ING

ING Bank Annual Report
2010

ING Bank
2010 Annual Report

Contents

1 Who we are

Management 3
ING at a glance 4

2 Report of the Management Board

ING Bank 5
- Overview 5
- Retail Banking 7
- Commercial Banking 8
- Profit retention and distribution policy 9
Corporate Governance Statement 10
Dutch Banking Code 10
Conformity statement 11

3 Governance

Report of the Supervisory Board 12

4 Consolidated annual accounts

Consolidated balance sheet 14
Consolidated profit and loss account 15
Consolidated statement of comprehensive income 16
Consolidated statement of cash flows 17
Consolidated statement of changes in equity 18
Accounting policies for the consolidated annual accounts 20
Notes to the consolidated annual accounts 35
Risk management 101
Capital management 133

5 Parent company annual accounts

Parent company balance sheet 136
Parent company profit and loss account 137
Parent company statement of changes in equity 138
Accounting policies for the parent company annual accounts 139
Notes to the parent company annual accounts 140

6 Other information

Independent auditor's report 150
Proposed appropriation of result 151

7 Additional information

Additional Pillar 3 information 152

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 2010

Jan H.M. Hommen (67), chairman
Eric F.C.B. Boyer de la Giroday (58), vice-chairman
Patrick G. Flynn (50), chief financial officer
J.V. (Koos) Timmermans (50), chief risk officer
C.P.A.J. (Eli) Leenaars (49), CEO Retail Banking Direct and International
Hans van der Noordaa (49), CEO Retail Banking Benelux

As of 1 January 2011, Mr. William L. Connelly (53) was appointed to the Management Board Banking as CEO Commercial Banking.

SUPERVISORY BOARD

Composition on 31 December 2010

Peter A.F.W. Elverding (62), chairman
Jeroen van der Veer (63), vice-chairman
J.P. (Tineke) Bahlmann (60)
Henk W. Breukink (60)
Claus Dieter Hoffmann [1] (68)
Piet C. Klaver (65)
Godfried J.A. van der Lugt [2] (70)
Aman Mehta (64)
Joan E. Spero (66)
Jackson P. Tai [3] (60)
Lodewijk J. de Waal (60)

[1] Retirement as of 9 May 2011.
[2] Resigned on 24 January 2011.
[3] Resigned on 6 January 2011.

ING at a glance

ING BANK IS PART OF ING GROUP

ING GROUP

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

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 an international retail, direct and commercial bank, while creating an optimal base for an independent future 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. We believe the widespread demand for greater simplicity, reliability and transparency makes this the best course of action. In the future, ING Bank 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. ING Insurance has a strong position as a global provider of life insurance and retirement services. While moving towards the public offerings of a Europe-led and a US-focused business, ING Insurance will initially concentrate on further improving its operational performance. Both the Bank and the Insurer will focus on earning our customers' trust through transparent products, value for money and superior service. This reflects ING's 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. ING strives to be a good corporate citizen.

Our corporate responsibility
ING wants to build its future on sustainable profit based on sound business ethics and respect for its stakeholders and be a good corporate citizen. For only by acting with professionalism and integrity, will we be able to 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.

ING BANK

ING Bank is active through two Business Lines: Retail Banking (including ING Direct) and Commercial Banking.

Retail Banking
Retail Banking provides retail and private banking services to individuals and small and medium-sized enterprises in the Netherlands, Belgium, Luxembourg, Poland, Romania, Turkey, India, Thailand and China (through a stake in Bank of Beijing) with a multi-product, multi-channel distribution approach. In mature markets, we focus on wealth accumulation, savings and mortgages, with an emphasis on operational excellence, cost leadership and customer satisfaction. In developing markets we aim to become a prominent local player by offering simple but high quality products. ING Direct offers direct banking services in Canada, Spain, Australia, France, the US, Italy, Germany, the UK and Austria. ING Direct's focus is on offering five simple and transparent retail banking products at very low cost: savings, mortgages, payment accounts, investment products and consumer lending.

Commercial Banking
Commercial Banking offers core banking services such as lending, payments and cash management in more than 40 countries. It provides clients with tailored solutions in areas including corporate finance, structured finance, commercial finance, equity markets, financial markets and leasing. Clients are corporations – ranging from medium-sized and large companies to major multinationals – as well as governments and financial institutions.

ING Bank

OVERVIEW

ING Bank N.V., together with ING Verzekeringen N.V., is part of ING Groep N.V. The business lines for the banking activities are Retail Banking (including ING Direct) and Commercial Banking.

