 80% of the Alt-A portfolio from its balance sheet and recognised a receivable from the Dutch State. The transferred Alt-A portfolio was previously included in Available-for-sale debt securities. The Dutch State also acquired certain consent rights with respect to the sale or transfer of the 20% proportion of the Alt-A portfolio that is retained by ING.

Under the terms of the transaction as agreed on 26 January 2009, the overall sales proceeds amounted to EUR 19.8 billion at the transaction date. The amortised cost (after prior impairments) at the transaction date was also approximately EUR 19.7 billion. The transaction resulted in a profit in the first quarter of 2009 of EUR 45 million after tax (the difference between the sales proceeds and the amortised cost). The fair value under IFRS-EU at the date of the transaction was EUR 13.5 billion.

In order to obtain approval from the European Commission on ING Groep N.V.’s Restructuring Plan (see below), ING agreed in to make additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission to the Dutch State corresponding to an adjustment of the fees for the Illiquid Assets Back-up Facility. In total, these additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission amounted to a net present value of EUR 1.3 billion pre-tax, which was recognised as a one-off charge for ING Groep N.V. (as it was not charged to ING Bank N.V.) in the fourth quarter of 2009. The remainder of the IABF as agreed in January 2009, including the transfer price of the securities of 90%, remained unaltered.

The difference between the total sales proceeds and the fair value under IFRS-EU represents a ‘Government grant’ under IAS 20. This government grant is considered to be an integral part of the transaction and is therefore accounted for as part of the result on the transaction.

The transaction resulted in a reduction of the negative revaluation -and therefore an increase in equity- of EUR 3.9 billion (after tax).

Notes to the consolidated annual accounts of ING Bank continued

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 30 'Fair value of financial assets and liabilities'.

As at 31 December 2011, the remaining outstanding amount from the transaction price that remained payable by the Dutch State is EUR 8.9 billion (2010: EUR 11.4 billion) for ING Bank. The net amount of other unamortised components of the total sales proceeds, as explained above, amounts to EUR 0.1 billion (2010: EUR 0.4 billion) receivable by ING Bank.

In connection with the sale of ING Direct USA as disclosed in Note 26 'Companies acquired and companies disposed', ING has reached an agreement with the Dutch State to adjust the structure of the Illiquid Assets Back-up Facility (IABF). This adjustment served to de-link the IABF from ING Direct USA by putting ING Bank in its place as counterparty for the Dutch State and became effective at the closing of the sale in February 2012. Under the terms of the original transaction ING Direct USA held on its balance the remaining 20% of the Alt-A portfolio, ensuring an alignment of interests between ING and the Dutch state regarding the performance of the portfolio.

Upon closing of the sale ING provided a counter guarantee to the Dutch State covering 25% of the 80% part of the Dutch State. This guarantee covered realised cash losses if they would exceed the 35% that is implied by the market value of the portfolio in June 2011. This adjustment therefore lowered the risk exposure for the Dutch State. The impact on equity and result of the alignment for ING Bank was limited.

Only the part covering ING Direct USA, which currently covers approximately 85% of the total portfolio, is adjusted in the agreement and the guarantee only relates to the portfolio of ING Direct USA. The ING Insurance US and Bancorp part of the IABF remains unaltered.

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. The European Commission has, by decision of 18 November 2009, formally approved the Restructuring Plan. The main elements of the Restructuring Plan as announced on 26 October 2009 are as follows:

- Elimination of double leverage and significant reduction of ING Bank's balance sheet;
- Divestment of all Insurance and Investment Management activities;
- Divestment of ING Direct USA;
- Creation of a new company in the Dutch retail market composed of Interadvies (including Westland Utrecht and the mortgage activities of Nationale-Nederlanden) and the existing consumer lending portfolio of ING Retail in the Netherlands. This business, once separated, needs to be divested;
- Restriction to be a price leader in any EU country for certain retail and SME banking products and restriction to acquire financial institutions or other businesses that would delay the repayment of the non-voting equity securities. These restrictions will apply for the shorter period of three years or until the non-voting equity securities have been repaid in full to the Dutch State;
- An agreement with the Dutch State to alter the repayment terms of 50% of the non-voting equity securities;
- Repayment of EUR 5 billion of the non-voting equity securities issued in November 2008 by ING Groep N.V. to the Dutch State;
- Additional Illiquid Assets Back-Up Facility payments as part of the overall agreement with the European Commission will have to be made to the Dutch State in the form of fee adjustments relating to the Illiquid Assets Back-Up Facility which resulted in a one-off pre-tax charge to ING Groep N.V. of EUR 1.3 billion in the fourth quarter of 2009;
- Launch of a EUR 7.5 billion rights issue, in order to finance the repayment of 50% of the non-voting equity securities and a mitigation of the capital impact of the additional Illiquid Assets Back-Up Facility payment as part of the overall agreement with the European Commission to the Dutch State of EUR 1.3 billion;
- Execution of the Restructuring Plan before the end of 2013;
- If the overall return on the (remaining) non-voting equity securities (core Tier 1 securities) issued to the Dutch State is expected to be lower than 10% p.a., the European Commission may consider the imposition of additional behavioural constraints; and
- The calling of Tier 2 capital and Tier 1 hybrids will in the future be proposed case by case to the Commission for authorisation, for the shorter period of three years starting from the date of the Commission decision or up to the date on which ING has fully repaid the non-voting equity securities (core Tier 1 securities) to the Dutch State (including the relevant accrued interest of core Tier 1 coupons and exit premium fees).

Notes to the consolidated annual accounts of ING Bank continued

On 28 January 2010, ING lodged an appeal against specific elements of the European Commission's decision. By judgment of 2 March 2012, the Court partially annulled the Commission's decision of 18 November 2009, as a result of which a new decision has to be taken by the Commission. Interested parties can file an appeal against the General Court's judgment before the Court of Justice of the European Union within two months and ten days after the date of the General Court's judgment.

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 promulgate the rules applicable to any issues under the Credit Guarantee Scheme and include information such as scope, denomination, tenor and fees payable by the banks.

ING Group pays a fee of 84 basis points over the issued bonds to the Dutch State to participate in the Credit Guarantee Scheme. Reference is made to Note 14 'Debt securities in issue'.

Other
Following the transactions as disclosed in this note, the Dutch State is a related party of ING. All other transactions between ING and the Dutch State are of a normal business nature and at arm's length.

In the framework of the transactions with the Dutch State disclosed in this note, certain arrangements with respect to corporate governance and executive remuneration were agreed with the Dutch State which will remain in place as long as the Dutch State owns at least 250 million non-voting equity securities of ING Groep N.V., or as long as the Illiquid Assets Back-Up Facility is in place (which ever expires last). The arrangements set forth after the second and fourth bullet hereunder remain valid as long as any of the Government Guaranteed Bonds is outstanding. These arrangements require that:

- the Dutch State may recommend two candidates (the 'State Nominees') for appointment to the Supervisory Board of ING Groep N.V. Certain decisions of the Supervisory Board require approval of the State Supervisory Board members;
- ING must develop a sustainable remuneration policy for the Executive Board and Senior Management that is aligned to new international standards and submit this to its General Meeting for adoption. This remuneration policy shall include incentive schemes which are linked to long-term value creation, thereby taking account of risk and restricting the potential for 'rewards for failure'. This new remuneration policy, amongst others, must include objectives relating to corporate and social responsibility;
- members of the Executive Board may not receive any performance-related payment - either in cash, options, shares or bearer depositary receipts - for the years 2008 and 2009 until the adoption of the new remuneration policy in 2010;
- severance payments to Executive Board members are limited to a maximum of one year's fixed salary, in line with the Tabaksblat Code;
- ING has undertaken to support growth of the lending to corporates and consumers (including mortgages) for an amount of EUR 25 billion, on market conforming terms;
- ING agreed to pro-actively use EUR 10 billion of the Dutch Guarantee Scheme during 2009;
- ING has committed itself to maintaining the Dutch payment system PIN on its payment debit cards as long as other market participants, representing a substantial market share, are still making use of this payment system; and
- appointment of the Chief Executive Officer of the Executive Board of ING Groep N.V. requires approval of the State Nominees.

Notes to the consolidated annual accounts of ING Bank continued

30 FAIR VALUE OF 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	
	2011	2010	**2011**	2010
Financial assets				
Cash and balances with central banks	**28,112**	9,519	**28,112**	9,519
Amounts due from banks	**45,269**	51,651	**45,323**	51,828
Financial assets at fair value through profit and loss				
– trading assets	**123,176**	125,070	**123,176**	125,070
– non-trading derivatives	**10,076**	8,990	**10,076**	8,990
– designated as at fair value through profit and loss	**2,838**	3,066	**2,838**	3,066
Investments				
– available-for-sale	**74,935**	99,200	**74,935**	99,200
– held-to-maturity	**8,835**	11,854	**8,868**	11,693
Loans and advances to customers	**585,041**	588,216	**577,569**	587,448
Other assets [(1)]	**15,444**	18,299	**15,444**	18,299
	893,726	915,865	**886,341**	915,113
Financial liabilities				
Amounts due to banks	**72,687**	73,226	**72,233**	72,852
Customer deposits and other funds on deposit	**480,265**	516,698	**479,364**	519,304
Debt securities in issue	**133,871**	126,150	**130,926**	125,066
Financial liabilities at fair value through profit and loss				
– trading liabilities	**107,682**	108,049	**107,682**	108,049
– non-trading derivatives	**18,161**	15,825	**18,161**	15,825
– designated as at fair value through profit and loss	**13,021**	12,707	**13,021**	12,707
Other liabilities [(2)]	**16,837**	18,063	**16,837**	18,063
Subordinated loans	**17,031**	20,618	**18,408**	21,021
	859,555	891,336	**856,632**	892,887

(1) Other assets do not include (deferred) tax assets, property held for sale, pension assets and deferred charges.
(2) Other liabilities do not include (deferred) tax liabilities, pension liabilities, prepayments received under property under development, other provisions and other taxation and social security contributions.

The estimated fair values correspond to the amounts at which the financial instruments at our best estimate could have been traded at the balance sheet date between knowledgeable, willing parties in arm's-length transactions. 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.

Due to a change in market practices for pricing derivatives, ING Bank is in the process of adopting discounting curve that reflects the Overnight Indexed Swap ('OIS') instead of the previously used term EURIBOR rate. In addition, ING refined its calculation methodology for reflecting credit risk in derivatives and issued liabilities. The impact of both these changes is recorded in the profit and loss account; the overall financial effect in 2011 was not material.

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

Notes to the consolidated annual accounts of ING Bank continued

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 banking 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 consensus 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 determined by management 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.

Certain asset backed securities in the United States are valued using external price sources that are obtained from third party pricing services and brokers.

In order to determine which independent price in the range of prices obtained best represents fair value under IAS 39, ING Bank applies a discounted cash flow model to calculate an indicative fair value. The key input to this model is a discount rate derived from an internal matrix that is used to construct the discount rate per security by applying credit and liquidity spreads relevant to the characteristics of such asset classes. The main assumptions in this matrix include:

- a base spread;
- a liquidity risk premium;
- an additional credit spread, based on:
  - seniority in the capital structure - an adjustment is applied to each security based on its position in the capital structure;
  - vintage - an adjustment is applied for underwriting guidelines deteriorating from 2004 to 2007 in combination with differences in home price developments for these vintages.

The spreads are expressed in basis points and reflect the current market characteristics for credit and liquidity.

Notes to the consolidated annual accounts of ING Bank continued

The indicative fair value obtained through the discounted cash flow model is then used to select the independently obtained price that is closest to the indicative price. In addition, judgement is applied in the event that the resulting indicative fair value is closest to the highest obtained vendor price and that price is a significant outlier compared to other obtained vendor prices. In such cases, the second highest obtained vendor price is deemed the most representative of fair value. The indicative price is not itself used for valuing the security; rather, it is used to select the most appropriate price obtained from independent external sources. As a result, each security in the portfolio is priced based on an external price, without modification by ING Bank.

Loans and receivables
Reference is made to Loans and receivables to customers below.

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

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

Fair value hierarchy
ING Bank has categorised its financial instruments that are measured in the balance sheet at fair value into a three level hierarchy based on the priority of the inputs to the valuation. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques based on 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 on whether fair values were determined based upon 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.

Notes to the consolidated annual accounts of ING Bank continued

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.

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

Methods applied in determining fair values of financial assets and liabilities

2011	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	32,878	89,319	979	123,176
Non-trading derivatives	46	9,232	798	10,076
Financial assets designated as at fair value through profit and loss	225	1,150	1,463	2,838
Available-for-sale investments	49,490	23,194	2,251	74,935
	82,639	122,895	5,491	211,025
Liabilities				
Trading liabilities	20,308	86,434	940	107,682
Financial liabilities designated as at fair value through profit and loss	1,150	7,599	4,272	13,021
Non-trading derivatives	145	17,135	881	18,161
	21,603	111,168	6,093	138,864

Methods applied in determining fair values of financial assets and liabilities

2010	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	49,536	73,866	1,668	125,070
Non-trading derivatives	71	8,418	501	8,990
Financial assets designated as at fair value through profit and loss	570	1,943	553	3,066
Available-for-sale investments	47,311	49,290	2,599	99,200
	97,488	133,517	5,321	236,326
Liabilities				
Trading liabilities	33,293	73,315	1,441	108,049
Financial liabilities designated as at fair value through profit and loss	1,833	7,649	3,225	12,707
Non-trading derivatives	802	14,275	748	15,825
	35,928	95,239	5,414	136,581

Level 1 – 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. 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 on an arm's length basis.

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.

Notes to the consolidated annual accounts of ING Bank continued

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 Available-for-sale investments include mainly asset backed securities in the United States as described above under ‘Debt securities’. 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 valued using significant unobservable inputs 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’.

Changes in Level 3 Assets

2011	Trading assets	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	1,668	501	553	2,599	5,321
Amounts recognised in profit and loss account during the year	–341	254	–28	–112	–227
Revaluation recognised in equity during the year				–120	–120
Purchase of assets	750	105	905	944	2,704
Sale of assets	–559		–88	–521	–1,168
Maturity/settlement	–441	–75	–100	–378	–994
Transfers into Level 3	95	13	225	191	524
Transfers out of Level 3	–191		–2	–203	–396
Changes in the composition of the group and other changes			–1	–194	–195
Exchange rate differences	–2		–1	45	42
Closing balance	979	798	1,463	2,251	5,491

Main changes in fair value hierarchy (2011 compared to 2010)

Changes in the composition of the group and other changes includes the decrease of the Level 3 assets in relation to the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 10 ‘Assets and liabilities held for sale’. Furthermore Changes in the composition of the group and other changes includes the increase of the Level 3 assets in relation to shares in real estate investment funds; this increase includes mainly as a result of the reclassification of associates to investments available-for sale as disclosed in Note 6 'Investments in associates'.

Transfers into Level 3 includes certain bonds which were transferred to Level 3 in 2011 as a result of reduced market liquidity and/or pricing sources that could no longer be classified as market observable.

There were no significant transfers between Level 1 and 2.

Notes to the consolidated annual accounts of ING Bank continued

Changes in Level 3 Assets

2010	Trading assets	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available -for-sale investments	Total
Opening balance	970	334	691	1,750	3,745
Amounts recognised in profit and loss account during the year	84	–267	–43	124	–102
Revaluation recognised in equity during the year				302	302
Purchase of assets	1,364	508	372	758	3,002
Sale of assets	–851	–215	–426	–582	–2,074
Maturity/settlement	–274	–2	–97	–359	–732
Transfers into Level 3	471	143	21	647	1,282
Transfers out of Level 3	–124		–3	–158	–285
Exchange rate differences	28		38	117	183
Closing balance	1,668	501	553	2,599	5,321

Main changes in fair value hierarchy (2010 compared to 2009)
Amounts in each of the levels of the fair value hierarchy are impacted by changes in the volume of portfolios and fluctuations in pricing levels and foreign currency rates.

The amount in Level 3 is impacted by improved market activity in this area leading to increased trading and increases in portfolio volume in financial instruments that qualify for Level 3.

Level 3 assets increased because certain bonds were transferred to Level 3 in 2010 as a result of reduced market liquidity and/or pricing sources that could no longer be classified as market observable.

Changes in Level 3 Liabilities

2011	**Trading liabilities**	**Non-trading derivatives**	**Financial liabilities designated as at fair value through profit and loss**	**Total**
Opening balance	**1,441**	**748**	**3,225**	**5,414**
Amounts recognised in profit and loss account during the year	**46**	**55**	**113**	**214**
Revaluation recognised in equity during the year				
Issue of liabilities	**1,138**	**502**	**1,613**	**3,253**
Early repayment of liabilities	**–705**	**–47**	**–402**	**–1,154**
Maturity/settlement	**–928**	**–400**	**–645**	**–1,973**
Transfers into Level 3	**125**	**25**	**441**	**591**
Transfers out of Level 3	**–175**	**–2**	**–80**	**–257**
Exchange rate differences	**–2**		**7**	**5**
Closing balance	**940**	**881**	**4,272**	**6,093**

Notes to the consolidated annual accounts of ING Bank continued

Changes in Level 3 Liabilities

2010	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit and loss	Total
Opening balance	857	487	2,589	3,933
Amounts recognised in profit and loss account during the year	119	–323	85	–119
Issue of liabilities	1,679	484	2,241	4,404
Early repayment of liabilities	–876	–122	–863	–1,861
Maturity/settlement	–326	–1	–561	–888
Transfers into Level 3	165	223		388
Transfers out of Level 3	–176		–266	–442
Exchange rate differences	–1			–1
Closing balance	1,441	748	3,225	5,414

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

2011	**Held at balance sheet date**	**Derecognised during the year**	**Total**
Assets			
Trading assets	**–343**	**2**	**–341**
Non-trading derivatives	**254**		**254**
Financial assets designated as at fair value through profit and loss	**–28**		**–28**
Available-for-sale investments	**–125**	**13**	**–112**
	–242	**15**	**–227**
Liabilities			
Trading liabilities	**46**		**46**
Non-trading derivatives	**55**		**55**
Financial liabilities designated as at fair value through profit and loss	**113**		**113**
	214		**214**

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

2010	Held at balance sheet date	Derecognised during the year	Total
Assets			
Trading assets	59	25	84
Non-trading derivatives	–267		–267
Financial assets designated as at fair value through profit and loss	–16	–27	–43
Available-for-sale investments	109	15	124
	–115	13	–102
Liabilities			
Trading liabilities	119		119
Non-trading derivatives	–323		–323
Financial liabilities designated as at fair value through profit and loss	85		85
	–119		–119

Sensitivities of fair values in Level 3

Reasonably likely changes in the non-observable assumptions used in the valuation of Level 3 assets and liabilities would not have a significant impact on equity and net result, other than explained below for investments in asset backed securities in the United States.

Notes to the consolidated annual accounts of ING Bank continued

Asset backed securities in the United States
Level 3 assets include EUR 92 million at 31 December 2011 and EUR 878 million at 31 December 2010 for investments in asset backed securities in the United States. These assets are valued using external price sources that are obtained from third party pricing services and brokers. In 2011, these asset backed securities in the United States decreased mainly as result of the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 10 ‘Assets and liabilities held for sale’.

During 2008, the trading volumes in the relevant markets reduced significantly and the market became inactive. The dispersion between prices for the same security from different price sources increased significantly. In order to ensure that the most accurate and relevant sources available are used in determining the fair value of these securities, the valuation process was further enhanced during 2008 by using information from additional pricing sources and enhancing the process of selecting the most appropriate price.

Generally, up to four different pricing services are utilised. Management carefully reviews the prices obtained in conjunction with other information available, including, where relevant, trades in the market, quotes from brokers and internal evaluations. If the dispersion between different prices for the same securities is limited, a hierarchy exists that ensures consistent selection of the most appropriate price. If the dispersion between different prices for the same security is significant, additional processes are applied to select the most appropriate price, including an internally developed price validation matrix and a process to challenge the external price source.

Valuation for these securities is inherently complex and subjective. Although each security in the portfolio is priced based on an external price, without modification by ING Bank, and management is confident that it has selected the most appropriate price in the current market circumstances, the valuation of these portfolios would have been different had different prices been selected. The sensitivity analysis shows that the highest and the lowest available market prices do not materially impact the valuation of these assets as at 31 December 2011.

Asset backed security portfolio

Fair value hierarchy of pressurised ABS bonds

2011	Level 1	Level 2	Level 3	Total
US Subprime RMBS		11	11	22
US Alt-A RMBS		201	5	206
CDO/CLOs	6	12	268	286
CMBS	2	175	1	178
Total pressurised ABS	8	399	285	692

Fair value hierarchy of pressurised ABS bonds

2010	Level 1	Level 2	Level 3	Total
US Subprime RMBS		17	70	87
US Alt-A RMBS		1,851	637	2,488
CDO/CLOs	9		292	301
CMBS	1	400	9	410
Total pressurised ABS	10	2,268	1,008	3,286

Greece, Italy, Ireland, Portugal and Spain
Of the Government and Unsecured Financial institutions’ bonds exposure in Greece, Italy, Ireland, Portugal and Spain as disclosed in Note 4 ‘Investments’, EUR 2.5 billion is classified as available-for-sale and is measured at fair value (with the revaluation recognised in equity, taking into account impairments that are recognised in the profit and loss account). The table below provide the fair value hierarchy per year-end 2011 for the Greek, Italian, Irish, Portuguese and Spanish Government and Unsecured Financial institutions’ bond exposure measured at fair value.

Notes to the consolidated annual accounts of ING Bank continued

Fair value hierarchy of Greek, Italian, Irish, Portuguese and Spanish bonds at fair value				
2011	Level 1	Level 2	Level 3	Total
Greece				
Government bonds		115	36	151
Italy				
Government bonds	498	86	242	826
Financial institutions	199	350		549
Ireland				
Financial institutions	44			44
Portugal				
Government bonds	438			438
Financial institutions	30	48		78
Spain				
Government bonds	312	12		324
Financial institutions	95			95
Total	1,616	611	278	2,505

Classification of bonds in Levels 2 and 3 is mainly a result of decreased trading liquidity in the relevant markets.

31 INTEREST RESULT

Interest result			
	2011	2010	2009
Interest income on loans	26,373	24,844	24,891
Interest income on impaired loans	61	40	24
Total interest income on loans	26,434	24,884	24,915
Interest income on available-for-sale securities	3,463	3,532	3,923
Interest income on held-to-maturity securities	400	549	612
Interest income on trading portfolio	27,480	32,692	40,843
Interest income on non-trading derivatives	1,536	1,709	3,936
Other interest income	5,891	5,586	6,119
Total interest income	65,204	68,952	80,348
Interest expense on deposits by banks	902	652	1,266
Interest expense on customer deposits and other funds on deposit	9,383	8,324	10,976
Interest expense on debt securities	3,230	2,504	2,344
Interest expense on subordinated loans	867	1,024	981
Interest on trading liabilities	27,209	32,847	40,024
Interest on non-trading derivatives	1,658	2,166	4,483
Other interest expense	8,371	7,848	7,512
Total interest expense	51,620	55,365	67,586
Interest result	13,584	13,587	12,762

Interest margin			
in percentages	2011	2010	2009
Interest margin	1.42	1.44	1.34

In 2011, the growth in average total assets led to an increase of the interest result amounting to EUR 136 million (in 2010 the decline in average total assets led to a decrease of the interest result amounting to EUR 90 million; in 2009 the decline in average assets led to a decrease of the interest result of EUR 929 million). The decrease of the interest margin by 2 basis points led to a decline of the interest result with EUR 139 million (in 2010 the increase of the interest margin by 10 basis points led to an increase of the interest result with EUR 915 million; in 2009 the increase of the interest margin by 25 basis points led to an increase of the interest result with EUR 2,406 million).