From 1 January 2010, the banking activities are divided into two main business lines: Retail Banking and Commercial Banking. Retail Banking is composed of Retail Netherlands, Retail Belgium, ING Direct, Retail Central Europe and Retail Asia. Commercial Banking also manages ING Real Estate.

ING Bank is a large international player with an extensive global network in over 40 countries. It has strong established positions in the Netherlands, Belgium and Luxemburg and key positions in Poland, Romania and Turkey, the largest Central and Eastern Europe markets. ING Bank holds strong positions in Germany, France, Italy, Spain, the UK and the US. The bank also has profitable business in Canada and Asia-Pacific and has an extensive international network to service and support its corporate clients.

ING evaluates its banking activities on an underlying result basis. Underlying numbers are derived from IFRS-EU numbers, excluding the impact of divestments and special items. A reconciliation of net result to underlying result can be found in Note 43 'Operating Segments'.

FINANCIAL RESULTS

Underlying result before tax (excluding the impact of divestments and special items) increased more than fourfold to EUR 6,016 million from EUR 1,596 million in 2009. This strong improvement was driven by volume growth, strengthening of the interest margin, lower negative market-related impacts and a more normalised level of risk costs. Almost all business segments contributed to the increase. ING Direct and ING Real Estate benefited from the signs of stabilisation in the property markets: ING Direct posted an underlying result before tax of EUR 1,450 million after a loss in 2009, while ING Real Estate reduced its loss by EUR 924 million to EUR 63 million in 2010.

The total result before tax rose to EUR 5,983 million in 2010 compared with a profit of EUR 500 million in 2009. The profit in 2009 included EUR –623 million of special items, mainly related to the net impact of transaction result on the Illiquid Assets Back-up Facility and charges for the merger of the retail banking activities in the Netherlands, and EUR –473 million of operating pre-tax results from divested units. In 2010, the divestment of the Swiss and Asian Private Banking activities and the sale of Summit in Canada resulted in a pre-tax gain of EUR 389 million, while the operating pre-tax results from these units amounted to EUR 34 million. Special items in 2010 were EUR –456 million, mainly related to various restructuring programmes, including the merger of the Dutch retail banking activities, and costs related to the separation of Banking and Insurance.

Underlying income rose 27.0% to EUR 17,465 million. The interest result increased 7.0%, driven by higher volumes and margins. In 2010, total client balances rose by EUR 60 billion to EUR 1,168 million. The total interest margin improved to 1.44% from 1.34% in 2009, mainly in Retail Banking. Commission income increased 2.7% driven by higher Structured Finance fees. Investment and other income was EUR 1,215 million compared with EUR –1,538 million in 2009, as impairments on debt securities and negative revaluations on real estate diminished combined with higher capital gains.

Underlying operating expenses increased by 4.3% to EUR 9,698 million, reflecting higher staff costs, increased marketing expenses and deposit guarantee scheme costs as well as higher IT project costs. The underlying cost/income ratio improved to 55.5% from 67.6% in 2009, driven by higher income. Excluding market-related impacts, the cost/income ratio was 53.8% in 2010.

The underlying net addition to the provision for loan losses declined to EUR 1,751 million from EUR 2,859 million in 2009. Risk costs in 2010 were 53 basis points of average risk weighted assets compared with 85 basis points in 2009.

BUSINESS DEVELOPMENTS

ING Bank reported its best ever results in 2010 helped by improving market conditions. Risk costs started to revert to a lower level than originally envisaged as macroeconomic conditions started to improve. Competition overall was less intense than in 2009 improving returns on savings. However, volume growth remained subdued in lending to mid-corporates and SMEs.

ING Bank delivered on all of the Back to Basics objectives set in early 2009 and achieved significant commercial success in 2010. It increased the number of clients, launched new products and completed important deals. Customer satisfaction increased across the bank.

ING Bank actively participated in developing the new Banking Code established by the Dutch Banking Association (NVB). The Code is based on the 'Restoring Trust' report published by the Advisory Committee of the Future of Banks set up by the NVB (see for more information the publication 'Application of the Dutch Banking Code by ING Bank N.V.' on the website of ING: www.ing.com).