In 2011, total interest income and total interest expense for items not valued at fair value through profit and loss were EUR 35,992 million and EUR 22,296 million respectively (2010: EUR 34,347 million and EUR 19,947 million; 2009: EUR 35,352 million and EUR 22,618 million).

Notes to the consolidated annual accounts of ING Bank continued

32 INVESTMENT INCOME

Investment income	2011	2010	2009
Income from real estate investments	**24**	128	157
Dividend income	**49**	59	46
	73	187	203
Realised gains/losses on disposal of equity securities	**39**	338	24
Impairments of available-for-sale equity securities	**–65**	–32	–49
Realised gains/losses and impairments on equity securities	**–26**	306	–25
Impairments of available-for-sale debt securities	**–734**	–146	–1,491
Reversal of impairments of available-for-sale debt securities	**74**		
Realised gains/losses on disposal of debt securities	**91**	150	159
Realised gains/losses and impairments on debt securities	**–569**	4	–1,332
Change in fair value of real estate investments	**–22**	–50	–588
Investment income	**–544**	447	–1,742

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

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

Impairments /reversals of impairments on investments per operating segment			Impairments			Reversal of impairments
	2011	2010	2009	2011	2010	2009
Retail Belgium	**–22**					
ING Direct	**–464**	–107	–1,394	**30**		
Commercial Banking (excluding Real Estate)	**–301**	–70	–129	**44**		
Corporate Line Banking	**–13**	–1	–17			
	–800	–178	–1,540	**74**		

Notes to the consolidated annual accounts of ING Bank continued

33 NET RESULT ON DISPOSALS OF GROUP COMPANIES

Net result on disposals of group companies	
	2011
Clarion Real Estate Securities	**182**
ING REIM Asia and Europe	**245**
ING Car Lease	**347**
Clarion Partners	**39**
	813

Net result on disposals of group companies	
	2010
Asian Private Banking business	332
Swiss Private Banking business	73
ING Summit Industrial Fund LP	–26
Other	–66
	313

In 2010 Other includes EUR –24 million related to the sale of certain associates. The remainder includes result on disposal of certain real estate funds and other disposals that are individually not significant.

Net result on disposals of group companies	
	2009
Other	–13
	–13

Reference is made to Note 26 ‘Companies acquired and companies disposed’ for more details.

34 COMMISSION INCOME

Gross fee and commission income			
	2011	2010	2009
Funds transfer	**916**	861	859
Securities business	**681**	695	780
Asset management fees	**353**	515	584
Brokerage and advisory fees	**347**	329	317
Insurance broking	**161**	190	188
Other	**1,013**	966	825
	3,471	3,556	3,553

Other include commission fees of EUR 26 million (2010: EUR 15 million; 2009: EUR 18 million) in respect of underwriting syndication loans.

Fee and commission expenses			
	2011	2010	2009
Funds transfer	**313**	257	200
Securities business	**126**	125	159
Management fees	**10**	19	24
Brokerage and advisory fees	**68**	70	43
Other	**459**	452	449
	976	923	875

Notes to the consolidated annual accounts of ING Bank continued

35 VALUATION RESULTS ON NON-TRADING DERIVATIVES

Valuation results on non-trading derivatives	2011	2010	2009
Change in fair value of derivatives relating to			
– fair value hedges	**–1,122**	–747	–1,301
– cash flow hedges (ineffective portion)	**–1**	2	–2
– other non-trading derivatives	**–380**	–802	–242
Net result on non-trading derivatives	**–1,503**	–1,547	–1,545
Change in fair value of assets and liabilities (hedged items)	**1,155**	754	1,181
Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading)	**504**	69	–557
Net valuation results	**156**	–724	–921

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 20 'Financial liabilities at fair value through profit and loss'. In 2011 market conditions includes in particular credit spread developments.

36 NET TRADING INCOME

Net trading income	2011	2010	2009
Securities trading results	**–133**	231	331
Foreign exchange transactions results	**–389**	726	–127
Derivatives trading results	**882**	174	814
Other	**–49**	64	–185
	311	1,195	833

Securities trading results include the results of making markets 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 for the year ended 31 December 2011 relating to trading securities still held as at 31 December amounted to EUR –66 million (2010: EUR 19 million; 2009: EUR 105 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.

37 OTHER INCOME

Other income	2011	2010	2009
Net operating lease income	**176**	213	175
Income post office	**–7**		99
Income from real estate development projects	**31**	36	59
Other	**148**	97	123
	348	346	456

Net operating lease income comprises income of EUR 772 million (2010: EUR 1,000 million; 2009: EUR 967 million) and depreciation of EUR 596 million (2010: EUR 787 million; 2009: EUR 792 million).

In 2011, Other includes a gain of EUR 93 million on the repurchase of subordinated loans as disclosed in Note 13 ‘Subordinated loans’.

Notes to the consolidated annual accounts of ING Bank continued

38 INTANGIBLE AMORTISATION AND OTHER IMPAIRMENTS

Intangible amortisation and (reversals of) impairments									
		Impairment losses			Reversals of impairments				Total
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Property and equipment	**29**	27	8	**–11**	–5	–12	**18**	22	–4
Property development	**217**	403	450			–7	**217**	403	443
Goodwill	**32**						**32**		
Software and other intangible assets	**15**	28	8		–1		**15**	27	8
(Reversals of) other impairments	**293**	458	466	**–11**	–6	–19	**282**	452	447
Amortisation of other intangible assets							**39**	52	49
							321	504	496

In 2011, impairments are recognised on Property development (in the segment ING Real Estate) due to the sale or termination of large projects in Germany and the Netherlands and on the reassessment of Dutch and Spanish real estate development projects.

In 2011, a goodwill impairment of EUR 32 million is recognised. Reference is made to Note 9 ‘Intangible assets’.

In 2010, impairments on property development are recognised on a large number of Real Estate development projects in The Netherlands, Spain and the United States. The unfavourable economic circumstances in all regions resulted in lower expected sales prices.

In 2009, impairments on Property development are recognised on a large number of Real Estate development projects in Europe, Australia and the United States. Circumstances that have led to these impairments are unfavourable economic circumstances in all regions that have resulted into lower expected sales prices, changes in strategy of ING Real Estate Development whereby certain projects are not developed further and operational inefficiencies in a limited number of projects.

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

39 STAFF EXPENSES

Staff expenses			
	2011	2010	2009
Salaries	**3,705**	3,835	3,555
Pension and other staff-related benefit costs	**171**	200	178
Social security costs	**525**	532	510
Share-based compensation arrangements [1]	**119**	79	58
External employees	**683**	627	660
Education	**69**	61	57
Other staff costs	**234**	236	225
	5,506	5,570	5,243

[1] The increase in Share-based compensation arrangements can be explained by ING’s implementation of a global deferral plan as well as regulatory developments which require payment of variable remuneration in stock in lieu of cash.

Number of employees									
		Netherlands			International				Total
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Average number of employees at full time equivalent basis	**19,027**	19,415	19,678	**52,148**	51,872	52,899	**71,175**	71,287	72,577

Notes to the consolidated annual accounts of ING Bank continued

Pension and other staff-related benefit costs

	Pension benefits			Post-employment benefits other than pensions			Other			Total		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Current service cost	**220**	196	210	**3**	5	–11	**1**	1	–24	**224**	202	175
Past service cost	**–9**	–1	20			–1				**–9**	–1	19
Interest cost	**550**	510	504	**5**	4	5	**6**	5	7	**561**	519	516
Expected return on assets	**–569**	–590	–546				**–8**	1	1	**–577**	–589	–545
Amortisation of unrecognised past service costs						–1						–1
Amortisation of unrecognised actuarial (gains)/losses	**–18**	21	20			1	**1**	1	5	**–17**	22	26
Effect of curtailment or other settlement	**–47**	–4	–88							**–47**	–4	–88
Other							**–10**	–15	15	**–10**	–15	15
Defined benefit plans	**127**	132	120	**8**	9	–7	**–10**	–7	4	**125**	134	117
Defined contribution plans										**46**	66	61
										171	200	178

Stock option and share plans

ING Group 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, apart from promoting a lasting growth of ING Bank, is to attract, retain and motivate senior executives and staff.

In 2011, ING granted two types of share awards, deferred shares and performance 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.

In 2011 no share awards (2010: nil; 2009: nil) were granted to the members of the Executive Board of ING Groep N.V., 129,070 share awards were granted to the Management Board of ING Bank N.V. To senior management and other employees of ING Bank 11,316,095 share awards (2010: 20,552,533; 2009: 3,275,201) 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 Group shares at the date on which the options are granted.

ING Group holds its own shares in order to fulfil its obligations with regard to the existing stock option plan and to hedge the position risk of the options concerned (the so-called delta hedge). As at 31 December 2011 42,126,329 own shares (2010: 45,213,891) were held in connection with the option plan compared to 108,138,551 options outstanding (2010: 124,836,694). As a result the granted option rights were (delta) hedged, taking into account the following parameters: strike price, opening price, zero coupon interest rate, dividend yield, expected volatility and employee behaviour. The hedge used to be rebalanced regularly at predetermined points in time. In December 2010 ING Groep N.V. announced that it will no longer rebalance its hedge portfolio. This decision is an effort to simplify the management and administration of ING's various employee share and option programmes. The remaining shares in the hedge portfolio will be used to fund the obligations arising from exercise and vesting. Once all shares in the hedge portfolio are used ING will fund these obligations by issuing new shares.

Exposure arising from the share plan is not hedged. The obligations with regard to these plans will in the future be funded either by cash, newly issued shares or remaining shares from the delta hedge portfolio at the discretion of the holder.

Notes to the consolidated annual accounts of ING Bank continued

In December 2009 ING Groep N.V. completed a rights issue of EUR 7.5 billion. Outstanding stock options and share awards have been amended to reflect the impact of the rights issue through an adjustment factor that reflects the fact that the exercise price of the rights issue was less than the fair value of the shares. As a result, exercise prices and outstanding share options and share awards have been amended through an adjustment factor of approximately 1.3.

On 6 April 2010 ING Groep N.V. announced that it bought 13,670,000 (depositary receipts for) ordinary shares for its delta hedge portfolio, which is used to hedge employee options and facilitate employee share programmes. The shares were bought in the open market between 23 March and 6 April 2010 at an average price of EUR 7.47 per share.

On 2 June 2010 ING Groep N.V. announced that it bought 2,080,000 (depositary receipts for) ordinary shares for its delta hedge portfolio, which is used to hedge employee options and facilitate employee share programmes. The shares were bought in the open market on 1 and 2 June 2010 at an average price of EUR 6.33 per share.

On 8 September 2010 ING Groep N.V. announced that it sold 3,590,000 (depositary receipts for) ordinary shares of its delta hedge portfolio, which is used to hedge employee options and facilitate employee share programmes. The shares were sold in the open market on 7 and 8 September 2010 at an average price of EUR 7.39 per share.

Changes in option rights outstanding

	Options outstanding (in numbers)			Weighted average exercise price (in euros)		
	2011	2010	2009	**2011**	2010	2009
Opening balance	**75,673,707**	73,393,164	52,906,156	**16.23**	17.95	26.36
Granted		11,251,643	7,714,884		7.35	3.97
Exercised or transferred	**–3,282,099**	–417,682	–329,607	**15.56**	9.01	27.44
Forfeited	**–1,439,379**	–1,597,054	–2,583,773	**12.86**	13.82	28.42
Rights issue			17,035,619			
Expired	**–7,003,542**	–6,956,364	–1,350,115	**23.69**	21.52	32.55
Closing balance	**63,948,687**	75,673,707	73,393,164	**15.53**	16.23	17.95

The weighted average share price at the date of exercise for options exercised in 2011 is EUR 8.09 (2010: EUR 7.46; 2009: EUR 8.57).

Changes in option rights non-vested

	Options non-vested (in numbers)			Weighted average grant date fair value (in euros)		
	2011	2010	2009	**2011**	2010	2009
Opening balance	**30,044,041**	28,843,472	22,346,408	**3.13**	3.61	6.03
Granted		11,251,643	7,714,884		3.26	2.55
Vested or transferred	**–10,808,607**	–8,865,571	–6,660,929	**3.91**	4.81	6.48
Forfeited	**–980,925**	–1,185,503	–1,250,537	**3.07**	3.36	5.83
Rights issue			6,693,646			
Closing balance	**18,254,509**	30,044,041	28,843,472	**2.68**	3.13	3.61

Summary of stock options outstanding and exercisable

2011 **Range of exercise price in euros**	**Options outstanding as at 31 December 2011**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options exercisable as at 31 December 2011**	**Weighted average remaining contractual life**	**Weighted average exercise price**
0.00 – 5.00	**7,913,460**	**6.25**	**2.87**		**0.00**	**0.00**
5.00 – 10.00	**14,056,383**	**6.35**	**7.98**	**3,715,334**	**1.17**	**9.67**
10.00 – 15.00	**4,162,719**	**2.36**	**14.27**	**4,162,719**	**2.36**	**14.27**
15.00 – 20.00	**16,333,906**	**4.45**	**17.29**	**16,333,906**	**4.45**	**17.29**
20.00 – 25.00	**14,086,126**	**2.10**	**23.44**	**14,086,126**	**2.10**	**23.44**
25.00 – 30.00	**7,396,093**	**4.32**	**25.19**	**7,396,093**	**4.32**	**25.19**
	63,948,687			**45,694,178**		

Notes to the consolidated annual accounts of ING Bank continued

Summary of stock options outstanding and exercisable						
2010 Range of exercise price in euros	Options outstanding as at 31 December 2010	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2010	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	8,773,967	7.31	2.87			
5.00 – 10.00	15,311,887	7.32	7.97	4,113,363	2.18	9.58
10.00 – 15.00	5,047,147	2.60	14.32	4,882,293	2.43	14.32
15.00 – 20.00	18,598,763	5.19	17.35	8,692,067	3.55	17.84
20.00 – 25.00	15,237,921	3.20	23.47	15,237,921	3.20	23.47
25.00 – 30.00	12,704,022	3.33	25.85	12,704,022	3.33	25.85
	75,673,707			45,629,666		

As at 31 December 2011, the aggregate intrinsic values of options outstanding and exercisable were EUR 21 million and nil respectively.

As at 31 December 2011, total unrecognised compensation costs related to stock options amounted to EUR 14 million (2010: EUR 38 million; 2009: EUR 36 million). These costs are expected to be recognised over a weighted average period of 1.1 years (2010: 1.9 years; 2009: 1.5 years).

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 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 Group shares (25% - 84%) and the expected dividend yield (0.94% to 8.99%). The source for implied volatilities used for the valuation of the stock options is ING's trading system. The implied volatilities in this system are determined by ING's traders and are based on market data implied volatilities not on historical volatilities.

Due to timing differences in granting option rights and buying shares to hedge them, an equity difference can occur if shares are purchased at a different price than the exercise price of the options. However, ING Group does not intentionally create a position and occurring positions are closed as soon as possible. If option rights expire, the results on the (sale of) shares which were bought to hedge these option rights are either debited or credited to Shareholders' equity.

40 OTHER OPERATING EXPENSES

Other operating expenses	2011	2010	2009
Depreciation of property and equipment	**371**	382	365
Amortisation of software	**332**	312	282
Computer costs	**707**	693	637
Office expenses	**737**	659	679
Travel and accommodation expenses	**120**	102	99
Advertising and public relations	**594**	591	539
External advisory fees	**332**	363	399
Postal charges	**82**	87	111
Addition/(releases) of provision for reorganisations and relocations	**387**	109	339
Other	**737**	795	1,003
	4,399	4,093	4,453

Other operating expenses include lease and sublease payments in respect of operating leases of EUR 148 million (2010: EUR 192 million; 2009: EUR 161 million). In 2009, Other operating expenses also includes the expenses related to the industry-wide deposit guarantee scheme in the Netherlands due to the bankruptcy of DSB Bank and premiums for deposit guarantee schemes in other countries.

For Addition/(releases) of provision for reorganisations and relocations reference is made to the disclosure on the reorganisation provision in Note 18 'Other liabilities'.

No individual operating lease has terms and conditions that materially affect the amount, timing or certainly of the consolidated cash flows of ING Bank.

Notes to the consolidated annual accounts of ING Bank continued

41 TAXATION
Profit and loss account

Taxation by type

	Netherlands			International			Total		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Current taxation	**–211**	256	237	**1,033**	922	424	**822**	1,178	661
Deferred taxation	**497**	139	–481	**–103**	91	–223	**394**	230	–704
	286	395	–244	**930**	1,013	201	**1,216**	1,408	–43

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

	2011	2010	2009
Result before tax	**5,299**	5,983	500
Weighted average statutory tax rate	**27.7%**	28.7%	6.1%
Weighted average statutory tax amount	**1,469**	1,719	30
Associates exemption	**–209**	–213	–8
Other income not subject to tax	**–194**	–120	–242
Expenses not deductible for tax purposes	**72**	53	25
Impact on deferred tax from change in tax rates	**12**	7	
Deferred tax benefit from previously unrecognised amounts			–32
Current tax benefit from previously unrecognised amounts	**1**		
Write down/reversal of deferred tax assets	**63**	13	236
Adjustment to prior periods	**2**	–51	–52
Effective tax amount	**1,216**	1,408	–43
Effective tax rate	**22.9%**	23.5%	–8.7%

The weighted average statutory tax rate does not differ significantly in 2011 compared to 2010.

The weighted average statutory tax rate increased significantly in 2010 compared to 2009. This is caused by the fact that in 2010 profits were realised in a significant part of the tax jurisdictions that incurred losses in 2009.

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

The effective tax rate in 2010 was lower than the weighted average statutory tax, mainly caused by tax exempt income.

Adjustment to prior periods in 2011 relates to final tax assessments and other marginal corrections.

Adjustment to prior periods in 2010 relates to a tax settlement.

Comprehensive income

Income tax related to components of other comprehensive income

	2011	2010	2009
Unrealised revaluations	**–318**	61	2,376
Realised gains/losses transferred to profit and loss (reclassifications from equity to profit and loss)	**189**	–17	480
Changes in cash flow hedge reserve	**–91**	–20	–45
Exchange rate differences	**37**	–20	–7
Other revaluations	**48**	–12	–2
Total income tax related to components of other comprehensive income	**–135**	–8	2,802

Notes to the consolidated annual accounts of ING Bank continued

42 OPERATING SEGMENTS

ING Bank's operating segments relate to the internal segmentation by business lines. As at 31 December 2011 ING Bank identifies the following operating segments:

Operating segments of ING Bank
Retail Netherlands
Retail Belgium
ING Direct
Retail Central Europe (CE)
Retail Asia
Commercial Banking (excluding Real Estate)
ING Real Estate
Corporate Line Banking

The Management Board Banking sets the performance targets and 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 operating segments are the same as those described under Accounting policies for the consolidated annual accounts. Transfer prices for inter-segment transactions are set at arm's length. Corporate expenses are allocated to business lines based on time spent by head office personnel, the relative number of staff, or on the basis of income, expenses and/or assets of the segment.

ING Bank evaluates the results of its operating segments using a financial performance measure called underlying result. The information presented in this note is in line with the information presented to the Management Board. Underlying result is defined as result under IFRS-EU excluding the impact of divestments and special items. Disclosures on comparative years also reflect the impact of current year's divestments.

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

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

Segment	Main source of income
Retail Netherlands	Income from retail and private banking activities in the Netherlands. The main products offered are current and savings accounts, mortgages and other consumer lending in the Netherlands.
Retail Belgium	Income from retail and private banking activities in Belgium. The main products offered are similar to those in the Netherlands.
Retail CE	Income from retail and private banking activities in Central Europe. The main products offered are similar to those in the Netherlands.
Retail Asia	Income from retail banking activities in Asia. The main products offered are similar to those in the Netherlands.
ING Direct	Income from direct retail banking activities. The main products offered are savings accounts and mortgages.
Commercial Banking (excluding Real Estate)	Income from wholesale banking activities. A full range of products is offered from cash management to corporate finance.
ING Real Estate	Income from real estate activities.
Corporate Line Banking	Corporate Line Banking is a reflection of capital management activities and certain expenses that are not allocated to the banking businesses. ING Group applies a system of capital charging for its banking operations in order to create a comparable basis for the results of business units globally, irrespective of the business units' book equity and the currency they operate in.

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

Notes to the consolidated annual accounts of ING Bank continued

Operating segments

2011	Retail Nether-lands	Retail Bel-gium	ING Direct	Retail CE	Retail Asia	Com-mercial Ban-king	ING Real Estate	Cor-porate Line Ban-king	Total seg-ments	Elimi-na-tions	Total
Underlying income											
Net interest result	3,613	1,606	3,865	705	143	3,257	482	224	13,895		13,895
Commission income	481	336	166	249	59	933	44	–12	2,256		2,256
Total investment and other income	52	89	–608	74	73	304	3	–23	–36		–36
Total underlying income	4,146	2,031	3,423	1,028	275	4,494	529	189	16,115		16,115
Underlying expenditure											
Operating expenses	2,428	1,432	1,962	773	173	2,178	349	167	9,462		9,462
Additions to loan loss provision	457	145	462	97	30	330	146		1,667		1,667
Total underlying expenses	2,885	1,577	2,424	870	203	2,508	495	167	11,129		11,129
Underlying result before taxation	1,261	454	999	158	72	1,986	34	22	4,986		4,986
Taxation	316	108	349	30	14	398	87	37	1,339		1,339
Minority interests			1	29	30	26	–7		79		79
Underlying net result	945	346	649	99	28	1,562	–46	–15	3,568		3,568

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

2011	Income	Expenses	Net result
Underlying	16,115	11,129	3,568
Divestments	1,226	278	887
Special items	–146	489	–450
IFRS-EU	17,195	11,896	4,005

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

Special items in 2011 includes costs for the Retail Netherlands change programme and strategic repositioning initiatives at Commercial Banking, additional costs for the combining of ING Bank and Postbank in the Netherlands, the transformation programme in Belgium, further restructuring at ING Real Estate following the sale of ING REIM, and costs related to the separation of Banking and Insurance, as well as an adjustment of the Illiquid Assets Back-up Facility based on higher prepayment behaviour in the underlying Alt-A securities and the result on the repurchase of subordinated loans executed in December 2011 as disclosed in Note 37 'Other income' and Note 13 'Subordinated loans'.

Notes to the consolidated annual accounts of ING Bank continued

Operating segments

2010	Retail Nether-lands	Retail Bel-gium	ING Direct	Retail CE	Retail Asia	Com-mercial Ban-king	ING Real Estate	Cor-porate Line Ban-king	Total seg-ments	Elimi-na-tions	Total
Underlying income											
Net interest result	3,816	1,608	3,774	670	169	3,233	439	18	13,727		13,727
Commission income	498	345	152	278	55	910	28	–13	2,253		2,253
Total investment and other income	–4	95	–144	28	62	677	62	228	1,004		1,004
Total underlying income	4,310	2,048	3,782	976	286	4,820	529	233	16,984		16,984
Underlying expenditure											
Operating expenses	2,376	1,345	1,886	761	180	2,107	536	159	9,350		9,350
Additions to loan loss provision	560	160	446	61	26	387	102		1,742		1,742
Total underlying expenses	2,936	1,505	2,332	822	206	2,494	638	159	11,092		11,092
Underlying result before taxation	1,374	543	1,450	154	80	2,326	–109	74	5,892		5,892
Taxation	361	91	463	31	15	483	27	–3	1,468		1,468
Minority interests		–6	1	21	22	28	4		70		70
Underlying net result	1,013	458	986	102	43	1,815	–140	77	4,354		4,354

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

2010	Income	Expenses	Net result
Underlying	16,984	11,092	4,354
Divestments	917	370	481
Special items		456	–340
IFRS-EU	17,901	11,918	4,495

Divestments in 2010 mainly relates to the sale of Private Banking businesses in Asia and Switzerland and to the sale of ING's 50% stake in Summit Industrial Fund LP as well as the operating result of the in 2010 and 2011 divested units.

Special items in 2010 mainly relates to the combining of the Dutch retail activities, the Belgium retail transformation program, the cost related to the separation of Banking and Insurance and restructuring cost.

Operating segments

2009	Retail Nether-lands	Retail Bel-gium	ING Direct	Retail CE	Retail Asia	Com-mercial Ban-king	ING Real Estate	Cor-porate Line Ban-king	Total seg-ments	Elimi-na-tions	Total
Underlying income											
Net interest result	3,303	1,619	3,136	675	110	3,513	428	68	12,852		12,852
Commission income	528	339	167	261	43	811	6	16	2,171		2,171
Total investment and other income	39	100	–1,541	–76	43	554	–654	–184	–1,719		–1,719
Total underlying income	3,870	2,058	1,762	860	196	4,878	–220	–100	13,304		13,304
Underlying expenditure											
Operating expenses	2,475	1,280	1,663	660	132	1,817	591	328	8,946		8,946
Additions to loan loss provision	527	200	766	116	39	967	239		2,854		2,854
Total underlying expenses	3,002	1,480	2,429	776	171	2,784	830	328	11,800		11,800
Underlying result before taxation	868	578	–667	84	25	2,094	–1,050	–428	1,504		1,504
Taxation	229	79	–252	29	5	373	–216	–118	129		129
Minority interests		2	1	5	10	29	29		76		76
Underlying net result	639	497	–416	50	10	1,692	–863	–310	1,299		1,299

Notes to the consolidated annual accounts of ING Bank continued

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

2009	Income	Expenses	Net result
Underlying	13,304	11,800	1,299
Divestments	258	639	–176
Special items	103	726	–439
IFRS-EU	13,665	13,165	684

Divestments in 2009 mainly relates to the operational result of the in 2009, 2010 and 2011 divested units.

Special items in 2009 reflects mainly the net impact of transaction result on the Illiquid Asset Back-up Facility and restructuring costs.

Interest income and interest expenses breakdown by operating segments

2011	Retail Netherlands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commercial Banking	ING Real Estate	Corporate Line Banking	Total external
Interest income	8,169	2,959	10,506	1,455	583	38,715	1,282	1,534	65,203
Interest expense	1,708	1,202	6,910	735	385	37,295	239	3,146	51,620
	6,461	1,757	3,596	720	198	1,420	1,043	–1,612	13,583

Interest income and interest expenses breakdown by operating segments

2010	Retail Netherlands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commercial Banking	ING Real Estate	Corporate Line Banking	Total external
Interest income	7,916	3,093	10,059	1,545	452	43,120	1,145	1,621	68,951
Interest expense	1,524	1,015	6,310	817	261	42,509	263	2,665	55,364
	6,392	2,078	3,749	728	191	611	882	–1,044	13,587

Interest income and interest expenses breakdown by operating segments

2009	Retail Netherlands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commercial Banking	ING Real Estate	Corporate Line Banking	Total external
Interest income	8,039	3,020	10,532	1,603	399	54,143	1,259	1,353	80,348
Interest expense	2,200	1,541	7,451	950	246	52,531	178	2,489	67,586
	5,839	1,479	3,081	653	153	1,612	1,081	–1,136	12,762

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'.

Notes to the consolidated annual accounts of ING Bank continued

43 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

2011	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Other	Eliminations	Total
Total income	6,353	2,498	4,969	1,908	44	897	525		1	17,195
Total assets	512,211	169,599	310,809	179,095	9,685	44,181	41,939	207	–306,561	961,165

Geographical areas

2010	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Other	Eliminations	Total
Total income	6,378	2,666	5,147	2,320	180	784	427		–1	17,901
Total assets	496,336	150,528	312,579	169,932	13,558	40,969	42,151	153	–293,133	933,073

Geographical areas

2009	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Other	Eliminations	Total
Total income	4,778	2,894	5,073	–129	229	733	88		–1	13,665
Total assets	450,618	145,856	305,036	153,804	12,167	35,218	33,687	134	–254,401	882,119

44 NET CASH FLOW FROM INVESTING ACTIVITIES

Information on the impact of companies acquired or disposed of is presented in Note 26 'Companies acquired and companies disposed'.

45 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

Interest and dividend received and paid

	2011	2010	2009
Interest received	66,855	70,816	82,231
Interest paid	–52,693	–56,357	–68,288
	14,162	14,459	13,943
Dividend received	127	187	82
Dividend paid	–3,000	–200	

46 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

	2011	2010	2009
Treasury bills and other eligible bills	2,611	4,442	3,181
Amounts due from/to banks	–4,506	3,227	2,387
Cash and balances with central banks	28,112	9,519	12,602
Cash and cash equivalents at end of year	26,217	17,188	18,170

Notes to the consolidated annual accounts of ING Bank continued

Treasury bills and other eligible bills included in cash and cash equivalents			
	2011	2010	2009
Treasury bills and other eligible bills included in trading assets	**1,471**	1,698	2,283
Treasury bills and other eligible bills included in available-for-sale investments	**1,140**	2,744	898
	2,611	4,442	3,181

Amounts due to/from banks			
	2011	2010	2009
Included in cash and cash equivalents			
– amounts due to banks	**–19,122**	–12,898	–12,334
– amounts due from banks	**14,616**	16,125	14,721
	–4,506	3,227	2,387
Not included in cash and cash equivalents			
– amounts due to banks	**–53,111**	–59,954	–71,901
– amounts due from banks	**30,707**	35,703	28,676
	–22,404	–24,251	–43,225
Total as included in balance sheet			
– amounts due to banks	**–72,233**	–72,852	–84,235
– amounts due from banks	**45,323**	51,828	43,397
	–26,910	–21,024	–40,838

Cash and cash equivalents include 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.

Risk management

amounts in millions of euros, unless stated otherwise

ING BANK RISK MANAGEMENT

Taking measured risks is part of ING Bank's business. As a financial services company active in banking, ING Bank is naturally exposed to a variety of risks. To ensure measured risk-taking throughout the organisation, ING Bank operates through a comprehensive risk management framework. This ensures the identification, measurement and control of risks at all levels of the organisation so that ING Bank's financial strength is safeguarded.

Risk Management assists the Management Board Bank with the formulation of risk appetite, strategies, policies and limits and provides a review, oversight and support function throughout ING Bank on risk-related issues. The main financial risks ING Bank is exposed to are credit risk (including transfer risk), market risk (including interest rate, equity, real estate, implied volatility, and foreign exchange risks), liquidity risk and business risk. In addition, ING Bank is exposed to non-financial risks, e.g. operational and compliance risks.

ING Bank has implemented a risk appetite framework, for which the risk appetite is expressed as the tolerance to allow key capital ratios to deviate from their target levels under adverse scenarios. This framework is discussed in more detail in the risk profile section of this risk management section.

ING Bank needs to prepare for significant changes in the regulatory requirements, being the implementation of Basel III the most important one. Additionally, ING Bank continued its stress testing efforts, with stress testing becoming more important and more embedded in the risk culture.

ING Bank uses risk assessment and measurement to guide decision making. As a result, the quality of risk models is important. The governance process for approval of risk models, methods and parameters ensures compliance with business and regulatory requirements, via a clear assignment of responsibility and accountability.

Nevertheless, users of the information in the risk management section should bear in mind that the analyses provided are forward looking measures that rely on assumptions and estimates of future events, some of which are considered extreme and therefore unlikely to occur. In the normal course of business ING Bank continues to develop, recalibrate and refine the various models that support risk metrics, which may result in changes to the risk metrics as disclosed.

MISSION AND OBJECTIVES

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

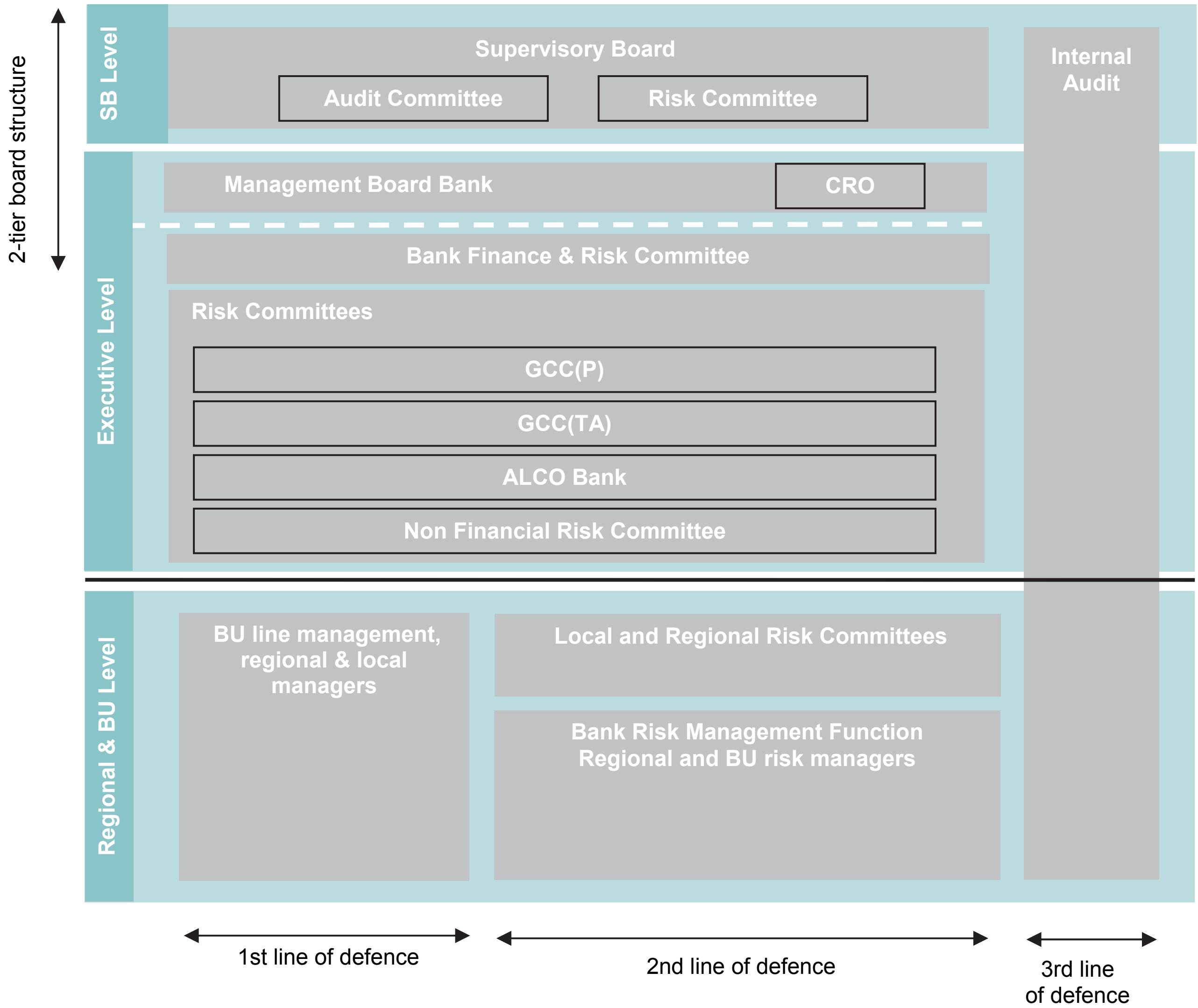
- Products and portfolios are structured, underwritten, priced, approved and managed appropriately and compliance with internal and external rules and guidelines is monitored;
- ING Bank's risk profile is transparent, managed to avoid surprises, and is consistent with delegated authorities;
- Delegated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

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

ING BANK RISK GOVERNANCE

ING Bank's risk management framework is based on the 'three lines of defence' concept which ensures that risk is managed in line with the risk appetite as defined by the Management Board Bank (and ratified by the Supervisory Board) and is cascaded throughout ING Bank.
Business line management and the regional and local managers have primary responsibility for the day-to-day management of risk and form the first line of defence.
The risk management function, both at bank and regional/local level, belongs to the second line of defence and has the primary responsibility to align risk taking with strategic planning e.g. in limit setting.
The internal audit function provides an ongoing independent (i.e. outside of the risk organisation) and objective assessment of the effectiveness of internal controls, including financial and operational risk management and forms the third line of defence.

Risk management continued



Board level risk oversight

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

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

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

Risk management continued

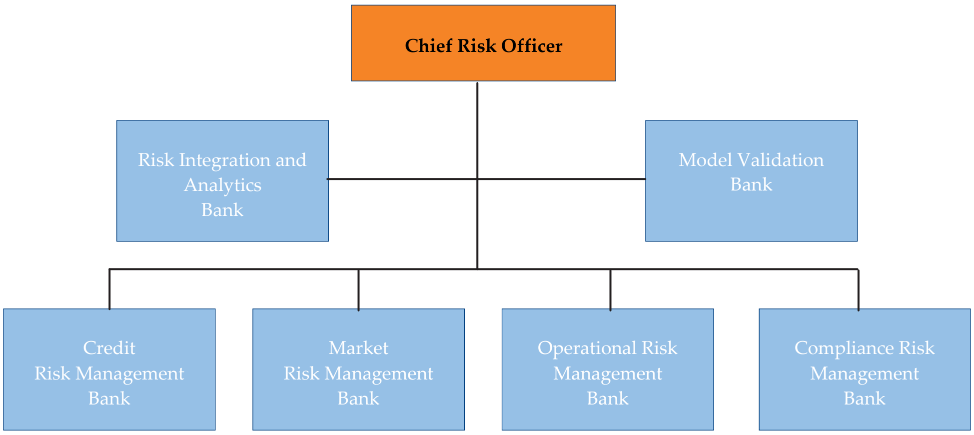
As part of the integration of risk management into the annual strategic planning process, the MBB issues a Planning Letter which provides the organisation with the corporate strategic direction, and addresses key risk issues. Based on the Planning Letter, the business lines and business units develop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

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

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

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

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



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

From December 2011, the reporting lines have been changed. As of then the Chief Compliance Officer (CCO) and the General Manager ORM report to the new appointed Head of Non Financial Risk ING Bank who in his turn reports to the Chief Risk Officer.

Risk management continued

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

Risk policies

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

ING BANK RISK PROFILE

ING Bank uses risk assessment and risk measurement to guide decision making. As a result, the quality of risk models is important. The governance process for approval of risk models, methods and parameters ensures business and regulatory requirements, via a clear assignment of responsibility and accountability.

Nevertheless, users of the information in the risk management section should bear in mind that the analyses provided are forward looking measures that rely on assumptions and estimates of future events, some of which are considered extreme and therefore unlikely to occur. In the normal course of business ING Bank continues to develop, recalibrate and refine the various models that support risk metrics, which may result in changes to the risk metrics as disclosed.

RISK TYPES

ING Bank measures the following main types of risks that are associated with its business activities:
- Credit risk: the risk of potential loss due to default by ING Bank's debtors (including bond issuers) or trading counterparties;
- Market risk: the risk of potential loss due to adverse movements in market variables. Market risks include interest rate, equity, real estate, implied volatility, credit spread, and foreign exchange risks;
- Liquidity risk: the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions;
- Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk, as well as legal risk;
- Compliance Risk: is the risk of impairment of ING Bank's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, ING Bank policies and standards as in ING Bank Business Principles; and
- Business risk: the exposure to value loss due to fluctuations in volumes, margins and costs, as well as client behaviour risk. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency, and as such strategic risk is included in business risk.

ING BANK RISK APPETITE FRAMEWORK

ING Bank uses an integrated risk management approach for its banking activities. The MBB uses the risk appetite frameworks to monitor and manage the actual risk profile in relation to the risk appetite, which is derived from ING Bank rating ambition to be in the range of AA rating. It enables the MBB to identify possible risk concentrations and to support strategic decision making. The risk appetite level is reported to the MBB on a quarterly basis and is subsequently presented to the Risk Committee.
The overall risk appetite is translated into specific limits which are cascaded down into the organisation, e.g.
- Credit risk limits;
- ALM/Value at Risk limits; and
- Liquidity risk limits.

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

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

Financial Risks

For financial risks, ING Bank expresses its risk appetite as the tolerance to allow key capital ratios to deviate from their target levels. Therefore the risk appetite is closely aligned to Capital Management activities and policies.

ING Bank has expressed tolerances for its risk weighted solvency metrics (core tier 1 ratio), for non-risk weighted solvency metrics (leverage ratio) and for more value based metrics (economic capital).

Risk management continued

The metrics that are presented in the following sections relate to each of these metrics and present earnings sensitivity, economic and regulatory capital.

Due to the way the risk departments are organised, these metrics are presented at a higher aggregation level than the identified segments in Note 42 ’Operating Segments’:
- Retail Banking Benelux contains Retail Netherlands, Retail Belgium (including Retail Luxemburg);
- Retail Banking Direct & International contains Retail Central Europe, Retail Asia and ING Direct;
- Commercial Banking corresponds to Commercial Banking (including ING Real Estate); and
- Bank Corporate Line coincides with the Corporate Line.

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

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

ING BANK STRESS TESTING
ING Bank complements its regular standardised risk reporting process with (ad hoc) stress tests. A stress test is an instrument to check whether a financial institution can withstand specific negative events or economic changes. More specific, stress testing examines the effect of exceptional but plausible events on the capital and liquidity position of the financial institution and provides insight in which business lines and portfolios are vulnerable to which type of scenarios.

ING Bank participated in the stress test conducted by the EBA, which included a baseline scenario, adverse scenario and an additional sovereign shock for 2011 and 2012 scenario. This stress test demonstrated ING Bank’s resilience in adverse scenarios. The strong underlying commercial performance resulting from ING Bank’s franchises helps to offset the impact of higher loan loss provisions, additional impairments across the securities portfolios and increased risk-weighted assets.

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

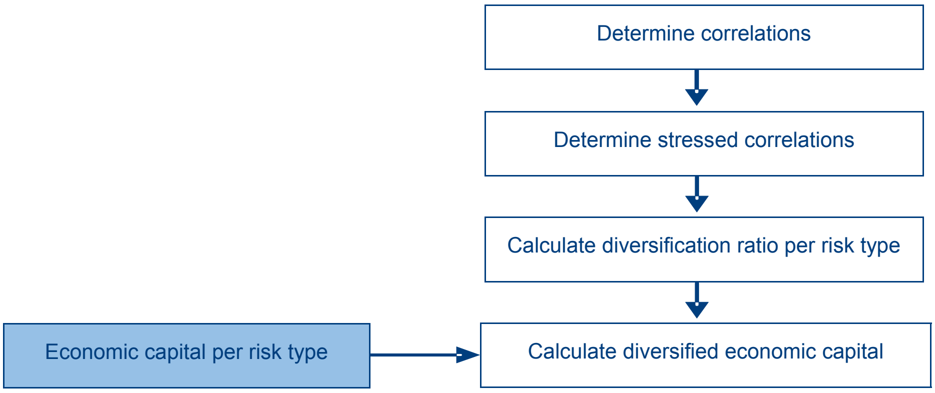
Economic Capital is defined as the amount of capital that a transaction or business unit requires in order to support the economic risks it takes. In general EC is measured as the unexpected loss above the expected loss at a given confidence level. This Economic Capital definition is in line with the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

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

Risk management continued

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

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



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

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

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

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

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

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

The tables below provide ING Bank's Economic Capital and Regulatory Capital by risk type and business line. The EC figures shown reflect all diversification effects within ING Bank, including risk reduction between the risk categories; while for RC no diversification is taken into account. In 2010, Credit Risk Regulatory Capital still included Transfer Risk for an amount of EUR 202 million. Economic Capital is including Transfer Risk both in 2011 and 2010.

Risk management continued

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

	Economic Capital		Regulatory Capital	
	2011	2010	**2011**	2010
Credit risk	**14,365**	15,245	**22,474**	22,452
Market risk	**8,262**	7,233	**1,124**	364
Business Risk	**2,448**	2,435		
Operational Risk	**1,683**	1,619	**2,836**	2,872
Total banking operations	**26,758**	26,532	**26,434**	25,688

Economic Capital (Bank diversified only) by business line combination

	Economic Capital		Regulatory Capital	
	2011	2010	**2011**	2010
Commercial Banking	**9,726**	10,695	**11,615**	11,395
Retail Banking Benelux	**4,445**	4,613	**5,552**	5,498
Retail Banking Direct & International	**9,475**	8,881	**8,783**	8,587
Corporate Line Bank [1]	**3,112**	2,343	**484**	208
Total banking operations	**26,758**	26,532	**26,434**	25,688

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

Differences between RC and EC are mainly due to:
- The credit risk EC is lower than RC. Economic Capital (EC) is defined as ING's own methodology for credit risk. It is the amount of capital that is needed at a minimum to cover for Unexpected Losses within a certain confidence level and a certain time horizon;
- The market risk Economic Capital is higher than the Regulatory Capital primarily due to the inclusion of the interest rate risk banking books in Economic Capital. The market risk RC includes a stressed VaR charge, while EC does not; the EC figures take the diversification across risk types into account;
- The EC figures include Business risk, while RC does not; and
- A 99.95% confidence level is used for EC, while the confidence level is 99.9% for RC. Correcting for the difference in confidence level will lead to an EC figure that is lower than the RC figure.

Excluding ING Direct USA, the total EC would be EUR 25 billion and the total RC would be EUR 24.2 billion.
The above risk metrics and risk appetite framework do not cover liquidity risk: the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities, at reasonable cost and in a timely manner, when they come due. ING Bank has a separate liquidity management framework in place to manage this risk, which is described in the Liquidity Risk section of ING Bank. In 2011 the funding and liquidity risk statements have been updated.