ING Bank continued

ING Bank closely monitors external trends that are likely to have a high impact on its business. The new Basel III framework announced in 2010 will affect our leverage, capital, funding and liquidity. The world economy remains challenging and there are continuing concerns about the stability of the eurozone. Economic power is shifting to the East and emerging markets where growth is stronger. Liquidity is scarce, capital markets remain volatile and risk appetite is limited. Competition will be increasingly fought on price and service quality. Relationships between banks and their customers are changing, with customers wanting easier access to services and products, and more transparency.

ING Bank has assessed these trends and synthesised the implications for its business model. The external environment and constraints related to ING's restructuring plan submitted to the European Commission, and the repayment of Dutch State aid require us to follow a prudent approach to optimise our limited resources.

Throughout 2009 and 2010 ING has been working towards a complete separation of its banking and insurance/investment management businesses in preparation for the eventual divestment of the latter in 2013.

In 2010, all banking operations were integrated into one banking organisation and from 1 January 2011 ING Bank began to operate as a stand-alone company. A separate Management Board Banking was installed and balance sheet integration is well under way. Balance sheet integration will play a major role in improving profit and loss and adapting to the changing regulatory requirements, particularly those relating to solvency, liquidity and balance sheet leverage. ING Bank's prudent approach will include a continued focus on cost containment, a strong capital position in line with market expectations and a further reduction of risk.

Now that the bank has been operationally separated it will concentrate on building a more agile and customer-centric business. ING Bank will serve consumers, corporate clients and institutions with one balance sheet, one consistent brand, one management structure and one support organisation. It will follow a selective approach to growth by bringing loan growth in line with deposit growth.

PREFERRED BANK FOR OUR CUSTOMERS

During the year ING Bank made significant progress in many areas. Customer centricity was enhanced by introducing a number of new products, services and initiatives. This included initiatives to more pro-actively and systematically measure and monitor customer satisfaction. Furthermore, ING Bank has taken steps to ensure that every customer gets the right products and services, via the right distribution channels, and at the right returns or costs. All our employees' efforts are focused on deepening customer relationships.

ING Bank's ambition is 'to be the preferred bank for our customers'. This means that we want our customers to consider ING Bank first for all their financial requirements. To achieve that we will concentrate on three shared priorities: customer centricity, operational excellence and be a top employer.

Each banking business made tangible progress in these areas during the year. For example, we introduced a Customer Suitability programme which checks whether products should be adjusted to better meet customer needs. We introduced TIM, an online budgeting tool that allows customers to categorise their transactions in their online accounts and more easily keep track of their finances. We launched a service for start-up companies to open a business account, including a debit card, pin and online banking, in just 20 minutes. This was developed in response to requests to reduce red tape and time spent on non-essentials.

ING Belgium developed an online consumer loans tool to give customers quick decisions on loan requests. ING-DiBa in Germany launched a financial advice portal which gives customers answers to common questions on private finance. Commercial Banking improved its international network to deliver better customer service. The Net Promoter Score (NPS) has been adopted by all parts of the business to measure and improve customer centricity.

Significant enhancements in operational excellence have been achieved. Payments and Cash Management, for example, improved its processes, client interaction and IT set-up. All business lines shared best practices to reduce costs and accelerate projects.

ING Direct USA won a top award for its mobile banking application, which provides quick and easy ways for users to transfer money and manage their investment portfolios.

The third priority is to become a global top employer. Engaged employees are the key to success as they are the main point of contact for customers. In 2010, ING Bank therefore continued to put a lot of effort into attracting and retaining staff and to enhance employee engagement. For example, staff are encouraged to move between different business lines, developing and sharing their skills and broadening their career opportunities.

AMBITION 2013

In November 2009, ING Bank outlined its financial goals for 2013 under the existing regulatory and fiscal regime. They are as follows:

- 5% top line growth, with balance sheet growth on average of 5% per year;
- Cost/income ratio of 50%;
- Return on equity of 13-15% (equity based on 7.5% of risk-weighted assets (RWA);
- Core Tier 1 ratio at a minimum level of 7.5%;
- Balance sheet leverage ratio of less than 30%;
- A loan-to-deposit ratio of less than 1.2.

ING Bank continued

ING Bank made good progress in 2010 on its ambitions for 2013. Underlying income increased by 27.0% to EUR 17,465 million. Excluding market-related impacts, underlying income rose 6.6%. The cost/income ratio improved to 55.5% (or 53.8% excluding market-related impacts). The underlying return on equity, based on 7.5% of RWA, was up to 18.1% compared with 5.6% in 2009.

With regard to new capital requirements proposed by Basel III, the bank is relatively well prepared to meet them.