ONGOING CHANGES IN THE REGULATORY ENVIRONMENT

After the turmoil in the financial markets over the last couple of years and the need for governments to provide aid to financial institutions, financial institutions have been under more scrutiny from the public, supervisors and regulators. The resulting revised regulations are intended to ensure that a crisis in the financial system can be avoided in the future. To accomplish this, regulations focus primarily at the following issues:
- More stringently aligning risk taking with the capital position of financial institutions (Basel III proposal). The Basel III proposal narrows the definition of core Tier 1 and Tier 1 capital, and introduces a new definition for a leverage ratio that should become part of Pillar 1 of the Basel framework. The Basel Committee has also issued a proposal for new liquidity requirements.
- Apart from the above mentioned proposals, another aim is to reduce ‘pro-cyclicality’, to avoid that banks would be required to increase their capital in difficult financial times when it is most scarce. Lastly, there is a proposal to introduce additional capital requirements for counterparty credit risk.
- In addition, the Basel Committee and Financial Stability Board (FSB) are currently considering measures that may have the effect of requiring higher loss absorbency capacity, liquidity surcharges, exposure limits and special resolution regimes for “systemically important financial institutions” (SIFIs) and so-called “Global” SIFIs (G-SIFI).
- The deadlines for implementation of specific item are set for the timeframe 2013 to 2018.
- Separate from but in line with the Basel III proposal, on a country level local regulators are becoming more stringent on the maximum credit risk bank subsidiaries and branches are allowed to have on their holding companies. In the absence of a supranational harmonisation this leads to so-called trapped pools of liquidity, i.e. excess liquidity in a country that can not merely be transferred (unsecured) to a central treasury in another country.

CREDIT RISK

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss from default by debtors (including bond issuers) or trading counterparties. Credit risks are split into five principal risk categories: a) lending (including guarantees and letters of credit); b) investments; c) pre-settlement (derivatives, securities financing and foreign exchange trades); d) money markets and e) settlement. Additionally a sixth category is determined: country risk, which can include or relate to the earlier mentioned other five risk categories.

Governance

Credit Risk Management (CRM) is responsible for the measurement and management of credit risk incurred by all ING Bank entities, including country-related risks. CRM is organised along the business lines of ING Bank. The CRM General Manager is functionally responsible for the global network of credit risk staff and the heads of the credit risk management functions for the business lines report directly to him.

Credit risk management is supported by dedicated credit risk information systems and internal credit risk measurement methodologies for debtors, issuers and counterparties. CRM creates consistency throughout the credit risk organisation by providing common credit risk policies, methodologies, manuals and tools across the Bank.

ING Bank's credit policy is to maintain an internationally diversified loan and bond portfolio, while avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of top-down concentration limits for countries, individual borrowers and borrower groups. The aim within the banking sector is to expand relationship-banking activities, while maintaining stringent internal risk/return guidelines and controls.

Credit analysis is risk/reward-oriented in that the level of credit analysis is a function of the risk amount, tenor, structure (e.g. covers received) of the facility, and the risks entered into. For credit risk management purposes, financial obligations are classified into lending, investments, pre-settlement, money market and settlement. Sophisticated RAROC-based tools are used internally to ensure a proper balance of risk and reward within the portfolio and concentration parameters. ING Bank's credit analysts make use of publicly available information in combination with in-house analysis based on information provided by the customer, peer group comparisons, industry comparisons and other quantitative techniques.

Credit Risk Measurement and Reporting

Figures associated with Money Market and Lending activities are generally the nominal amounts, while amounts associated with Investment activities are based on the original amount invested less repayments. Off-Balance Sheet exposures include the letters of credits and guarantees, which are associated with the Lending Risk Category. Additionally, Off-Balance Sheet exposures include a portion of the unused limits, associated with the statistically expected use of the unused portion of the limit between the moment of measurement and the theoretical moment of statistical default. Collectively, these amounts are called 'credit risk outstandings'.

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

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

MODEL DISCLOSURE: ECONOMIC CAPITAL FOR CREDIT AND TRANSFER RISK

Economic Capital for credit risk and for transfer risk is the portion of Economic Capital held to withstand unexpected losses inherent in the credit portfolios related to (unexpected) changes in the underlying creditworthiness of debtors or the recovery value of underlying collateral (if any). Credit risk and transfer risk capital are calculated on all portfolios which contain credit or transfer risk, including investment portfolios.

Economic Capital for credit risk and for transfer risk are calculated using internally developed models with a 99.95% confidence level and a time horizon of one year, which represents ING's desired credit rating. ING Bank uses a series of credit risk models that can be grouped into three principal categories: Probability of Default (PD) models, which measure the standalone creditworthiness of individual debtors; Exposure at Default models (EAD) which estimate the size of the financial obligation at the moment of default in the future; and Loss Given Default Models (LGD), which estimate the recovery value of the underlying collateral or guarantees received (if any) and the unsecured part. Collectively, ING Bank uses over 100 models for credit risk. The various models can be grouped into three categories: statistical, expert and hybrid.

The Economic Capital formula for credit and transfer risks relies on seven different risk drivers. In addition to the PD, EAD, and LGD models mentioned above, the formula also considers the industry and the country of the debtor as well as the remaining term of the respective underlying transactions. Lastly, the formula considers correlation of different asset class types.

Risk management continued

The underlying formulas and models that are used for determining Economic Capital for credit and transfer risk are similar to those used for determining the level of regulatory capital that is required under Basel II (Pillar 1). Despite the fact that the same underlying formulas are used, (internal) Economic Capital and regulatory capital are not the same, due to various specific rules imposed by Basel II, such as regulatory caps and floors, and the use of the standardised approach for certain portions of ING Bank's portfolio. These differences are permitted under the Basel II guidelines.

The table below summarises different capital measures used for different purposes and shows the difference in key elements and purposes.

Credit Risk Capital Measurements	Methodology	Location	Confidence level	Inputs	Purpose
Regulatory Capital	Basel II Formula	Vortex Basel Engine ('VBE') in the Central Risk Database	99.90%	Basel II model outputs	RWA
Economic Capital	Risk Adjusted Capital (RAC) Closed Algebraic Formula	Vortex Risk Engine ('VRE') in the Central Risk Database	99.95%	Basel II model outputs excluding Basel II caps and floors, maturity, repayment schedules, correlation factors, migration matrix.	Pricing, Economic Capital for credit at transactional level and above

Economic Capital levels for credit and transfer risk are calculated regularly for most of the Commercial Bank, ING Retail Benelux, and the Retail Direct & International banking operations. On a quarterly basis, the Economic Capital for credit risk and transfer risk figures are consolidated with the corresponding Economic Capital components from other disciplines.

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

	Economic Capital		Regulatory Capital	
	2011	2010	**2011**	2010
Credit risk	**14,365**	15,245	**22,473**	22,452

Governance of Economic Capital for Credit and Transfer Risk
All PD, EAD and LGD models are approved by the Credit Risk Committee (CRC) after thorough review of documentation by the Model Development Committee (MDC) and Model Validation (MV). In addition, each model is validated on an annual basis by MV. Each model has both a credit risk and a front office co-sponsor. Both the MDC and the CRC have participation from both credit risk officers as well as the front office to ensure maximum acceptance by the organisation.

RISK CATEGORIES FOR CREDIT RISK
Lending risk
Lending risk arises when ING Bank grants a loan to a customer, or issues guarantees on behalf of a customer. This is the most common risk category, and includes term loans, mortgages, revolving credits, overdrafts, guarantees, letters of credit, etc. The risk is measured at the notional amount of the financial obligation that the customer has to repay to ING Bank, excluding any accrued and unpaid interest, discount/premium amortisations or impairments.

Investment risk
Investment risk is the credit default and risk rating migration risk that is associated with ING Bank's investments in bonds, commercial paper, securitisations, and other similar publicly traded securities. Investment risk arises when ING Bank purchases a (synthetic) bond with the intent to hold the bond for a longer period of time (generally through maturity). Bonds that are purchased with the intent to re-sell in a short period of time are considered to be trading risks, which are measured and monitored by the Market Risk Management department. For credit risk purposes, Investment risk is measured at original cost (purchase price) less any prepayments or amortisations and excluding any accrued and unpaid interest or the effects of any impairment.

Risk management continued

Money market risk
Money market risk arises when ING Bank places short-term deposits with a counterparty in order to manage excess liquidity, as such, money market deposits tend to be short-term in nature (1–7 days is common). In the event of a counterparty default, ING Bank may lose the deposit placed. Money market risk is therefore measured simply as the notional value of the deposit, excluding any accrued and unpaid interest or the effect of any impairment.

Pre-settlement risk
Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING Bank has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk (potential or expected risk) is the cost of ING Bank replacing a trade in the market. This credit risk category is associated with dealing room products such as options, swaps, and securities financing transactions. Where there is a mutual exchange of value, the amount of credit risk outstanding is generally based on the replacement value (mark-to-market) plus a potential future volatility concept, using a 3-7 year historical time horizon and a 97.5% (1.96 standard deviations) confidence level.

Settlement risk
Settlement risk arises when there is an exchange of value (funds, instruments or commodities) for the same or different value dates and receipt is not verified or expected until ING Bank has paid or delivered its side of the trade. The risk is that ING Bank delivers, but does not receive delivery from the counterparty. Settlement risk can most commonly be contained and reduced by entering into transactions with delivery-versus-payment (DVP) settlement methods, as is common with most clearing houses, or settlement netting agreements.

For those transactions where DVP settlement is not possible, ING Bank establishes settlement limits through the credit approval process. Settlement risk is then monitored and managed by the credit risk management units. Risk is further mitigated by operational procedures requiring trade confirmations to counterparties with all transaction details, and by entering into internationally accepted documentation, such as International Swaps and Derivatives Association (ISDA) Master Agreements for derivative transactions. Additionally, ING Bank regularly participates in projects with other financial institutions to improve and develop new clearing systems and clearing mechanisms to further reduce the level of settlement risk. Due to the very short-term nature of settlement exposure (daily or intra-day), settlement risks do not attract economic or regulatory capital and are excluded from risk reporting disclosures.

Country risk
Country risk is the risk specifically attributable to events in a specific country (or group of countries). It can occur within each of the five above described risk categories. All transactions and trading positions generated by ING Bank include country risk which is further divided into economic and transfer risk. Economic risk is the concentration risk relating to any event in the risk country which may affect transactions and any other exposure in that country, regardless of the currency. Transfer risk is the risk incurred through the inability of ING Bank or its counterparties to meet their respective foreign currency obligations due to a specific country event.

In countries where ING Bank is active, the relevant country's risk profile is regularly evaluated, resulting in a country rating. Country limits are based on this rating and ING Bank's risk appetite. Exposures derived from lending, investment pre-settlement and money market activities are then measured and reported against these country limits on a daily basis. Country risk limits are assigned for transfer risk mainly for emerging markets.

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

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

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

Risk management continued

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

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

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

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

Credit quality: ING Bank portfolio, outstandings

	2011	2010
Neither past due nor impaired	**849,283**	822,445
Past due but not impaired (1-90 days) [(1)]	**6,649**	5,638
Impaired [(2)]	**13,382**	13,779
Total	**869,314**	841,862

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

Risk developments in 2011
During 2011, ING Bank continued to actively deleverage and de-risk its balance sheet. Cash and balances with central banks and total Loan and Advances to Customers increased, while Amounts due to and from banks and Investments decreased.

ING Bank's bond portfolio decreased from EUR 172 billion at year-end 2010 to EUR 131.1 billion at end of 2011, excluding ING Direct USA. The size of the ING Direct USA bond portfolio is EUR 23.0 billion. The change is mainly caused by decreases in government, financial institutions and ABS debt securities. The debt securities revaluation reserve after tax excluding ING Direct USA was EUR –446 million in 2011, compared to EUR 19 million in 2010, due to interest rates developments and the spread widening that took place during 2011 as a result of the debt crisis in Europe. More details on the Investments can be found in Note 4 'Investments' of the Annual Accounts.

Risk management continued

ABS portfolio

The RMBS and ABS portfolio changed from EUR 36.7 billion at year-end 2010 to EUR 16.5 billion per end 2011, excluding ING Direct USA. The RMBS and ABS exposure of ING Direct USA is EUR 15.1 billion. ING Bank continued to manage its asset-backed securities (ABS) portfolio downwards in 2011 and reduced the exposure on the ABS portfolio.

In 2011, ING Bank has implemented an Investment Risk policy restricting reinvestment of maturing ABS as much as possible, with reinvestments made mainly in government guaranteed paper. With the sale of ING Direct USA, ING Bank's exposure to ABS will be drastically reduced and going forward we expect not to report them as pressurised assets in our financial reporting. The revaluation reserve slightly improved but is still negative. ING Bank still recognised impairments of EUR 108 million, on the ABS portfolio, though for a smaller amount, than in the previous year (2010: EUR 133 million). Further details are included in Note 4 'Investments' of the Annual Accounts.

Greece, Italy, Ireland, Portugal and Spain

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

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

Greece, Italy, Ireland, Portugal and Spain – Total risk exposures [(1) (2) (5)]

2011	Greece	Italy	Ireland	Portugal	Spain	Total
Residential mortgages and other consumer lending	2	7,027	4	3	9,157	16,193
Corporate Lending	307	9,011	422	996	7,092	17,828
Financial Institutions Lending	1	853	57	139	1,691	2,741
Government Lending		195			55	250
Total Lending	310	17,086	483	1,138	17,995	37,012
RMBS	96	862	1,016	226	3,721	5,921
CMBS			310			310
Other ABS		334	212		78	624
Corporate Bonds		75	15	42	103	235
Covered Bonds		218	335		16,160	16,713
Financial institutions Bonds (unsecured)		714	208	231	188	1,341
Government Bonds	151	1,131		632	524	2,438
Total Debt Securities	247	3,334	2,096	1,131	20,774	27,582
Trading [(3)]	–5	519	40	11	316	881
Real Estate [(4)]		169		91	205	465
Undrawn committed facilities (Off balance)	411	1,229	523	140	2,302	4,605
Credit protection (CDS)						
Credit protection bought (notional)	112	640	131	43	479	1,405
Credit protection sold (notional)	107	617	136	43	530	1,433
Net CDS positions	5	23	–5	0	–51	–28

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

Risk management continued

Derivatives

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

Monitoring exposures and Current developments

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

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

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

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

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

Risk classes

Risk classes are defined based upon the quality of the exposures in terms of creditworthiness, varying from investment grade to problem grade expressed in S&P equivalents.

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

		Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International [2]		Total ING Bank	
		2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
1	(AAA)	**3.0%**	3.0%			**9.6%**	14.4%	**4.5%**	6.3%
2-4	(AA)	**19.4%**	14.3%	**4.2%**	4.0%	**16.0%**	12.1%	**13.8%**	10.6%
5-7	(A)	**20.2%**	24.0%	**5.1%**	5.3%	**17.8%**	18.8%	**15.0%**	16.8%
8-10	(BBB)	**23.7%**	22.9%	**42.8%**	42.0%	**29.3%**	28.9%	**31.3%**	30.4%
11-13	(BB)	**21.9%**	22.8%	**37.3%**	37.7%	**15.9%**	15.5%	**24.1%**	24.4%
14-16	(B)	**8.1%**	8.8%	**5.4%**	6.2%	**8.0%**	7.2%	**7.3%**	7.5%
17-22	(CCC & Problem Grade)	**3.7%**	4.2%	**5.2%**	4.8%	**3.4%**	3.1%	**4.0%**	4.0%
		100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

(1) Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities. The ratings reflect probabilities of default and do not take collateral into consideration.
(2) Covered bonds are presented on the basis of the external credit rating of the issuer in question. Covered bond issues generally possess a better external credit rating than the issuer standalone, given structural features of such covered bonds.

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

Risk management continued

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

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

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

Risk concentration

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

Risk concentration: ING Bank portfolio, by economic sector (1)(2)

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

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

ING Bank Lending portfolio

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

In line with ING Bank's de-risking strategy, the portfolio developments in most countries mirrored the developments in the portfolio as a whole. The depreciated Euro versus the Australian, Canadian and the US dollar had an upward effect of the exposure to the Americas and Asia/Pacific and therewith also to the Retail Banking Direct and International and Commercial Banking portfolios. Excluding ING Direct USA, Retail Banking Direct and International showed a marginal increase, mainly as the result of currency effects.

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

	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International		Total ING Bank	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Netherlands	**21.3%**	20.7%	**73.8%**	74.8%	**3.5%**	4.8%	**30.7%**	31.2%
Belgium	**8.0%**	7.7%	**24.3%**	23.2%	**0.3%**	0.2%	**10.2%**	9.6%
Rest of Europe	**44.1%**	45.2%	**1.2%**	1.3%	**53.3%**	53.3%	**34.4%**	35.0%
Americas	**14.9%**	14.8%	**0.2%**	0.2%	**27.6%**	26.4%	**15.1%**	14.6%
Asia/Pacific	**11.2%**	11.2%	**0.1%**	0.1%	**15.3%**	15.3%	**9.3%**	9.4%
Rest of World	**0.5%**	0.4%	**0.4%**	0.4%	**0.0%**	0.0%	**0.3%**	0.2%
Total	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

(1) Geographic areas are based on the country of residence of the obligor.

Risk management continued

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

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

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

Promises
Promises are defined as a legally binding declaration by persons or organisations that give ING Bank the right to expect and claim from those persons or organisations if ING Bank's customer fails on its obligations to ING Bank. Common examples are guarantees received and letters of credit.
The following tables show the credit risk outstandings and cover values per line of business: Retail Banking (comprising both Benelux, Direct & International) and Commercial Banking. Outstandings for Retail Banking are reported for the most relevant retail product being Residential Mortgages while the remaining outstandings are classified as Other Lending.

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

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

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

						31 December 2011
	Outstandings*	Mortgages***	Cash	Guarantees**	Other	Total Credit Covers ****
Retail						
Residential Mortgages	336,876	538,692				538,692
Other Lending	13,529	3,104				3,104
Total Retail	350,405	541,796				541,796
Commercial						
Financial Institutions	162,590	3,421	1,331	9,982	3,281	18,015
Corporates	225,848	73,916	4,819	21,642	54,161	154,538
Governments	75,762	89	12	3,365	1,373	4,839
Other	41,327	4,274	61	63	242	4,640
Total Commercial	505,527	81,700	6,223	35,052	59,057	182,032
Total	855,932	623,496	6,223	35,052	59,057	723,828

Risk management continued

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

	Outstandings*	Mortgages***	Cash	Guarantees**	Other	31 December 2010 Total Credit Covers ****
Retail						
Residential Mortgages	315,226	523,195				523,195
Other Lending	12,439	2,787				2,787
Total Retail	327,665	525,982				525,982
Commercial						
Financial Institutions	157,834	4,199	1,119	8,174	3,962	17,454
Corporates	218,554	67,796	4,106	26,490	45,094	143,486
Governments	80,087	62	2	3,401	1,571	5,036
Other	43,943	3,310	65	102	497	3,974
Total Commercial	500,418	75,367	5,292	38,167	51,124	169,950
Total	828,083	601,349	5,292	38,167	51,124	695,932

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

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

Loan-to-Value (LTV)

The LTV ratio relates the total loan amount to the market value of the collateral. The market value is the registered value as adopted from the valuation report of a qualified appraiser or valuer. ING Bank has a team of specialists for the valuation of real estate, which is supplemented with external and desk top valuation. In some countries residential mortgages are covered by governmental or commercial insurers. For example the Nationale Hypotheek Garantie (NHG) in The Netherlands, which guarantees the repayment of a loan in case of a forced property sale. The LTV in The Netherlands is relatively high, but is partially compensated by the NHG guaranteed portfolio and other secondary covers, such as life insurance policies, savings and investment products. The average LTV in the Netherlands is 81% (2010: 80%). When available, indexation is applied to revaluate the collateral to the present value. In the LTV calculation the following property covers are included: residential and industrial/commercial properties, land and applicable other fixed assets. All other covers are excluded. The ING Bank's total residential mortgage portfolio amounts to EUR 341 billion, making up 39% of the ING Bank's total credit risk outstandings. The average Loan to Value (LTV) of the total residential mortgage portfolio amounts to 75% (2010: 74%).

Problem loans

Past-due obligations

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

Risk management continued

Aging analysis (past due but not impaired): ING Bank portfolio, outstandings [1][2]	2011	2010
Past due for 1-30 days	**5,455**	4,565
Past due for 31-60 days	**1,111**	973
Past due for 61-90 days	**83**	100
Total	**6,649**	5,638

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

Impaired loans and provisions

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

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

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

Impaired Loans: ING Bank portfolio, outstandings by economic sector [1]	2011	2010
Private Individuals	**4,790**	4,838
Real Estate	**2,671**	2,777
General Industries	**819**	858
Transportation & Logistics	**797**	818
Food, Beverages & Personal Care	**784**	837
Builders & Contractors	**774**	792
Services	**718**	582
Non-Bank Financial Institutions	**368**	527
Other	**1,661**	1,750
Total	**13,382**	13,779

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

ING Bank holds specific and collective provisions of EUR 3,040 million and EUR 1,133 million, respectively (2010: EUR 2,697 million and EUR 1,404 million respectively), representing the difference between the amortised cost of the portfolio and the estimated recoverable amount discounted at the effective rate of interest. In addition, there is EUR 777 million (2010: EUR 1,094 million) in provisions against the performing portfolio. The 2010 figures are including ING Direct USA.

Provisions: ING Bank portfolio	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International		Total ING Bank	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Opening balance	**1,855**	1,628	**1,641**	1,290	**1,699**	1,481	**5,195**	4,399
Changes in the composition of the group	**–3**						**–3**	
Write-offs	**–373**	–337	**–494**	–454	**–437**	–375	**–1,304**	–1,166
Recoveries	**66**	36	**37**	58	**9**	11	**112**	105
Increase/(decrease) in loan loss provision	**479**	497	**603**	721	**588**	533	**1,670**	1,751
Exchange differences	**15**	65		8	**–98**	82	**–83**	155
Other changes		–34	**–36**	18	**–601**	–33	**–637**	–49
Closing balance	**2,039**	1,855	**1,751**	1,641	**1,160**	1,699	**4,950**	5,195

[1] The 2011 figures are excluding ING Direct USA.

Risk management continued

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

Credit Covers Problem Assets

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

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

						31 December 2011
	Outstandings*	Mortgages***	Cash	Guarantees**	Other	Total Credit Covers ****
Retail						
Residential Mortgages	4,070	4,987				4,987
Other Lending	569	145				145
Total Retail	4,639	5,132				5,132
Commercial						
Financial Institutions	457	63	1	51	22	137
Corporates	8,090	2,913	334	242	1,063	4,553
Governments	9			0	0	0
Other	187	105	0	1	2	108
Total Commercial	8,743	3,081	335	294	1,087	4,798
Total	13,382	8,213	336	294	1,087	9,930

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

						31 December 2010
	Outstandings*	Mortgages***	Cash	Guarantees**	Other	Total Credit Covers ****
Retail						
Residential Mortgages	4,026	4,975				4,975
Other Lending	671	154				154
Total Retail	4,697	5,129				5,129
Commercial						
Financial Institutions	366	4	0	56	23	83
Corporates	8,542	2,761	23	343	882	4,009
Governments	1				0	0
Other	173	59	0	2	5	66
Total Commercial	9,082	2,824	23	401	910	4,158
Total	13,779	7,953	23	401	910	9,287

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

MARKET RISK

MARKET RISK MANAGEMENT

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

Risk management continued

Governance

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

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

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

MODEL DISCLOSURE: ECONOMIC CAPITAL FOR MARKET RISK

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

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

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

Real estate price risk includes the market risks in both the investment portfolio and the development portfolio of ING Real Estate. The real estate price risk for the investment portfolio is calculated by stressing the underlying market variables. The stress scenarios at a portfolio level take into account all diversification effects across regions and real estate sectors. Also, the leverage of participations in the real estate investment funds is taken into account. For the Real Estate development process, in addition to market sale price risk, the risk drivers of market rent, investor yield and construction delays are taken into account. Furthermore the risk model differs for each development phase (i.e. research, development and construction) to appropriately reflect the risk taken in each phase. Using correlations, all risk drivers, and stages are used to calculate a possible market value loss representing the Economic Capital for market risk for the development portfolio.

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

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

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

	Economic Capital[1]		Regulatory Capital	
	2011	2010	**2011**	2010
Market risk	**8,262**	7,233	**1,124**	364

[1] This includes model risk

Risk management continued

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

MARKET RISK IN TRADING BOOKS

Governance

Within the trading portfolios, positions are maintained in the professional financial markets for the purpose of benefiting from short term price movements. Market risk arises in the trading portfolios through the exposure to various market risk factors, including interest rates, equity prices, foreign exchange rates and credit spreads.

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

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

Model Disclosure

Value at Risk

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

Limitations

VaR as a risk measure has some limitations. VaR uses historical data to forecast future price behaviour. Future price behaviour could differ substantially from past behaviour. Moreover, the use of a one-day holding period (or ten days for regulatory capital calculations) assumes that all positions in the portfolio can be liquidated or hedged in one day. In periods of illiquidity or market events, this assumption may not hold true. Also, the use of 99% confidence level means that VaR does not take into account any losses that occur beyond this confidence level. Parts of these limitations are mitigated by the Basel 2.5 regulation (Stressed VaR and Incremental Risk Charges).

Back testing

Back testing is a technique for the ongoing monitoring of the plausibility of the VaR model in use. Although VaR models estimate potential future results, estimates are based on historical market data. In a back test, the actual daily result is compared with the 1-day VaR. In addition to using actual results for back testing, ING Bank also uses hypothetical results, which measure results excluding the effect of intraday trading, fees and commissions. When the actual or hypothetical loss exceeds the VaR an ‘outlier’ occurs. Based on ING Bank’s one-sided confidence level of 99% an outlier is expected once in every 100 business days. In 2011, like in 2010, there was no occurrence where a daily trading loss exceeded the daily consolidated VaR of ING Commercial Banking. ING Bank reports the results of this back testing to DNB on a quarterly basis.

Risk management continued

Stress testing

Stress tests are used for the monitoring of market risks under extreme market conditions. Since VaR in general does not produce an estimate of the potential losses that can occur as a result of extreme market movements, ING Bank uses structured stress tests for monitoring the market risk under these extreme conditions. Stress scenarios are based on historical as well as hypothetical extreme events. The result of the stress testing is an event risk number, which is an estimate of the profit and loss account effect caused by a potential event and its world-wide impact for ING Commercial Banking. The event risk number for the ING Commercial Banking trading activity is generated on a weekly basis. Like VaR, event risk is limited by ALCO Bank. ING Bank's event risk policy basically consists of defined stress parameters per country and per market (fixed income, equity, foreign exchange, credit and related derivative markets). The scenarios and stress parameters are evaluated against extreme actual market movements. If and when necessary, ING Bank evaluates specific stress scenarios, as an addition to its structural stress tests. These specific scenarios relate to current concerns, like political instability in certain regions, terrorist attacks or extreme movements, e.g. in credit spreads. Furthermore, ING participates in bank-wide stress testing as well as in ad hoc stress testing exercises as requested by the DNB or EBA.

Other trading controls

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

Basel 2.5 / CRD 3

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

Stressed VaR

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

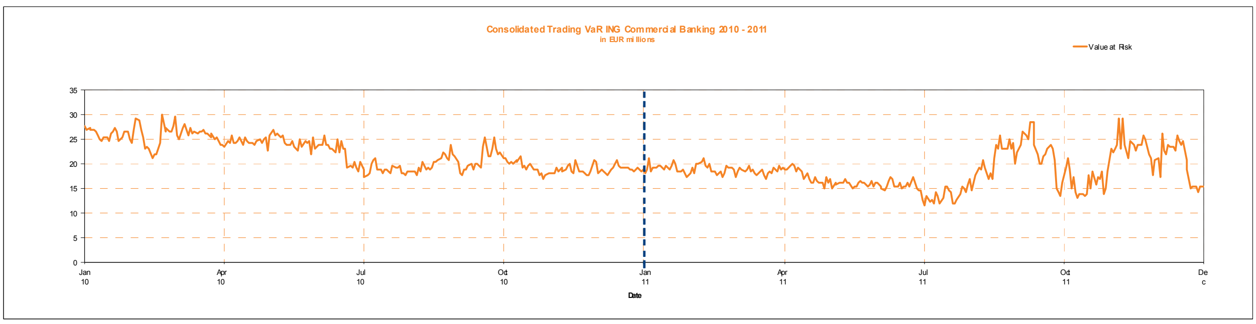
Incremental Risk Charge

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

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

Risk Profile

The following chart shows the development of the overnight VaR under a 99% confidence interval and a 1-day horizon. The overnight VaR is presented for the ING Commercial Banking trading portfolio for 2010 and 2011**.** Several banking books are internally governed by the trading risk process and are therefore excluded from the non-trading risk table and included in the below trading risk graph and table.



Risk management continued

During 2011 the overnight VaR for the ING Commercial Banking trading portfolio ranged from EUR 12 million to EUR 29 million.

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

Consolidated VaR trading books: ING Commercial Bank

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

[1] Credit spreads are introduced as a separate risk category as of Q4 2011. Minimum, maximum and average values for the risk category Credit spread are calculated on Q4 only. The 2010 credit spreads are consolidated in the interest rate risk category.
[2] The total VaR for the columns Minimum and Maximum can not be calculated by taking the sum of the individual components since the observations for both the individual markets as well as total VaR may occur on different dates.

The VaR figures in the table above relate to all books under trading governance. In general, the level of the trading VaR was lower in the first half of 2011, continuing the decreasing trend of 2010. Halfway the year, VaR levels increased due to increased market volatility. The equity VaR increased due to the integration of implied correlation and dividend risk, new risk measures added to the VaR framework. The average consolidated VaR over 2011 was lower than over 2010 (average VaR 2011: EUR 19 million and average VaR 2010: EUR 22 million).

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

Risk measures for Internal Model Approach Portfolios

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

[1] Credit spreads are introduced as a separate risk category as of Q4 2011. Minimum, maximum and average values for the risk category Credit spread are calculated on Q4 only. The 2010 credit spreads are consolidated in the interest rate risk category.
[2] The total VaR for the columns Minimum and Maximum can not be calculated by taking the sum of the individual components since the observations for both the individual markets as well as total VaR may occur on different dates.
[3] Note: Stressed VaR and Incremental Risk Charge figures are based on Q4 2011

Regulatory Capital

According to the Dutch regulation, regulatory capital for trading portfolios can be calculated using the standardised approach or an internal model approach. ING Bank received approval from the DNB to use an internal Value-at-Risk (VAR) model to determine the regulatory capital for the market risk in most trading books of ING Bank. Market risk capital of CAD2 trading books is calculated according to the internal VaR model, where diversification is taken into account. On the other hand, market risk capital of CAD1 books is calculated using standardised fixed risk weights. In 2011, capital on all trading books is performed under the Internal Model Approach. Mismatches in FX risk from the banking books are incorporated under the Standardised Approach. Market risk regulatory capital is calculated under the new market risk framework Basel 2.5 containing a capital charge for Stressed VaR and Incremental Risk, as approved by DNB.

Risk management continued

Regulatory Capital

	2011			2010[1]
	SVaR	VaR	Total	Total
Interest rate / Credit spread	327	157	484	172
Equity	80	62	142	40
Foreign exchange	15	12	27	15
Incremental Risk Charge			437	n/a
Total Internal Model Approach			1,090	227
Standardised model			34	137
Total			1,124	364

[1] 2010 capital figures do not include Stressed VaR

Sensitivities

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

Most important foreign exchange positions (year-end 2011)

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

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

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

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

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

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

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

Risk management continued

MARKET RISK IN BANKING BOOKS

ING Bank makes a distinction between trading and banking (non-trading) books. Positions in trading books can change swiftly, whereas positions in banking books are intended to be held until maturity, or at least for the long term. Books that contain positions to hedge exposures resulting from commercial activities are also classified as banking books.

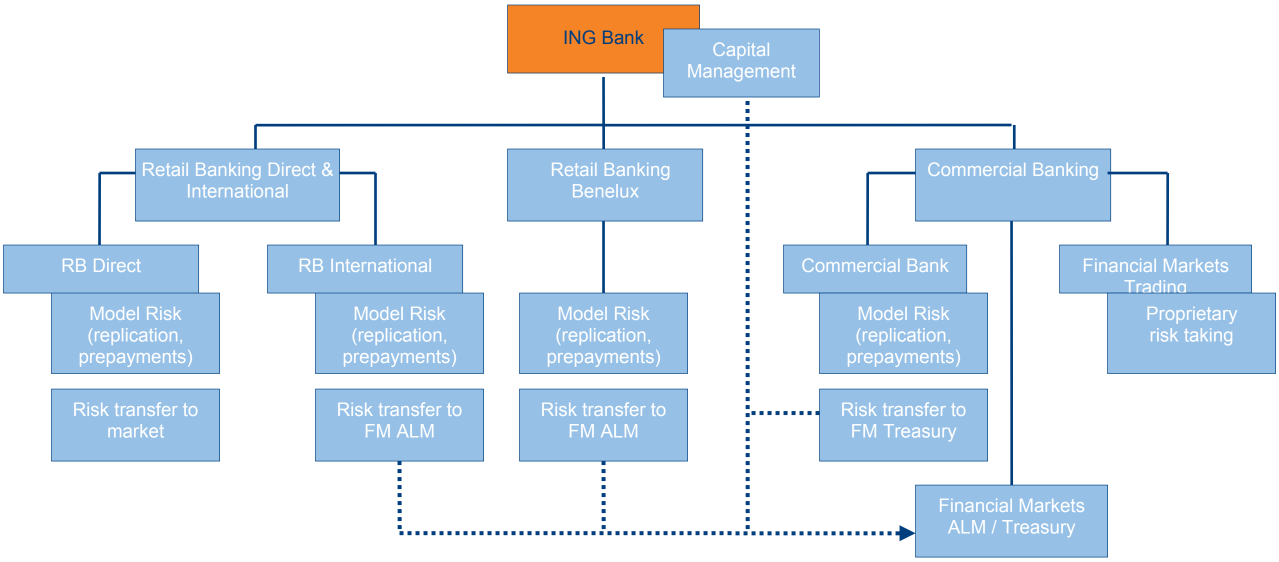
Interest Rate Risk in Banking Book

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

Governance: ALM framework

The management of interest rate risk follows the Asset & Liability Management (ALM) framework as approved by ALCO Bank. Main goal of this framework is to transfer interest rate risks out of commercial books in order to manage it centrally. This allows for a clear demarcation between commercial business results and results on unhedged interest rate positions.

ING Bank distinguishes three types of activities: investment of own capital (by Capital Management), commercial business (ING Direct, Retail Banking and Commercial Bank) and the strategic interest rate position (Financial Markets ALM). The scheme below presents the ALM framework:



Below, the three activities are described in more detail.

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

Commercial activities lead to interest rate risk, as repricing tenors of assets differ from those of liabilities. Linear interest rate risk is transferred out of the commercial business into the risk center (FM ALM), leaving convexity risk and model risk with the commercial business. The convexity risk is a result of hedging products that contain embedded options, like mortgages, by using linear hedge instruments. Model risk reflects the potential imperfect modelling of client behaviour. The risk transfer process takes place on a monthly basis, but more often if deemed necessary, for instance in volatile markets.

In the risk transfer process, client behavioural characteristics play an important role. The behaviour in relation to mortgages, loans, savings and demand deposits is modelled by MRM, following extensive research. Models and parameters are back-tested regularly and updated when deemed necessary. In the modelling of savings and current accounts different elements play a role: pricing strategies, outstanding and expected volumes and the level and shape of the yield curve. The analyses results in an investment rule for the various portfolios. With respect to mortgages and loans, prepayment behaviour and the interest sensitivity of the embedded offered rate options are modelled.

In line with other commercial businesses, ING Direct transfers interest rate risk out of their commercial books to a large extent. The difference being that the risks are transferred directly to the external market, instead of to the risk center (FM ALM).

Within ING Commercial Banking, FM ALM contains the strategic interest rate position. The main objective is to maximise the economic value of the book and to generate adequate and stable yearly earnings within the risk appetite boundaries set by ALCO Bank.

Risk management continued

In the following sections, the interest rate risks in the banking books are presented. ING Bank uses risk measures based on both an earnings and a value perspective. Earnings Sensitivity (ES) is used to provide the earnings perspective and the Net Present Value (NPV)-at-Risk and Basis Point Value (BPV) figures provide the value perspective. Several small banking books are governed by the trading risk process and are therefore excluded from the following banking book risk tables. These are included in the trading risk graph and table in the section 'Market Risk in Trading Books'.

Risk Profile

Earnings Sensitivity (ES)

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

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

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

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

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

Net Present Value (NPV) at Risk

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

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

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

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

	2011	2010
By currency		
Euro	**–1,828**	–2,446
US dollar	**376**	–205
Pound sterling	**–25**	–19
Other	**52**	48
Total	**–1,425**	–2,622

NPV-at-risk in 2011 excluding ING Direct USA is –EUR 1,914 million. In the course of 2011 NPV-at-Risk decreased substantially. This was mainly due to more expected prepayments of mortgages as a consequence of the low interest rate environment. This decreased the expected duration of mortgages and subsequently the value sensitivity to a rate increase. Furthermore investments were shortened, leading to a lower duration of assets. Finally the outright position in the strategic interest rate portfolio was reduced. This also contributed to the decrease of the NPV sensitivity.

Risk management continued

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

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

BPV per currency banking books

amounts in thousands of euros	2011	2010
By currency		
Euro	**–15,545**	–21,760
US dollar	**4,551**	–548
Pound sterling	**–136**	–284
Other	**879**	175
Total	**–10,251**	–22,417

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

Foreign exchange (FX) risk in banking books

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

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

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

Risk profile - FX Translation result
The following table presents the currency exposures in the banking books for the most important currencies:

Net currency exposures banking books

	Foreign Investments		Hedges		Net Exposure	
	2011	2010	**2011**	2010	**2011**	2010
US dollar	**7,641**	7,275	**–2,677**	–606	**4,964**	6,669
Pound sterling	**–997**	–993	**1,048**	1,144	**51**	151
Polish zloty	**1,404**	1,371	**–628**	–643	**776**	728
Australian dollar	**3,165**	2,908	**–2,459**	–2,056	**706**	852
Turkish lira	**1,830**	1,891	**–425**	–444	**1,405**	1,447
Other currency	**6,934**	7,160	**–4,172**	–4,028	**2,762**	3,132
Total	**19,977**	19,612	**–9,313**	–6,633	**10,664**	12,979

The US dollar Net Exposure decreased significantly in 2011. Anticipating on the announced sale of ING Direct USA, the risk-weighted assets will decrease and therefore, a lower Net Exposure is required. This is then achieved by increasing the hedge. The decreased Net exposure in the category 'Other currency' is mainly caused by changed share prices of strategic equity stakes. For example, the share price of the bank's equity stake in Bank of Beijing decreased around 20%, decreasing the Chinese renmimbi currency exposure.

Risk management continued

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

Core Tier 1 ratio sensitivity ING Bank

	cTaR		Stress Scenario	
	2011	2010	**2011**	2010
Currency				
US dollar	**0.12%**		**15%**	15%
Pound sterling	**0.04%**	0.02%	**15%**	15%
Polish zloty	**0.01%**	0.01%	**–15%**	–15%
Australian dollar		0.01%	**20%**	–20%
Turkish lira			**25%**	25%

Equity price risk in banking books

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments whose value reacts similarly to a particular security, a defined basket of securities, or a securities index. ING Bank maintains a strategic portfolio with substantial equity exposure in its banking books. This equity exposure mainly consists of the investments in associates of EUR 827 million (2010: EUR 1,494 million) and equity securities held in the available-for-sale (AFS) portfolio of EUR 2,466 million (2010: EUR 2,741 million). The value of equity securities held in the available-for-sale portfolio is directly linked to equity security prices with increases/decreases being recognised (except in the case of impairment) in the revaluation reserve. During the year ended 31 December 2011 the revaluation reserve relating to equity securities held in the Available-for-Sale portfolio fluctuated between a month-end low amount of EUR 1,226 million (2010: EUR 1,723 million) and a high amount of EUR 1,706 million (2010: EUR 2,370 million). Investments in associates are measured in accordance with the equity method of accounting and the balance sheet value and therefore not directly linked to equity security prices.

Equities Unrealised Gains and Losses in the AFS portfolio

	2011	2010
Gross unrealised gains	**1,292**	1,728
Gross unrealised losses	**45**	–1
Total	**1,247**	1,727

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

Real Estate price risk in banking books

Real estate price risk arises from the possibility that real estate prices fluctuate. This affects both the value of real estate assets and earnings related to real estate activities.
ING Bank has three main different categories of real estate exposure on its banking books. First, ING Bank owns buildings it occupies. Second, ING Bank has a Real Estate Development company for which results are dependent on the overall real estate market. The general policy is to mitigate this risk by pre-sale agreements where possible. Third, ING Bank has co-invested seed capital and bridge capital to support the launch of various real estate funds included in the Real Estate Investment Portfolio (REIM). A decrease in real estate prices will cause the value of this seed and bridge capital to decrease and will lower the level of third party assets under management, which in turn will reduce the fee income from this activity. For the third category mentioned above, real estate price shocks will have a direct impact on reported net profit and loss. Please note that exposures mentioned in this paragraph are shown from a risk perspective, which excludes interests of third parties.

ING Bank's real estate exposure (i.e. including leverage) is EUR 4.0 billion of which EUR 0.9 billion is recorded as fair value through profit and loss. The remaining EUR 3.1 billion is booked at cost or is revalued through equity (with impairments going through profit and loss).

Risk management continued

In total, Real Estate exposure decreased by EUR 1.1 billion mainly as a result of divestments in REIM (EUR –0.7 billion) and Real Estate Development (EUR –0.2 billion). Other important changes are: negative fair value changes and impairments (EUR –0.2 billion)

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

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

Real Estate Exposure banking books recorded as fair value through profit and loss (by geographic area and sector type)

	2011	2010		2011	2010
Continent			**Sector**		
Europe	**462**	662	Residential	**70**	207
Americas	**28**	812	Office	**150**	385
Australia	**20**	189	Retail	**511**	620
Asia	**380**	349	Industrial	**113**	516
Other		14	Other	**46**	298
Total	**890**	2,026	Total	**890**	2,026

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

Real Estate Exposure banking books not revalued through profit and loss (by geographic area and sector type)

	2011	2010		2011	2010
Continent			**Sector**		
Europe	**2,456**	2,772	Residential	**512**	614
Americas	**306**	70	Office	**1,350**	1,456
Australia	**176**	204	Retail	**896**	874
Asia			Industrial	**44**	43
Other	**147**	99	Other	**283**	158
Total	**3,085**	3,145	Total	**3,085**	3,145

LIQUIDITY RISK

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

Liquidity Risk Management

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

Governance

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

Risk profile

Structural liquidity risk

Structural liquidity risk is the risk that the structural, long term balance sheet cannot be financed timely or at a reasonable cost. For the purpose of managing structural liquidity risk, a specific advisory committee to ALCO Bank has been established.

This committee which consists of key representatives from MRM, Capital Management and Financial Markets focuses on all liquidity risk aspects from a going concern perspective. The main objective of the committee is to maintain a sound liquidity profile through:

Risk management continued

- Maintaining a well diversified mix of funding sources in terms of instrument types (e.g. unsecured deposits, commercial paper, long term bonds or repurchase agreements), fund providers (e.g. professional money market players, wholesale and retail clients), geographic markets and currencies;
- Actively managing access to the capital markets by regularly issuing public debt in all material markets and the maintenance of investor relations;
- Holding a broad portfolio of eligible assets that can be utilised to obtain secured funding, e.g. from the repo market or (E)CB; in this respect the total marketable/(E)CB eligible collateral position before any haircut amounts to EUR 194 billion (MtM);
- Management of liquidity gaps, taking into account the asset mix and both the secured and unsecured funding opportunities of ING Bank; and
- Maintaining a funds transfer pricing mechanism in which ING Bank's cost of liquidity is adequately reflected both under a going concern and a contingency perspective.

With respect to funding sources, ING Bank aims to fund its own originated assets (loans) by an equal amount of own originated liabilities (deposits), translated into an LtD target of below 1.2. Ultimo 2011 the LtD ratio (excluding securities at amortised costs and IABF receivable) equals 1.14. In 2011, uncertainty with regard to economic developments in both Europe and USA, led to US MM Funds being more restrictive in funding European counterparties. As ING Bank manages its balance sheet prudently, whereby short term funding is primarily utilised for short term assets, a decrease of these type of funding sources is manageable. The table below shows the funding mix.

ING Bank Funding Mix

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

The funding mix remained well diversified and according to targets set. Deposits accounted for 63% of the total funding mix.

Tactical liquidity risk
Liquidity risk which is resulting from short term cash and collateral positions is managed in the risk framework from a tactical liquidity risk perspective. The day-to-day management of the overall short term liquidity risk of ING Bank is delegated to Financial Markets Amsterdam, while regional and local Financial Markets departments manage liquidity in their respective regions and locations. Within Financial Markets, the focus is on the daily and intraday cash and collateral positions and the policy is to manage and sufficiently spread day-to-day funding requirements.

Contingency liquidity risk
Contingency liquidity risk specifically relates to the organisation and planning for liquidity management in time of stress. Within ING Bank, for contingency purposes, a specific crisis team -consisting of key Board Members, representatives from Staff Departments (e.g. Risk and Capital Management) and Treasuries - is responsible for liquidity management in times of crisis. Throughout the organisation adequate and up-to-date contingency funding plans are in place to enable senior management to act effectively and efficiently in times of crisis.

Contingency funding plans address both temporary and long-term liquidity disruptions, triggered by either a general market event or an ING Bank specific event.

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

Risk management continued

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

ING BANK BUSINESS RISK

Business Risk for ING Bank has been defined as the exposure to value loss due to fluctuations in volumes, margins and costs, as well as client behaviour risk. It is the risk inherent to strategy decisions and internal efficiency. The calculation of Business Risk Capital is done by calculation of two components,

(i) Expense risk relates to the (in)flexibility to adjust expenses, when that is needed.

(ii) Client behaviour risk relates to clients behaving differently than expected and the effect that this behaviour can have on customer deposits and mortgage pre-payments. The client behaviour risk is calculated by stressing the underlying assumptions in the models for behavioural assets and liabilities.

Each of these components is calculated separately, and combined to one business risk figure via the variance-covariance methodology.

OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the related risk of reputation loss, as well as legal risk whereas strategic risks are not included. Effective operational risk management leads to more stable business processes (including IT systems) and lower costs. Generic mandatory controls are described in the ORM policy house.

Clear and accessible policies and minimum standards are embedded in ING Bank business processes in all business lines. An infrastructure is in place to enable management to track incidents and operational risk issues. A comprehensive system of internal controls creates an environment of continuous improvement in managing operational risk. ING Bank uses this knowledge (including lessons learned from incidents) to improve the control of key risks.

GOVERNANCE

At all levels in the organisation Non Financial Risk Committees (NFRC’s) are established that identify, measure and monitor the operational, compliance and legal risks of the region or business unit with appropriate quality of coverage (granularity) and to ensure that appropriate management action is taken by the responsible line managers at the appropriate level of granularity. NFRC’s, chaired by the CEO of the entity, steer the risk management activities of the first and second line of defence in their entities.

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

The ORM function consists of functional departments for Operational risks (including policies, systems, SOX testing, capital allocation and reporting), for Information (Technology) risks and for Security & Investigations.

ORM uses a layered functional approach within business lines to ensure systematic and consistent implementation of the group-wide ORM framework, policies and minimum standards. To avoid potential conflicts of interests, it is imperative that the ORM officer is impartial and objective when advising business management on operational risk matters in their business unit or business line. To facilitate this, a strong functional reporting line to the next higher level ORM officer is in place. The functional reporting line has clear accountabilities with regard to objective setting, remuneration, performance management and appointment of new ORM staff.

Operational risk framework

ING Bank has developed a comprehensive framework supporting and governing the process of identifying, mitigating, measuring and monitoring operational risks thus reflecting the stages described in the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission).

The operational risk appetite within ING Bank is defined as the acceptable and authorised maximum level of risk, in each of the operational risk areas that must be adhered to in order for ING Bank to achieve its business plan within approved budgets. This risk appetite is quarterly monitored through the Non-Financial Risk Dashboard which reports the key non financial risk exposures.

Risk management continued

Processes are in place to identify key threats, vulnerabilities and the associated risks which might cause adverse events. Event identification is performed proactively and precedes a risk assessment. Different techniques for event identification exist within ING Bank, e.g. risk & control self assessments, scenario analysis, external events inventories, internal incident analysis (e.g. lessons learned based on information from incident reporting), key risk indicator events and threat scans.

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

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

The yearly objective setting process for both business management and ORM professionals aims to keep improving the management of operational risk throughout ING Bank to ensure that ING stays in control of its current and future operational risks. ING Bank's ORM Framework is further maturing towards an integrated controls framework according to pre-agreed requirements and development stages in the individual business units. This development is measured through the scorecard process.

MODEL DISCLOSURE

The Operational Risk Capital model of ING Bank is based on a Loss Distribution Approach (LDA). The Loss Distribution is based on both external and internal loss data exceeding EUR 1 million. The model is adjusted for the specific measured quality of control in a business line and the occurrence of large incidents ('bonus/malus'). This provides an incentive to local (operational risk) management to better manage operational risk.

Loss Distribution approach

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

RISK PROFILE

The AMA capital for the fourth quarter of 2011 amounts EUR 2,836 million. This is slightly below the capital estimate of previous year. This is explained by a capital reduction resulting from the divestments of ING Car Lease and REIM Fee Business, which is partially offset by a capital increase resulting from the regular external incident data update.

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

	Economic Capital		Regulatory Capital	
	2011	2010	**2011**	2010
Operational Risk	**1,683**	1,619	**2,836**	2,872

MAIN DEVELOPMENTS IN 2011

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

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

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

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

The NFR Awareness Program is designed with the objective that all ING Bank employees are aware of the relevant risks, the potential impact, the appropriate mitigating measures and their personal role in applying those measures. The new approach significantly improves risk awareness by putting ING Bank's businesses in the lead, working closely with risk professionals. A tailored approach per target group, embedded activities in regular business planning and target

Risk management continued

setting and focus on desired behaviours and realistic ways of apply rules are the basic elements of the new approach. It also gives an overall structure to the many risk awareness activities carried out by ORM, Compliance and Legal and ensures that ING Bank's risk awareness activities are better focused on the key risks we face as a business.

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

COMPLIANCE RISK

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

ING Bank believes that fully embedded Compliance Risk Management Controls preserves and enhances the trust of its customers, staff and shareholders. Being trusted is essential to building sustainable businesses. ING Bank's Business Principles set the foundation for the high ethical standards ING Bank expects of all our business activities. ING Bank's Business Principles require all staff at every level to conduct themselves, not only in compliance with laws and regulations, but also by acting with integrity, being open and clear, respectful, and responsible.

Clear and practical policies and procedures are embedded in ING Bank business processes in all Business Lines. Systems are in place to enable management to track current and emerging Compliance Risk issues, to communicate these to internal and external stakeholders, and to drive continuous improvement. ING Bank understands that good Compliance Risk Management involves understanding and delivering on the expectations of customers and other stakeholders, thereby strengthening the quality of key relationships.

GOVERNANCE

The Compliance Risk Management function

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

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

To avoid potential conflicts of interest, it is imperative that the Compliance Officers are impartial and objective when advising business management on Compliance Risk in their business unit, region, country or entity. To facilitate this, a strong functional reporting line to the next higher level Compliance Officer is in place. The functional reporting line has clear accountabilities relating to objective setting, remuneration, performance management and the appointment of new Compliance Risk Management staff as well as obligations to veto and escalate.

Scope

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

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

Risk management continued

Compliance Risk Management Framework
The Framework consists of three key components:

1. The Compliance Risk Management process
The process has five key activities carried out in accordance with the requirements of the Framework:
A. Identification of Compliance Risk Obligations;
B. Risk Assessment;
C. Compliance Risk Mitigation (includes Training and Education);
D. Compliance Risk Monitoring (includes Action Tracking); and
E. Compliance Risk Reporting (includes Internal Events Reporting and Response).

2. Advisory
Compliance Officers proactively advise their CEO, Management, local boards and committees, the next higher level Compliance Officer, and employees on Compliance Risk, responsibilities, obligations and concerns.

3. Scorecard
The Compliance Risk Management function works with the Operational Risk Management Scorecard process to evaluate how well the Compliance Risk Management Framework is embedded in each business. Scoring is based on the ability of the business unit to demonstrate that the required policies and procedures are implemented.

EXTRA-TERRITORIAL REGULATIONS
Financial institutions continue to be closely scrutinised by regulatory authorities, governmental bodies, shareholders, rating agencies, customers and others to ensure they comply with the relevant laws, regulations, standards and expectations. Bank regulators and other supervisory authorities in Europe, the US and elsewhere continue to oversee the activities of financial institutions to ensure that they operate with integrity and conduct business in an efficient, orderly and transparent manner. ING Bank seeks to meet the standards and expectations of regulatory authorities and other interested parties through a number of initiatives and activities, including scrutinizing account holder information, payment processing and other transactions to support compliance with regulations governing money laundering, economic and trade sanctions, bribery and other corrupt practices. The failure or alleged failure by ING Bank to meet applicable standards in these areas could result in, among other things, suspension or revocation of ING Bank’s licenses, cease and desist orders, fines, civil or criminal penalties and other disciplinary action which could materially damage ING Bank’s reputation and financial condition, and accordingly ING Bank’s primary focus is to support good business practice through its Business Principles and policies.

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

As a result of our frequent evaluation of all businesses from economic, strategic and risk perspectives ING Bank continues to believe that for business reasons doing business involving certain specified countries should be discontinued, which includes that ING Bank has a policy not to enter into new relationships with clients from these countries and processes remain in place to discontinue existing relationships involving these countries. At present these countries include Myanmar, North Korea, Sudan, Syria, Iran and Cuba. Each of these countries is subject to a variety of EU, US and other sanctions regimes. Cuba, Iran, Sudan, and Syria are identified by the US as state sponsors of terrorism and are subject to US economic sanctions and export controls.

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

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

MAIN DEVELOPMENTS IN 2011

- **Regulator relationships** - Bank Compliance Risk Management continued to invest in pro-active relationships with regulators in the jurisdictions where ING Bank operates, striving for an open approach and cooperation in identifying and mitigating compliance risks for ING Bank.
- **Promoting Integrity Programme** - Bank Compliance Risk Management, together with Human Resources and Corporate Communications & Affairs, continued with the roll-out of the Promoting Integrity Programme (PIP), a global employee education programme focusing on ING Bank’s values (including the ING Bank Business Principles) and the role they play in the business and workplace. Short e-modules were developed on Customer Trust and Anti-Fraud and were followed by manager-led dialogue sessions, where employees discussed what integrity means for them and how the Business Principles and ING Bank Policies and standards can be applied in their daily work.
- **Ongoing enhancement of Financial Economic Crime controls** – ING Bank continued its strong commitment to preventing any involvement in criminal activity. Existing activities were further strengthened by increased monitoring and internal audits as well as awareness and training programmes and an internal annual sign-off process for senior management concerning implementation of policies and procedures relating to Financial Economic Crime including business with sanctioned parties.
- **Gifts, Entertainment and Anti-Bribery Policy** – ING Bank issued a revised Gifts, Entertainment and Anti-Bribery Policy to align with the changing regulatory landscape in respect of anti-bribery which provides for severe penalties in case of bribery offences and with new extra-territorial anti-bribery legislation, such as the UK Bribery Act.
- **Learning –** Continuous global education and awareness training was provided through face-to-face training sessions and learning tools on topics such as Ultra High Risk Countries & Export Trade, Financial Economic Crime, and Gifts, Entertainment and Anti-Bribery. Compliance Risk Management also continued its mandatory global Compliance Officer Training programme for all compliance officers new to ING Bank.

Capital management

amounts in millions of euros, unless stated otherwise

OBJECTIVES

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

ING applies the following main capital definitions for ING Bank:

- Core Tier 1 capital, Tier 1 capital and total BIS capital (ING Bank) – Tier 1 capital is defined as shareholders' equity including core Tier 1 securities plus hybrid capital less certain prudential filters and deductible items. Tier 1 and BIS capital divided by risk-weighted assets equal the Tier 1 and BIS ratio respectively. Core Tier 1 capital is equal to Tier 1 capital excluding hybrid capital.

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

DEVELOPMENTS

In 2011 Capital Management's main focus remained to strengthen the capital position of ING Group, ING Bank and ING Insurance. ING's capital positions are well placed to deal with the uncertain financial environment, increasing regulatory requirements and the ambition to repurchase the remaining outstanding Core Tier 1 securities.

In May ING repurchased EUR 2 billion of the Core Tier 1 securities issued in November 2008 at a 50% premium. Nevertheless ING maintained a strong capital position, driven mainly by strong capital generation at ING Bank. ING Bank met the additional capital requirements proposed by the EBA and agreed by the EU Council on 26 October 2011. In December 2011, ING successfully completed a liability management transaction with an average participation of 60%. The net impact of this transaction on ING Group's consolidated balance sheet was a reduction of EUR 2 billion in hybrid capital and a capital gain of EUR 0.7 billion. As part of this initiative, EUR 1.6 billion subordinated intercompany debt from ING Bank N.V. to ING Groep N.V. was repaid and ING Bank issued two new subordinated bonds with a nominal value of GBP 0.4 billion and EUR 0.4 billion respectively.

POLICIES

The activities of Capital Management are executed on the basis of established policies, guidelines and procedures. The main documents that serve as guidelines for capital planning are the Capital Letter (comprising the approved targets and limits for capital), the Capital Planning Policy, the Dividend Policy and the Capital Request Policy. For the Corporate Treasury there are additional policies and limits that guide the management of the balance sheets and the execution of capital market transactions.

The above capital definitions and policies have been approved by the ING Group Executive Board or delegated authorities.

PROCESSES FOR MANAGING CAPITAL

In addition to measuring capital adequacy, Capital Management also ensures that sufficient capital is available through setting targets and limits relevant to the above mentioned metrics for ING Group, ING Bank, and ING Insurance and ensuring adherence to the set limits and targets through planning and executing capital management transactions. The process is supplemented by stress testing and scenario analysis. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process and results in a quarterly capital update report which is presented to both the ING Group Finance and Risk Committee and the ING Group Executive and Supervisory Boards. The main objective of the assessment is to ensure that ING Group as a whole has sufficient capital relative to its risk profile both in the short and the medium-term.

A key priority of Capital Management is to make sure that strong stand-alone companies are created for banking and insurance in preparation of the separation. All operating entities need to stay adequately capitalised based on local regulatory and rating agency requirements and interdependencies should be reduced to a minimum. The entities should also be able to access capital markets independently.

CAPITAL ADEQUACY ASSESSMENT

During 2011, ING Bank was adequately capitalised in relation to their risk profile and strategic objectives.

Capital Management continued

REGULATORY REQUIREMENTS

ING BANK

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

Basel II

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

EBA capital exercise

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

Capital position of ING Bank		
	2011	2010
Shareholders' equity (parent)	**34,367**	34,452
Minority interests [(1)]	**817**	748
Subordinated loans qualifying as Tier 1 capital [(2)]	**6,850**	8,438
Goodwill and intangibles deductible from Tier 1 [(1)]	**–1,390**	–1,645
Deductions Tier 1	**–1,014**	–1,069
Revaluation reserve [(3)]	**–1,008**	–1,592
Available capital – Tier 1	**38,622**	39,332
Supplementary capital – Tier 2 [(4)]	**9,516**	10,882
Available Tier 3 funds		
Deductions	**–1,014**	–1,069
BIS capital	**47,124**	49,145
Risk-weighted assets	**330,421**	321,103
Core Tier 1 ratio	**9.62%**	9.62%
Tier 1 ratio	**11.69%**	12.25%
BIS ratio	**14.26%**	15.30%
Required capital based on Basel I floor [(5)]	**31,107**	29,860
BIS ratio based on Basel I floor [(5)]	**12.12%**	13.17%

(1) According to the regulatory definition
(2) Subordinated loans qualifying as Tier 1 capital have been placed by ING Groep N.V. with ING Bank N.V.
(3) Includes revaluation debt securities, revaluation reserve cash flow hedge and revaluation reserves equity and real estate (see ING's Capital base table, footnote 3).
(4) Includes eligible lower Tier 2 loans and revaluation reserves equity and real estate revaluations removed from Tier 1 capital.
(5) Using 80% of Basel I Risk-Weighted Assets.

Capital management continued

Capital adequacy and ratios

Quantitative disclosures on capital measurement and ratios

		Bank
	2011	2010
Tier 1 ratio (Bank)		
Year-end actual Tier 1 ratio	**11.69%**	12.25%
Regulatory minimum Tier 1 ratio	**4.00%**	4.00%
Target minimum Tier 1 ratio	**10.00%**	10.00%
BIS ratio (Bank)		
Year-end actual BIS ratio	**14.26%**	15.30%
Regulatory minimum BIS ratio	**8.00%**	8.00%
Target minimum BIS ratio	**10.00%**	10.00%

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

Main credit ratings of ING at 31 December 2011

	Standard & Poor's		Moody's		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
ING Groep N.V.						
– long term	**A**	**stable**	**A1**	**stable**	**A**	**stable**
ING Bank N.V.						
– short term	**A-1**		**P-1**		**F1+**	
– long term	**A+**	**stable**	**Aa3**	**stable**	**A+**	**stable**
– financial strength			**C+**			
ING Verzekeringen N.V.						
– short term	**A-2**		**P-2**		**F2**	
– long term	**A-**	**negative**	**Baa2**	**developing**	**A-**	**negative**

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

A security rating is not a recommendation to buy, sell or hold securities and each rating should be evaluated independently of any other rating. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency if, in the rating agency's judgment, circumstances so warrant. ING accepts no responsibility for the accuracy or reliability of the ratings.

AUTHORISATION OF ANNUAL ACCOUNTS

Amsterdam, 12 March 2012

THE SUPERVISORY BOARD
Jeroen van der Veer, *chairman*
Peter A.F.W. Elverding, *vice-chairman*
J.P. (Tineke) Bahlmann
Henk W. Breukink
Sjoerd van Keulen
Piet C. Klaver
Joost Ch.L. Kuiper
Aman Mehta
Luc A.C.P. Vandewalle
Lodewijk J. de Waal

THE MANAGEMENT BOARD
Jan H.M. Hommen, *chairman*
J.V. (Koos) Timmermans, *vice-chairman*
Patrick G. Flynn, *CFO*
Wilfred F. Nagel, *CRO*
William L. Connelly, *CEO Commercial Banking*
C.P.A.J. (Eli) Leenaars, *CEO Retail Banking Direct and International*
Hans van der Noordaa, *CEO Retail Banking Benelux*

Parent company balance sheet of ING Bank

as at 31 December before appropriation of result

amounts in millions of euros	2011	2010
ASSETS		
Cash and balances with central banks 1	20,097	2,791
Short-dated government paper 2	1,932	1,809
Amounts due from banks 3	67,424	80,837
Loans and advances to customers 4	331,633	327,253
Debt securities 5		
– available-for-sale	14,383	16,106
– trading	13,923	21,970
Equity securities 6		
– available-for-sale	1,862	2,297
– trading	2,474	1,799
Investments in group companies 7	29,153	28,252
Investments in associates 8	503	561
Intangible assets 9	1,096	1,375
Equipment 10	531	597
Other assets 11	74,375	60,648
Total assets	559,386	546,295
LIABILITIES		
Amounts due to banks 12	101,807	96,291
Customer deposits and other funds on deposit 13	207,761	213,556
Debt securities in issue	110,077	98,571
Other liabilities 14	85,551	80,983
General provisions 15	968	1,029
Subordinated loans 16	18,855	21,413
Total liabilities	525,019	511,843
EQUITY		
Share capital	525	525
Share premium	16,542	16,542
Legal reserves (1)	1,116	2,015
Other reserves	12,266	11,075
Unappropriated result	3,918	4,295
Total equity 17	34,367	34,452
Total liabilities and equity	559,386	546,295

(1) Legal reserves includes Share of associates reserve of EUR 339 million (2010:EUR 26 million), Currency translation reserve of EUR 209 million (2010:EUR 500 million) and Revaluation reserve of EUR 568 million (2010: EUR 1,489 million).

References relate to the notes starting on page 147. These form an integral part of the parent annual accounts.

Parent company profit and loss account of ING Bank

for the years ended 31 December

amounts in millions of euros	2011	2010
Result of group companies after taxation	**2,617**	2,432
Other results after taxation	**1,388**	2,063
Net result	**4,005**	4,495

Parent company statement of changes in equity of ING Bank

for the years ended 31 December

amounts in millions of euros	Share capital	Share premium	Share of associates reserve	Currency translation reserve	Revaluation reserve	Other reserves	Total
Balance as at 1 January 2010	525	16,542		–241	2,488	10,908	30,222
Unrealised revaluations after taxation				–348	–539		–887
Realised gains/losses transferred to profit and loss					–293		–293
Changes in cash flow hedge reserve					–167		–167
Exchange rate differences				1,089			1,089
Other			26			114	140
Total amount recognised directly in equity			26	741	–999	114	–118
Net result						4,495	4,495
			26	741	–999	4,609	4,377
Employee stock options and						53	53
Dividend						–200	–200
Balance as at 31 December 2010	525	16,542	26	500	1,489	15,370	34,452
Unrealised revaluations after taxation				**186**	**–1,145**		**–959**
Realised gains/losses transferred to profit and loss					**406**		**406**
Changes in cash flow hedge reserve					**–182**		**–182**
Exchange rate differences				**–477**			**–477**
Other			**313**			**–310**	**3**
Total amount recognised directly in equity			**313**	**–291**	**–921**	**–310**	**–1,209**
Net result						**4,005**	**4,005**
			313	**–291**	**–921**	**3,695**	**2,796**
Employee stock options and share plans						**119**	**119**
Dividend						**–3,000**	**–3,000**
Balance as at 31 December 2011	**525**	**16,542**	**339**	**209**	**568**	**16,184**	**34,367**

Other reserves include Retained earnings and Unappropriated result.

Accounting policies for the parent company annual accounts of ING Bank

BASIS OF PRESENTATION

The parent company accounts of ING Bank are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Dutch Civil Code. The accounting policies applicable to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Dutch Civil Code. The principles of valuation and determination of results stated in connection with the consolidated balance sheet and profit and loss account are also applicable to the parent company balance sheet and profit and loss account. Investments in group companies and investments in associates are recognised at net asset value with goodwill, if any, recorded under intangible assets.

The profit and loss account is drawn up in accordance with Section 402, Book 2, of the Dutch Civil Code.

A list containing the information referred to in Section 379 (1), Book 2, of the Dutch Civil Code has been filed with the Commercial Register of Amsterdam, in accordance with Section 379 (5), Book 2, of the Dutch Civil Code.

Changes in balance sheet values due to changes in the Revaluation reserve of the associates are reflected in the Share of associates reserve, which forms part of Shareholders' equity. Changes in balance sheet values due to the results of these associates, accounted for in accordance with ING Bank accounting policies, are included in the profit and loss account. Other changes in the balance sheet value of these associates, other than those due to changes in share capital, are included in Other reserves, which forms part of Shareholders' equity.

A legal reserve is carried at an amount equal to the share in the results of associates since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the Share of associates reserve.

Notes to the parent company annual accounts of ING Bank

amounts in millions of euros, unless stated otherwise

ASSETS

1 CASH AND BALANCES WITH CENTRAL BANKS

Amounts held at central banks amount to EUR 19,358 million (2010: EUR 2,214 million).

2 SHORT-DATED GOVERNMENT PAPER

Short-dated government paper includes international government paper amounting to EUR 1,831 million (2010: EUR 1,686 million) for the company.

3 AMOUNTS DUE FROM BANKS

Amounts due from banks		
	2011	2010
Non-subordinated receivables from		
Group companies	**19,694**	30,445
Third parties	**45,518**	47,789
	65,212	78,234
Subordinated receivables from		
Group companies	**2,057**	2,350
Third parties	**155**	253
	67,424	80,837

As at 31 December 2011, amounts due from banks included receivables with regard to securities, which have been acquired in reverse repurchase transactions amounting to EUR 24,843 million (2010: EUR 24,445 million).

4 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers – subordinated and non-subordinated		
	2011	2010
Non-subordinated receivables from		
ING Groep N.V.	**2,250**	500
Group companies	**88,268**	88,182
Third parties	**239,270**	238,571
	329,788	327,253
Subordinated receivables from		
Group companies	**1,845**	
	331,633	327,253

As at 31 December 2011, assets held under finance lease contracts amounted to EUR 33 million (2010: EUR 50 million).

As at 31 December 2011, the receivables included in Loans and advances to customers that are part of the trading portfolio amounted to EUR 12,952 million (2010: EUR 14,355 million).

Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 12,868 million (2010: EUR 15,043 million) for the company.

5 DEBT SECURITIES

Debt securities by issuer		
	2011	2010
Public sector	**22,084**	29,047
Other	**6,222**	9,029
	28,306	38,076

Notes to the parent company annual accounts of ING Bank continued

Debt securities analysed by listing		
	2011	2010
Listed	**26,436**	36,598
Unlisted	**1,870**	1,478
	28,306	38,076

Debt securities – subordinated and non-subordinated		
	2011	2010
Non-subordinated debt securities issued by		
Associates	**721**	164
Third parties	**27,585**	37,835
	28,306	37,999
Subordinated debt securities issued by		
Associates		77
	28,306	38,076

Changes in debt securities (available-for-sale)		
	2011	2010
Opening balance	**16,106**	15,232
Additions	**12,630**	7,470
Amortisation		4
Changes in the composition of the group	**–282**	
Gains/(losses) from change in fair value	**–75**	112
Provision for impairment	**23**	
Disposals and redemptions	**–14,031**	–6,918
Exchange rate differences	**12**	205
Other changes		1
Closing balance	**14,383**	16,106

As at 31 December 2011, the cost of the trading debt securities amounted to EUR 13,923 million (2010: EUR 21,970 million).

As at 31 December 2011, an amount of EUR 9,394 million (2010: EUR 13,840 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 10,845 million as at 31 December 2011 (2010: EUR 11,077 million).

Borrowed debt securities are not recognised in the balance sheet and amount to nil (2010: nil) as at 31 December 2011.

6 EQUITY SECURITIES

Equity securities analysed by listing		
	2011	2010
Listed	**4,138**	3,878
Unlisted	**198**	218
	4,336	4,096

Changes in equity securities (available-for-sale)		
	2011	2010
Opening balance	**2,297**	3,319
Additions	**42**	
Gains/(losses) from change in fair value	**–451**	–274
Provision for impairments	**–14**	–6
Disposals	**–12**	–794
Exchange rate differences		52
Closing balance	**1,862**	2,297

Notes to the parent company annual accounts of ING Bank continued

The cost or purchase price of the shares in the trading portfolio approximates their fair value. As at 31 December 2011 the cost or purchase price of shares in the available-for-sale portfolio was EUR 1,175 million lower (2010: EUR 1,598 million lower) than the carrying amount.

7 INVESTMENTS IN GROUP COMPANIES

Investments in group companies

	Interest held (%) 2011	Balance sheet value 2011	Interest held (%) 2010	Balance sheet value 2010
ING België N.V.	**100**	**9,848**	100	10,130
ING Direct N.V.	**100**	**7,935**	100	7,086
ING Financial Holdings Corporation	**100**	**1,469**	100	1,249
ING Vastgoed Management Holding B.V.	**100**	**1,350**	100	1,208
ING Lease Holding N.V.	**100**	**1,191**	100	1,270
ING Bank A.S.	**100**	**1,110**	100	1,032
WestlandUtrecht Bank N.V.	**100**	**1,089**	100	993
ING Bank Slaski S.A.	**75**	**1,064**	75	1,042
ING Corporate Investments B.V.	**100**	**446**	100	463
Other (including financing companies)		**3,651**		3,779
		29,153		28,252

As at 31 December 2011, Investments in group companies included credit institutions of EUR 22,210 million (2010: EUR 21,594 million). As at 31 December 2011 listed investments in group companies amounted to EUR 1,064 million (2010: EUR 1,042 million).

Changes in investments in group companies

	2011	2010
Opening balance	**28,252**	26,478
Additions		532
Repayment of capital injection		–297
Revaluations	**–280**	86
Results from group companies	**2,617**	2,432
Dividends received	**–1,430**	–1,157
Capital contribution	**574**	415
Disposals	**–15**	–1,082
Mergers and liquidations	**–279**	–56
Exchange rate differences	**–340**	839
Other changes	**54**	62
Closing balance	**29,153**	28,252

8 INVESTMENTS IN ASSOCIATES

Investments in associates

	Interest held (%) 2011	Balance sheet value 2011	Interest held (%) 2010	Balance sheet value 2010
TMB Public Company Limited	**25**	**485**	25	474
Other		**18**		87
		503		561

Changes in investments in associates

	2011	2010
Opening balance	**561**	455
Additions	**2**	19
Share of results	**45**	16
Disposals	**–98**	–2
Exchange rate differences	**–8**	74
Other changes	**1**	–1
Closing balance	**503**	561

Notes to the parent company annual accounts of ING Bank continued

9 INTANGIBLE ASSETS

Changes in intangible assets

	Goodwill		Software		Other		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Opening balance	**890**	853	**391**	498	**94**	116	**1,375**	1,467
Additions			**138**	134			**138**	134
Changes in the composition of the group				7				7
Depreciation			**–249**	–228	**–24**	–28	**–273**	–256
Impairments				–21				–21
Disposals				–1				–1
Exchange rate differences	**–132**	36			**–13**	6	**–145**	42
Other changes		1	**1**	2			**1**	3
Closing balance	**758**	890	**281**	391	**57**	94	**1,096**	1,375

10 EQUIPMENT

Changes in equipment

	2011	2010
Opening balance	**597**	557
Additions	**98**	122
Changes in the composition of the group	**–2**	
Depreciation	**–139**	–151
Disposals	**–12**	–2
Exchange rate differences		2
Other changes	**–11**	69
Closing balance	**531**	597
Gross carrying amount as at 31 December	**1,605**	1,600
Accumulated depreciation as at 31 December	**–1,074**	–1,003
Net carrying value	**531**	597

11 OTHER ASSETS

Other assets by type

	2011	2010
Derivatives	**61,334**	44,953
Deferred tax assets	**126**	354
Income tax receivable	**63**	64
Accrued interests and rents	**8,829**	10,546
Other accrued assets	**165**	164
Pension asset	**443**	2,264
Other receivables	**3,415**	2,303
	74,375	60,648

As at 31 December 2011, an amount of EUR 367 million (2010: EUR 2,255 million) was expected to be settled after more than one year from the balance sheet date.

Notes to the parent company annual accounts of ING Bank continued

LIABILITIES AND EQUITY
12 AMOUNTS DUE TO BANKS

Amounts due to banks by group companies and third parties	2011	2010
Group companies	**36,402**	28,683
Third parties	**65,405**	67,608
	101,807	96,291

13 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

Customer deposits and other funds on deposit by group companies and third parties	2011	2010
Group companies	**32,232**	35,925
Third parties	**175,529**	177,631
	207,761	213,556

Customer deposits and other funds on deposit by type	2011	2010
Savings accounts	**61,656**	59,302
Credit balances on customer accounts	**55,437**	60,090
Corporate deposits	**77,404**	68,461
Other	**13,264**	25,703
	207,761	213,556

14 OTHER LIABILITIES

Other liabilities	2011	2010
Derivatives	**60,512**	46,942
Trading liabilities	**10,002**	17,689
Accrued interest	**9,794**	10,980
Costs payable	**425**	550
Income tax payable	**345**	699
Other taxation and social security contribution	**14**	51
Other amounts payable	**4,459**	4,072
	85,551	80,983

As at 31 December 2011, an amount of EUR 1,181 million (2010: EUR 1,768 million) was expected to be settled after more than one year from the balance sheet date.

As at 31 December 2011, Other liabilities includes an amount of EUR 7.91 (2010: EUR 7.91) for seven preference shares with a par value of EUR 1.13 each.

15 GENERAL PROVISIONS

General provisions	2011	2010
Deferred tax payable	**221**	26
Pension liabilities and other staff-related liabilities	**11**	419
Reorganisations and relocations	**363**	220
Other	**373**	364
	968	1,029

As at 31 December 2011, an amount of EUR 862 million (2010: EUR 446 million) was expected to be settled after more than one year from the balance sheet date.

Notes to the parent company annual accounts of ING Bank continued

16 SUBORDINATED LOANS

Subordinated loans by group companies and third parties		
	2011	2010
Group companies	**7,065**	8,438
Third parties	**11,790**	12,975
	18,855	21,413

Subordinated loans by type		
	2011	2010
Capital debentures	**10,669**	12,592
Private loans	**8,186**	8,821
	18,855	21,413

The subordinated loans rank subordinated to the other liabilities in a winding-up of ING.

17 EQUITY

Capital and reserves		
	2011	2010
Share capital	**525**	525
Share premium	**16,542**	16,542
Share of associates reserve	**339**	26
Currency translation reserve	**209**	500
Revaluation reserve	**568**	1,489
Other reserves	**12,266**	11,075
Unappropriated result	**3,918**	4,295
	34,367	34,452

Other reserves includes Retained earnings of EUR 11,210 million (2010: EUR 10,334 million). Other reserves include non-distributable reserves of EUR 836 million (2010: EUR 741 million) related to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN and EUR 220 million related to legal reserves that cannot be freely distributed.

Share capital				
			Ordinary shares (par value EUR 1.13)	
	Number x1,000	**Amount**	Number x1,000	Amount
		2011		2010
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 shares have been issued during 2011 and 2010.

Changes in revaluation reserve					
2011	**Available-for-sale reserve**	**Cash flow hedge reserve**	**Property in own use reserve**	**Real estate invest-ments reserve**	**Total**
Opening balance	**1,746**	**–639**	**350**	**32**	**1,489**
Unrealised revaluations after taxation	**–1,117**		**–14**	**–14**	**–1,145**
Realised gains/losses transferred to profit and loss	**406**				**406**
Changes in cash flow hedge reserve		**–182**			**–182**
Closing balance	**1,035**	**–821**	**336**	**18**	**568**

Notes to the parent company annual accounts of ING Bank continued

Changes in revaluation reserve

2010	Available-for-sale reserve	Cash flow hedge reserve	Property in own use reserve	Real estate invest-ments reserve	Total
Opening balance	2,414	–472	387	159	2,488
Unrealised revaluations after taxation	–375		–37	–127	–539
Realised gains/losses transferred to profit and loss	–293				–293
Changes in cash flow hedge reserve		–167			–167
Closing balance	1,746	–639	350	32	1,489

Retained earnings and Unappropriated result

	Retained earnings		Unappropriated result		Total	
	2011	2010	**2011**	2010	**2011**	2010
Opening balance	**10,334**	9,579	**4,295**	684	**14,629**	10,263
Transfer to retained earnings	**4,295**	684	**–4,295**	–684		
Employee stock options and share plans	**119**	53			**119**	53
Other changes	**–538**	18			**–538**	18
Result for the period			**3,918**	4,495	**3,918**	4,495
Dividend	**–3,000**			–200	**–3,000**	–200
Closing balance	**11,210**	10,334	**3,918**	4,295	**15,128**	14,629

Positive components of the Revaluation reserve, the Share of associates reserve and Currency translation reserve cannot be freely distributed. The reserve for cash flow hedges is included in the revaluation reserve on a net basis. Retained earnings can be freely distributed except for an amount equal to the negative balance in the Currency translation reserve and the Revaluation reserve. Unrealised gains and losses on derivatives, other than cash flow hedges, are presented in the profit and loss account and are therefore part of Retained earnings.

In consolidated annual accounts the revaluations on real estate investments are included in the profit and loss account. For the parent company accounts however, Dutch law requires these revaluations to be included in a Revaluation reserve.

The total amount of non-distributable reserves is EUR 2,172 million (2010: EUR 2,756 million).

Notes to the parent company annual accounts of ING Bank continued

ADDITIONAL INFORMATION
18 MATURITY OF CERTAIN ASSETS AND LIABILITIES

Analysis of certain assets and liabilities by maturity

2011	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	15,283	4,008	4,914	7,397	6,464	29,358	67,424
Loans and advances to customers	39,924	11,511	22,734	73,295	171,217	12,952	331,633
Liabilities							
Amounts due to banks	42,890	11,042	7,372	6,907	15,043	18,553	101,807
Customer deposits and other funds on deposit	146,366	16,346	15,558	9,075	11,356	9,060	207,761
Debt securities in issue	19,719	20,676	9,739	31,333	18,591	10,019	110,077
Subordinated loans	1,634		23	3,605	12,115	1,478	18,855

Analysis of certain assets and liabilities by maturity

2010	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	12,229	3,322	6,294	12,146	18,208	28,638	80,837
Loans and advances to customers	39,986	15,394	29,664	67,924	159,482	14,803	327,253
Liabilities							
Amounts due to banks	26,323	9,649	7,556	13,924	18,011	20,828	96,291
Customer deposits and other funds on deposit	153,833	16,599	9,215	9,394	12,593	11,922	213,556
Debt securities in issue	14,143	26,872	14,694	25,461	10,541	6,860	98,571
Subordinated loans	240	1,150		3,376	15,242	1,405	21,413

19 ASSETS NOT FREELY DISPOSABLE

Assets not freely disposable

	2011	2010
Investments	3	312
Lending	7,704	5,974
Banks	7,573	8,016
Other assets	917	443
	16,197	14,745

20 CONTINGENT LIABILITIES

Contingent liabilities by type

	2011	2010
Discounted bills	1	1
Guarantees	38,254	33,122
Irrevocable letters of credit	6,282	6,764
Other	381	271
Contingent debts	44,918	40,158
Irrevocable facilities	35,612	39,601
	80,530	79,759

Contingent debts

	2011	2010
Group companies	22,770	19,794
Third parties	22,148	20,364
	44,918	40,158

Notes to the parent company annual accounts of ING Bank continued

Irrevocable facilities		
	2011	2010
Group companies	**66**	40
Third parties	**35,546**	39,561
	35,612	39,601

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 29 ‘Related parties’ to the Consolidated annual accounts.

AUTHORISATION OF PARENT COMPANY ANNUAL ACCOUNTS

Amsterdam, 12 March 2012

THE SUPERVISORY BOARD
Jeroen van der Veer, *chairman*
Peter A.F.W. Elverding, *vice-chairman*
J.P. (Tineke) Bahlmann
Henk W. Breukink
Sjoerd van Keulen
Piet C. Klaver
Joost Ch.L. Kuiper
Aman Mehta
Luc A.C.P. Vandewalle
Lodewijk J. de Waal

THE MANAGEMENT BOARD
Jan H.M. Hommen, *chairman*
J.V. (Koos) Timmermans, *vice-chairman*
Patrick G. Flynn, *CFO*
Wilfred F. Nagel, *CRO*
William L. Connelly, *CEO Commercial Banking*
C.P.A.J. (Eli) Leenaars, *CEO Retail Banking Direct and International*
Hans van der Noordaa, *CEO Retail Banking Benelux*

Independent auditor's report

To: the Shareholders, Supervisory Board and the Management Board of ING Bank N.V.

REPORT ON THE ANNUAL ACCOUNTS

We have audited the accompanying annual accounts 2011 of ING Bank N.V., Amsterdam (as set out on pages 16 to 156). The annual accounts include the consolidated annual accounts and the parent company annual accounts. The consolidated annual accounts comprise the consolidated balance sheet as at 31 December 2011, the profit and loss account, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The parent company annual accounts comprise the parent company balance sheet as at 31 December 2011, the parent company profit and loss account for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether about the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated annual accounts

In our opinion, the consolidated annual accounts give a true and fair view of the financial position of ING Bank N.V. as at 31 December 2011 and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the parent company annual accounts

In our opinion, the parent company annual accounts give a true and fair view of the financial position of ING Bank N.V. as at 31 December 2011 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the report of the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the report of the Management Board, to the extent we can assess, is consistent with the annual accounts as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 12 March 2012

Ernst & Young Accountants LLP

signed by C.B. Boogaart

Proposed appropriation of result

amounts in millions of euros, unless stated otherwise

PROPOSED APPROPRIATION OF RESULT

The result is appropriated pursuant to Article 24 of the Articles of Association of ING Bank N.V., the relevant stipulations of which state that the result shall firstly be appropriated to the Stichting Regio Bank Reserve, respectively the Reserve Stichting Vakbondsspaarbank SPN or charged to that reserves in proportion to the ratio between the Stichting Regio Bank Reserve, respectively the Reserve Stichting Vakbondsspaarbank SPN and the company's equity at the end of the relevant financial year and that the remainder shall be at the disposal of the General Meeting.

For 2011, it is proposed to appropriate the result, insofar at the disposal of the General Meeting, to the Other Reserves, so that no final dividend will be paid.

In May 2011 a dividend was paid of EUR 3 billion from Other reserves.

Proposed appropriation of result

Net result	**4,005**
Interim dividend paid	**0**
Addition to reserves pursuant to Article 24 of the Articles of Association	**–87**
Proposed to be added to the Other Reserves pursuant to Article 24 of the Articles of Association	**3,918**

.

Additional Pillar 3 information

amounts in millions of euros euros, unless stated otherwise

INTRODUCTION
This Pillar 3 section includes information that Basel II requires to be made publicly available (unless it has already been provided in the risk management section). The information relates to ING Bank N.V. and all of its subsidiaries. The information contained in this section has not been audited by ING Bank's external auditors.

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

The Dutch government adopted the Capital Requirements Directive (CRD), the European reflection of the Basel II capital accord in December 2006. Since the new regulations adopt a 'risk-based approach' to determine the required capital base, there is a significant difference in the measurement of capital compared to the former rules. Therefore, the Dutch government adopted legislation to implement the new rules in stages.

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

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

Approaches applied by ING Bank
On 1 January 2008, ING Bank adopted the Advanced Internal Ratings Based (AIRB) approach for the majority of its significant portfolios that contain credit risk in accordance with the approvals granted by DNB (Dutch Central Bank), and various local regulators, as required. However, there remains a small portion of the portfolio that is subject to the Standardised Approach (SA). Individually, these portfolios are relatively small, very specialised, or are related to new acquisitions in companies that themselves did not yet follow the AIRB Approach. In some cases, the Standardised Approach is mandated in conjunction with transition restrictions imposed by local regulators. The AIRB and SA approach are explained in more detail in their separate sections, provided below.

During 2011 ING Bank decreased its SA Portfolio by 18% in terms of credit risk exposures. ING Bank continues to work towards reducing the portion of its portfolio which falls under the Standardised Approach.

ING Bank uses the AIRB and the Internal Assessment Approach (IAA) for liquidity lines provided to Asset Backed Commercial Paper programs. For a number of portfolios that are either on an exit strategy or immaterial in terms of size and risk profile, the Standardised Approach is used.

Additional Pillar 3 information continued

REGULATORY CAPITAL REQUIREMENTS

Regulatory capital requirements	2011	2010
Credit risk		
Portfolios subject to standardised approach	**2,455**	2,812
Portfolios subject to advanced IRB approach		
– Central governments and central banks	**234**	107
– Institutions	**1,277**	1,412
– Corporate	**8,664**	8,823
– Residential mortgages	**4,798**	4,799
– Other retail	**1,303**	1,235
Total portfolios subject to advanced IRB approach	**16,276**	16,376
Securitisation exposures	**1,489**	1,227
Equity portfolios in the banking book under the simple risk weight approach	**207**	310
Other Non-Credit Obligation Assets (ONCOA)*	**2,046**	1,727
Total credit risk	**22,473**	22,452
Market risk		
Standardised approach	**34**	137
Internal models approach - trading book	**1,090**	227
Total market risk	**1,125**	364
Operational risk		
Advanced measurement approach	**2,836**	2,872
Total Basel II required Regulatory Capital	**26,434**	25,688
Basel I floor**	**31,107**	29,870
Additional capital requirement (due to floor)	**4,673**	4,182

* Includes the securitisation benefits of the SA, AIRB and securitisation portfolios, amounting to EUR 22 million for 2011.
** The floor is 80% of Basel I required Regulatory Capital.

In order to prevent large short-term effects on capital requirements, the regulators introduced transition rules (the ‘capital floor’) for institutions implementing the new capital adequacy reporting. For 2011 and 2010 the capital requirement was not allowed to fall below 80% of the capital requirements calculated under Basel I regulations. The additional capital requirements according to the transition rules are EUR 4,670 million for 2011 (EUR 4,182 million in 2010).

The required regulatory capital shown in this section should be compared to the available regulatory capital for which details can be found in the Capital Management section under the heading ‘Regulatory Capital’.

CREDIT RISK

BASIS OF PRESENTATION FOR CREDIT RISK

For credit risk, data included in these tables is related to ING Bank’s core credit risk activities in the areas of: Securities Financing, Derivatives (collectively Pre-Settlement Risk); Money Market activities (including reserve deposits at Central Banks); Lending (both on and off balance sheet); and Investment risks.

The amounts presented in this section relate to amounts used for credit risk management purposes, which follow ING Bank’s interpretation of the definitions as prescribed under the Basel II accords. Therefore, the numbers are different than the accounting numbers as reported in the annual accounts under IFRS-EU. Figures for Derivatives and Securities Financing are based on ‘risk weighted amounts’, which generally is equal to the mark-to-market value of the underlying trades plus a (regulatory defined) ‘add-on’ which represents estimated potential future exposure. The amounts are then further modified by an adjustment that is related to the underlying collateral (market) values (after a haircut is applied) and any legal netting or compensation that may be permitted under various master agreement arrangements, such as ISDAs, CSAs, GMLAs, etc.

Additional Pillar 3 information continued

Figures associated with Money Market activities are generally the nominal amounts, while amounts associated with Investment and Lending activities are based on the original amount invested less repayments. Off-Balance Sheet exposures include the letters of credits and guarantees, which are associated with the Lending Risk Category. Additionally, Off-Balance Sheet exposures include a portion of the unused limits, associated with the statistically expected use of the unused portion of the limit between the moment of measurement and the theoretical moment of statistical default. Collectively, these amounts are called 'credit risk oustandings'.

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

Unless otherwise stated, the tables included in this Section focus on the measurement of Exposure at Default (EAD) and Risk Weighted Assets (RWA) under the Basel II definitions. EAD is generally the sum of the on-balance and off-balance sheet lending, investment and money market activities plus an estimated portion of the unused credit facilities extended to the obligor. Additionally, the risk weighting amounts (plus add-ons) are included. Multiplying RWA by 8% will result in the level of Regulatory Capital (RECAP) that is required to be held against these portfolios (for the credit risk portion of the activities).

PILLAR 3 CREDIT RISK IN PRACTICE
The Basel II Accord not only changes the way ING Bank reports its credit risk for regulatory purposes; it also affects the daily operations and practices of all types of risk management at all levels within ING Bank.

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

RISK MEASUREMENT AND REPORTING
ING Bank distinguishes three separate information requirements from senior management related to the Advanced IRB (AIRB) approach for credit risk:

- Reporting on (minimum) regulatory capital requirements;
- Model monitoring reports; and
- Stress testing reports.

The acceptance, maintenance, measurement, management and reporting of credit risks at all levels of ING Bank is accomplished through promotion of single, common credit risk data standards and the integration into common credit risk tools that support standardised and transparent credit risk practices.

Additional Pillar 3 information continued

Exposure Classes

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

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

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

Gross credit risk exposures (EAD) by exposure class

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
Standardised Approach	3,505	1,915	14,184	11,627	11,696	42,927	52,229
Advanced IRB Approach	107,640	100,507	272,415	339,266	37,474	857,302	815,408
Total	111,145	102,422	286,599	350,893	49,170	900,229	867,637

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

The figures presented in the table below are EAD based on the country of the residence of the obligor. As such, these figures do not represent the risk associated with a country transfer risk event, such as a restriction on the convertibility of local currency into internationally tradable currencies. Nor do these figures represent the economic exposure that is present in a given country. Figures associated with ING Bank's transfer risk positions and economic country risk exposure can be found in risk management section, including their corresponding definitions.

Gross credit risk exposures (EAD) by geographic area

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
Netherlands	36,922	2,857	74,631	147,158	18,375	279,943	262,701
Belgium	13,589	5,930	32,228	27,794	10,257	89,798	81,296
Other Europe	44,321	63,877	105,205	85,707	18,743	317,853	316,932
Americas	10,429	10,149	45,859	54,257	1,023	121,717	116,255
Asia / Pacific	5,540	19,024	27,659	35,019	752	87,994	87,700
ROW	344	585	1,017	958	20	2,924	2,753
Total	111,145	102,422	286,599	350,893	49,170	900,229	867,637

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

The figures presented below are based on the Basel II defined EAD, and differ from the industry distribution figures that are presented in the annual accounts. Note that all other sectors have exposures that are less than EUR 15.0 billion.

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

Additional Pillar 3 information continued

Gross credit risk exposures (EAD) by economic sector

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
Private Individuals		4	366	350,893	18,567	369,830	348,401
Commercial Banks	2,189	80,135	1,514		30	83,868	89,434
Central Governments	56,292	8			926	57,226	62,716
Real Estate		75	53,913		3,148	57,136	58,807
Non-Bank Financial Institutions		10,846	44,980		844	56,670	65,861
Central Banks	42,638				1	42,639	19,558
Natural Resources			40,951		698	41,649	37,115
Services		22	17,166		6,066	23,254	22,550
Transportation & Logistics			23,770		1,645	25,415	23,075
General Industries			17,029		3,277	20,306	18,871
Lower Public Administration	9,996	10,281	9		105	20,391	22,828
Food, Beverages & Personal Care			17,349		3,133	20,482	19,704
Builders & Contractors			14,042		3,193	17,235	16,496
Chemicals, Health & Pharmaceuticals		197	13,645		1,457	15,299	15,101
Other	30	854	41,865		6,080	48,829	47,117
Total	111,145	102,422	286,599	350,893	49,170	900,229	867,634

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

Basel II does not include a cash flow methodology that would look at future portfolio runoff. The table below, therefore, presents figures that are based on credit risk outstandings, and not EAD. Credit Risk outstandings include amounts associated with both on and off balance sheet products, but exclude amounts related to unused limits. For derivatives and securities financing, the mark-to-market plus add-on methodology is applied, but the add-ons are generally less conservative than the add-ons applied under the Basel II definitions.

Outstandings by Tenor Bucket (based on credit risk outstandings)

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
Current Outstandings	108,176	102,111	243,461	338,171	36,650	828,569	793,230
1 month	105,034	101,350	239,136	337,763	36,074	819,358	779,117
3 month	78,032	87,499	226,594	337,577	35,821	765,521	726,881
6 month	57,886	72,221	211,026	335,982	34,263	711,378	704,255
1 year	49,736	65,983	175,297	332,056	24,973	648,046	645,977
2 years	44,236	54,281	144,051	325,936	22,183	590,686	585,740
3 years	41,187	46,108	116,301	317,741	19,079	540,416	537,145
5 years	33,933	34,478	75,578	292,371	14,018	450,378	442,294
7 years	28,667	26,075	53,736	280,705	10,787	399,969	387,148
10 years	9,395	13,731	42,375	250,232	8,112	323,845	305,657

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

The figures above assume that loans, money market and investments in fixed income securities are fully repaid at their maturity dates and that limits are reduced in conjunction with repayment schedules contained in the associated loan documentation, without regard for potential renewal or extension, or portfolio sales or acquisitions. Pre-Settlement risks are assumed to reduce over the legal maturity of the underlying transactions. However, under mark-to-market plus add-on methodology, it is possible for exposures to increase in time, rather than decrease. This is a function of ING Bank's estimates of future interest rates and foreign exchange rates, as well as potential changes in future obligations that may be triggered by such events. Generally, credit risk outstandings are lower than EAD.

Further, all figures assume that no new credit risks are introduced into the portfolio and that there are no delays in repayments associated with problem loans, nor are there write offs associated with provisions. The portfolio runoff is implied by the difference in the figures between two periods.

Additional Pillar 3 information continued

LOAN LOSS PROVISIONS

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

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

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

Cumulative Provisions by economic sector

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
Private Individuals			3	1,238	364	1,605	1,549
Real Estate			729		35	764	571
General Industries			399		60	459	464
Transportation & Logistics			398		44	442	316
Food, Beverages & Personal			336		88	424	397
Builders & Contractors			310		84	394	394
Services			274		92	366	340
Non-Bank Financial Institutions		7	220		16	243	283
Retail			124		59	183	185
Natural Resources			143		9	152	167
Automotive			104		21	125	123
Chemicals, Health & Pharmaceuticals			102		14	116	104
Telecom			85		2	87	49
Media			55		19	74	125
Other	4	31	28		36	99	128
Total	4	38	3,310	1,238	943	5,533	5,195

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

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

Cumulative Provisions by geographic area

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
Netherlands	1		1,003	172	333	1,509	1,324
Belgium			323	48	187	558	479
Other Europe	1	19	1,287	401	364	2,072	2,063
Americas		4	353	579	4	940	961
Asia / Pacific	1	14	343	36	54	448	362
Rest of World	1	1	1	2	1	6	6
Total	4	38	3,310	1,238	943	5,533	5,195

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

Additional Pillar 3 information continued

The tables above should be read in conjunction with the corresponding tables below related to Past due loans by geographic area and Past due loans by economic sector as well as information and statements in the annual accounts.

Economic sectors not shown in below table have past due loans of less than EUR 150 million, and are grouped under Other.

Past due loans by economic sector (based on outstandings)

	Residential mortgages	Other Retail	Total 2011	Total 2010
Private Individuals	**6,098**	**270**	**6,368**	5,371
Other		**281**	**281**	267
Total	**6,098**	**551**	**6,649**	5,638

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

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

Past due loans by geographic area (based on outstandings)

	Residential mortgages	Other Retail	Total 2011	Total 2010
Netherlands	**2,054**	**1**	**2,055**	1,795
Belgium	**1,238**	**262**	**1,500**	1,227
Other Europe	**435**	**241**	**676**	685
Americas	**464**	**1**	**465**	510
Asia / Pacific	**1,884**	**46**	**1,930**	1,407
Rest of World	**23**	**0**	**23**	14
Total	**6,098**	**551**	**6,649**	5,638

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

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

The figures above are based on credit risk outstandings, and not EAD. Credit Risk outstandings include amounts associated with both on and off balance sheet products, but exclude amounts related to unused limits. For derivatives and securities financing, the mark-to-market plus add-on methodology is applied, but the add-ons are generally less conservative than the add-ons applied under the Basel II definitions.

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

At 31 December 2011, the loan loss provision shortfall (before tax) was: EUR 1,436 million. The relative level of loan loss shortfall compared to actual provisioning levels will generally increase in periods where loan loss provisions are decreasing and will decrease in periods where loan loss provisions are increasing.

Additional Pillar 3 information continued

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

Exposures (EAD) before and after risk mitigation

	Exposure before risk mitigation	Exposure after risk mitigation	Exposure before risk mitigation	Exposure after risk mitigation
		2011		2010
Risk buckets used:				
0%	**497**	**497**	6,281	6,281
10%				
20%	**148**	**148**	7,628	7,628
35%	**11,090**	**11,090**	7,565	7,565
50%	**6,370**	**6,369**	9,312	9,312
75%	**16,608**	**16,390**	17,961	17,357
100%	**23,672**	**23,502**	33,930	33,686
150%	**565**	**565**	704	704
200%				
1250%				

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

Under the standardised approach there are two principal methods for reducing or mitigating credit risk:
a) Reduction of credit risk through the acceptance of pledged financial assets as collateral, such as marketable securities or cash; or
b) Mitigation or shifting of credit risks to a lower risk weighting group by accepting guarantees from unrelated third parties.

PORTFOLIOS UNDER THE AIRB APPROACH
The IRB Method in short
There are four elements which drive the Basel II 'risk-based approach' to the determination of the capital base. For each of these elements, ING Bank has developed a series of statistical, expert and hybrid models based on ING Bank's historical experience and other market observations.

- **Probability of Default (PD):** The first is the borrower's, counterparty's, or issuer's (collectively referred to as the 'obligor') probability of default, which measures an obligor's creditworthiness in terms of likelihood to go into default. The result of this calculation attempts to measure the senior, unsecured standalone creditworthiness of an organisation without consideration of structural elements of the underlying transactions, such as collateral, pricing, or maturity.

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

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

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

Additional Pillar 3 information continued

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

$$EL = PD * EAD * LGD$$

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

Basel II uses these same components (expected loss and unexpected loss) conceptually in the determination of the Risk Weighted Assets (RWA). Like EL, RWA takes PD, EAD, and LGD into account, but also includes variables associated with the type of obligor and its size.

The PD, EAD and LGD models that are used in the calculation of Basel II regulatory capital are the same models that ING Bank uses in the determination of its internally based economic capital models. Additionally, these models are used for loan pricing and customer profitability calculations, as well as forming the foundation for loan loss provisioning calculations.

Credit Risk Models

ING Bank considers a well-balanced and controlled set of rules around model development, maintenance and validation to be an essential component for professional risk measurement and risk management. ING Bank uses a Credit Risk Model Governance framework, which consists of a set of extensive guidelines and requirements to which all stakeholders must adhere when developing, implementing and maintaining PD, LGD and EAD models.

Types of Credit Risk Modelling

Within ING Bank, there are three types of modelling which form the foundation of the PD, EAD and LGD models used throughout the bank.

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

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

Independent Model Validation is one of the cornerstones of this framework. It consists of the process of determining that a model is appropriate for its intended use. It is an ongoing process whereby the reliability of the model is verified at different stages during its lifecycle: at conception, before approval, periodically after implementation, and when significant changes are made to the model. The validation process contains a mix of developmental evidence, process verification and outcome analysis.

RISK RATING PROCESS

In principle all Risk Ratings are based on a Risk Rating (PD) Model that complies with the minimum requirements detailed in the CRD, the DNB Supervisory Rules and CEBS guidelines. This concerns all Obligor Types and Segments, including Countries.

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

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

Additional Pillar 3 information continued

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

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

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

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

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

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

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

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2011	2010
AAA	**22,202**	**3,662**	**670**	**4,982**	**1,143**	**32,659**	23,276
AA	**71,594**	**16,718**	**13,673**	**4,991**	**440**	**107,416**	95,019
A	**10,022**	**49,540**	**39,415**	**36,655**	**2,608**	**138,240**	136,827
BBB	**1,866**	**22,931**	**91,940**	**157,203**	**12,710**	**286,650**	277,112
BB	**1,496**	**6,091**	**81,956**	**99,713**	**13,435**	**202,691**	195,124
B	**284**	**575**	**29,349**	**24,433**	**3,733**	**58,374**	58,175
CCC & Problem Grade	**176**	**990**	**15,412**	**11,289**	**3,405**	**31,272**	29,875
Total	**107,640**	**100,507**	**272,415**	**339,266**	**37,474**	**857,302**	815,408

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

Over 95% of ING Bank's credit risks have been rated using one of the in-house developed PD rating models. Within the AIRB Portfolio, the level of Basel II ratings exceeds 99% coverage by exposure. Bankwide, ING Bank has implemented more than 100 rating models, including various submodels that may be applicable. Some of these models are universal in nature, such as models for Large Corporates, Commercial Banks, Insurance Companies, Central Governments, Local Governments, Funds, Fund Managers, Project Finance, and Leveraged Companies. While other models are more regional or country specific, such as PD models for SME companies in Central Europe, the Netherlands, Belgium, Luxembourg, and the United Kingdom, as well as residential mortgage and consumer loan models in the various retail markets.

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

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

Additional Pillar 3 information continued

RWA by PD grade under the advanced IRB approach

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2011	2010
AAA	211	249	39	117	96	712	664
AA	41	1,576	1,703	95	37	3,452	4,093
A	782	5,464	8,351	1,143	287	16,027	14,057
BBB	462	4,240	28,246	12,022	2,800	47,770	46,135
BB	973	3,258	36,856	17,836	6,140	65,063	63,198
B	49	690	18,358	17,024	2,804	38,925	41,767
CCC & Problem Grade	406	489	14,745	11,732	4,123	31,495	34,783
Total	2,924	15,966	108,298	59,969	16,287	203,444	204,699

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

The table below represents the weighted average LGD for each of the represented combination of PD Grade and Exposure Class. For example, the weighted average LGD for an AAA rated Corporate is 22%, while the weighted average LGD for a BBB rated Corporate is 26%. LGD percentages are influenced by the transactional structure of the financial obligation, the related collateral or covers provided, and the country in which the collateral (if any) would have to be recovered.

Average LGD by PD Grade under the advanced IRB approach

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

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

In certain cases, the portfolio size is relatively small, which can also have an effect on the weighted average LGD in a given PD Grade and Exposure Class. Therefore, this table should be read in conjunction with the previous table (Exposures (EAD) by PD grade).

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

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

Additional Pillar 3 information continued

Undrawn Commitments	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2011	2010
Standardised Approach	2	92	812	620	5,899	7,425	8,414
Advanced IRB Approach	273	1,804	58,489	10,807	12,141	83,514	78,157
Total	275	1,897	59,301	11,427	18,040	90,939	86,571

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

From time to time, ING Bank extends loans for which it receives a specific financial guarantee from a non-related counterparty or obligor. The figures in the table below represent the EAD that has been guaranteed by these non-related parties. It does not include non-guaranteed amounts. For example, if a given credit risk is only partially guaranteed by a third party then only the portion of the amount which is guaranteed is included in the figures below. These figures exclude any guarantees which are received from a party related to the obligor, such as a parent or sister company. The figures also exclude any guarantees that may be implied as a result of credit default swap activities. Additionally, amounts that have been guaranteed as part of a government-sponsored mortgage program are also excluded. The figures below do include amounts that are guaranteed through an unfunded risk participation construction.

Exposures secured by third party guarantees received	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2011	2010
Standardised Approach			1,156		6	1,162	1,488
Advanced IRB Approach	2,726	9,082	29,481	503	4,013	45,805	40,919
Total	2,726	9,082	30,637	503	4,019	46,967	42,407

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

The following four tables are calculated using the mark-to-market plus (Regulatory) add-on methodology used for calculating Basel II RWA for determining the gross exposures. This methodology allows ING Bank to classify virtually all of its derivatives exposures under the AIRB approach.

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

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

Additional Pillar 3 information continued

Counterparty credit risk outstandings from derivatives (SA and AIRB)

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
Credit Derivatives	21	444	336			801	1,290
Derivatives		89	151			240	68
Equity Derivatives		853	1,331		13	2,197	2,463
Foreign Exchange Derivatives	308	2,454	2,387		6	5,155	4,140
Interest Rate Derivatives	917	14,824	9,228		55	25,024	21,429
Commodity derivative		79	192		1	272	92
Exchange Traded Products			2,852			2,852	9,338
Total	1,246	18,743	16,477		75	36,541	38,820

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

Counterparty credit risk outstandings from derivatives (SA and AIRB)

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
Gross positive MTM before netting and collateral	4,315	66,984	52,113		75	123,487	101,156
Mark to market (MTM) after netting	1,246	18,743	16,477		75	36,541	38,820
MTM after netting and collateral	1,225	13,451	15,178		75	29,929	34,546

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

Counterparty credit risk outstandings from securities financing (SA and AIRB)

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
Bond Financing Given	1,253	3,083	1,840			6,176	4,008
Equity Financing Given		1,654	3,212			4,866	4,753
Bond Financing Taken	134	219	1,794			2,147	2,070
Equity Financing Taken		638	972			1,610	2,312
Total	1,387	5,594	7,818			14,799	13,143

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

Counterparty credit risk outstandings from securities financing (SA and AIRB)

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2011	Total 2010
Gross positive MTM before netting and collateral	2,315	14,671	20,707			37,693	32,775
Mark to market (MTM) after netting	1,387	5,594	7,818			14,799	13,143
MTM after netting and collateral	1,387	2,434	5,416			9,237	8,970

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

Additional Pillar 3 information continued

CREDIT RISK MITIGATION

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

The figures below represent the notional amount of credit risk default swaps that ING Bank has entered into for the represented purpose. The credit risk on the counterparties associated with credit default swap protection bought is included in the pre-settlement risk calculations for the given counterparty, and not in the figures below. For credit default protection sold, ING Bank incurs synthetic issuer risk, on which capital is calculated, depending on its purpose, either hedging or trading.

Credit default swaps

	2011	2010
Credit derivatives used for hedging purposes		
– credit protection bought	**897**	849
– credit protection sold		
Credit derivatives used for trading activities		
– credit protection bought	**23,729**	29,389
– credit protection sold	**24,338**	27,944

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

LOAN TO VALUE RESIDENTIAL MORTGAGES

Loan-to-Value Residential Mortgages per country

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

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

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

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

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

Additional Pillar 3 information continued

SECURITISATIONS

Scope

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

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

Valuation and accounting policies

ING Bank's activities regarding securitisations are described in Note 24 ‘Special Purpose Entities and Securitisation’ in the annual accounts. The applicable accounting policies are included in the section ‘Accounting policies for the consolidated annual accounts of ING Bank’ in the annual accounts. The most relevant accounting policies for ING Bank’s own originated securitisation programmes are ‘Derecognition of financial assets’ and ‘Consolidation’. Where ING Bank acts as investor in securitisation positions, the most relevant accounting policy is ‘Classification of financial instruments’.

Regulatory capital method used and Rating Agencies

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

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

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

ING Bank as Investor

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

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

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

Current Securitisation Exposures

The following table gives the break down of current exposures by weight bands. The amount of securitisation positions purchased from third parties are based on the regulatory exposure values calculated according to the CRD after consideration of credit conversion factors (CCFs) where applicable as used for the purpose of Pillar 1, but prior to the application of credit risk mitigants on securitisation positions.

Additional Pillar 3 information continued

Current exposures per risk weight band (ING as Investor)	2011	2010
Risk weight band 1 <= 10%	**11,888**	19,607
Risk weight band 2 >10% and <= 18%	**16,680**	13,761
Risk weight band 3 >18% and <= 35%	**2,053**	1,029
Risk weight band 4 >35% and <= 75%	**143**	343
Risk weight band 5 >75% and <1250%	**2,408**	2,371
Risk weight 1250%	**547**	353
Total	**33,719**	37,464

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

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

  The first transactions (Moon and Memphis 2003) were repaid in 2008 with no loss for the investors. Mars 2004 repaid in 2009 with no loss to investors either. As of 31 December 2011, four transactions totalling approximately EUR 11.7 billion (Mars 2006 and BEL SME 2006 on SME exposures, Memphis 2005 and Memphis 2006 on residential mortgages) remain outstanding, as further detailed below. Memphis 2006 transfers risk on high Loan to Value (LTV) Dutch mortgages.

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

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

  As long as the securitisation exposures created are not transferred to third parties, the regulatory capital remains unchanged. These are not detailed hereunder. Apart from the structuring and administration costs of these securitisations these securitisations are profit / loss neutral.

Exposures securitised as originator- All securitisations reported in this section are synthetic securitisations used to transfer risk to third parties. Transactions for liquidity/funding purpose are not included.
The determination of impairments and losses occurs at least every quarter at the cut-off date applicable to each specific transaction. Figures as of 31 December are used whenever available.

Exposures securitised

	Cut-off Date	Initial Pool	Outstandings	Credit Events	Past due Assets	Losses
2011						
Residential Mortgages						
Memphis 2005	31-Oct-11	**3,000**	**2,403**	**2**	**50**	**1**
Memphis 2006	31-Oct-11	**4,000**	**3,904**	**12**	**196**	**7**
		7,000	**6,307**			
SME						
Mars 2006	30-Sep-11	**4,500**	**4,354**	**25**	**301**	**13**
BEL SME 2006	30-Nov-11	**2,500**	**1,043**	**15**	**5**	**3**
Total		**7,000**	**5,397**			

Additional Pillar 3 information continued

Exposures securitised

2010	Cut-off Date	Initial Pool	Outstan-dings	Credit Events	Past due Assets	Losses
Residential Mortgages						
Memphis 2005	31-Oct-10	3,000	2,584	1	43	<1
Memphis 2006	31-Oct-10	4,000	3,892	7	162	1
		7,000	6,476			
SME						
Mars 2006	30-Sep-10	4,500	3,818	47	9	8
BEL SME 2006	30-Nov-10	2,500	1,455	29	37	4
Total		7,000	5,273			

Notes:

Cut-Off Date: Most recent date in respect of which determination and allocation of losses have been made pursuant to the legal documentation of the transaction. Information on the performance of ING's securitised exposures is published regularly.

Outstandings: EAD on 31 December of assets that were performing on the Cut-off date.

Credit Events: Aggregate outstandings of assets subject to a credit event reported in the 12 months period ending on the Cut-off date.

Past Due Assets: Outstandings on the Cut-off date of assets that are past due, but not in credit event on that date, as more fully detailed in the quarterly reports. Past due for residential mortgage transactions means ‘more than 1 monthly payment in arrears’. Past due for SME deals means ‘reference entities that are rated 20-22’ .

Losses: Aggregate losses on securitised assets; reported in the 12 months period ending on the Cut-off date.

Retained Securitisation Exposures

Retained exposures on securitisation of ING Bank’s own assets include the most senior tranches and the equity piece (first loss) of Memphis 2005. Economically, on a total of about EUR 11.7 billion underlying exposures in the four transactions mentioned above, ING Bank has retained approximately EUR 7.4 million of first loss exposure and has transferred approximately EUR 1.1 billion of mezzanine and equity tranches (first and second loss) to third parties.

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

ING Bank as Sponsor

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

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

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

Exposures Securitised as Sponsor

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

Securitisation in the trading book

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

Additional Pillar 3 information continued

OTHER NON-CREDIT OBLIGATION ASSETS

Other Non-Credit Obligation Assets (ONCOA) represent assets of non credit obligation character that are not included in the SA or AIRB calculations. Capital requirement for ONCOA as of 31 December 2011 is EUR 2,064 million (2010: EUR 1,727 million).

232445

ING Bank N.V.
Bijlmerplein 888
1102 MG Amsterdam-Zuidoost
P.O. Box 810, 1000 AV Amsterdam
The Netherlands
Telephone: +31 20 5639111
Fax: +31 20 5760950
Internet: www.ing.com

Commercial Register of Amsterdam, no. 33031431

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C005670

CO_2 neutral
We print CO_2 neutrally
© Drukkerij Tesink

Printed with
Bio ink & varnish
© Drukkerij Tesink