CONCLUSIONS

ING Bank aims to be a leading retail, direct and commercial bank, based in the Benelux and predominantly focused on Europe, with key positions in attractive growth markets in Central Europe, Turkey and selected markets throughout Asia.

The bank starts from a strong base: it is one of the largest savings banks in the world with a strong funding base; its direct service model is internationally renowned and ensures low-cost distribution; and it has an extensive international network, especially for globally operating clients. This unique combination of capabilities and geographic footprint ensures that ING Bank is well positioned for the future.

RETAIL BANKING

FINANCIAL DEVELOPMENTS

Retail Banking's underlying result before tax rose fourfold to EUR 3,626 million from EUR 905 million in 2009 driven by higher volumes and interest margins, combined with lower impairments and risk costs, mainly in the US. Net production in client balances was EUR 37 billion, bringing the total to EUR 890 billion at year-end 2010.

Total underlying income increased by 30.5% to EUR 11,432 million. The interest result rose 13.6% mainly driven by higher margins and volumes, particularly in the Netherlands and at ING Direct. The interest results of Retail Belgium and Retail Central Europe were almost flat, while they increased in Asia. Commission income remained flat, as small declines in the Benelux and at ING Direct were offset by increases in Asia and Central Europe. Investment and other income improved significantly, mainly due to lower impairments on debt securities at ING Direct USA.

Underlying operating expenses were up 5.5% to EUR 6,552 million due to increased staff costs, higher marketing spending across most business units, the introduction of new products and investments in IT platforms and higher deposit guarantee scheme costs. The underlying cost/income ratio improved to 57.3% from 70.9% in 2009.

The addition to the loan loss provisions declined 24.0% to EUR 1,254 million in 2010, or 70 basis points of average risk weighted assets compared with 101 basis points in 2009. This decline was mainly caused by lower risk costs at ING Direct USA. Risk costs for the mid-corporate and SME segments remained elevated.

The return on equity, based on a 7.5% core Tier 1 ratio, rose to 19.9% from 6.6% in 2009, driven by the improved results. In 2010, total risk-weighted assets increased by 5.5% to EUR 176 billion at year-end, mainly outside the Benelux.

Retail Netherlands

Underlying result before tax of Retail Netherlands increased 58.1% to EUR 1,396 million in 2010 from EUR 883 million in 2009, driven by higher income and lower expenses, despite an increase in risk costs. Underlying income rose 11.6% to EUR 4,333 million in 2010. This increase was fully attributable to a 15.8% higher interest result mainly driven by higher interest margins on savings and mortgages. Net production in residential mortgages was EUR 5.5 billion, while volumes in business lending decreased by EUR 1.1 billion due to low demand. Funds entrusted increased by a modest EUR 0.4 billion. Operating expenses declined 3.8% to EUR 2,376 million in 2010, driven by the cost containment programme started in 2009 and efficiency improvements related to the merger of ING Bank and Postbank. Risk costs increased 6.0% to EUR 561 million, or 108 basis points of average risk-weighted assets, as economic recovery in the Netherlands remained fragile.

Retail Belgium

Underlying result before tax of Retail Belgium declined 5.7% compared to 2009, as expenses increased and income remained almost flat. Underlying income slipped 0.4% to EUR 2,054 million. The interest result declined slightly, following lower margins on savings and current accounts which were largely offset by higher margins on mortgages and other lending. Net production in mortgages was EUR 2.8 billion in 2010, while other lending increased by EUR 1.4 billion. The net production in funds entrusted was EUR 2.2 billion driven by the success of the *Orange Book* savings product which compensated for outflows in current accounts. Operating expenses increased 5.1% to EUR 1,349 million, mainly driven by additional costs for the national deposit guarantee scheme in 2010. Risk costs declined 20.0% to EUR 160 million, or 83 basis points of average risk-weighted assets.

ING Bank continued

ING Direct

ING Direct delivered strong results in 2010 with an underlying profit before tax of EUR 1,450 million, compared with a loss of EUR 666 million in 2009. This major improvement was driven by lower impairments on the investment portfolio, a higher interest result and lower additions to the loan loss provisioning. Underlying income more than doubled, as impairments (mainly on the Alt-A RMBS portfolio in the US) declined to EUR 107 million compared to EUR 1,394 million in 2009. The interest result was up 20.3%, or EUR 638 million, driven by higher volumes and increased margins on savings and mortgages. The interest result in the US benefited from the IFRS-EU treatment on previously impaired bonds, which had a positive impact of EUR 230 million in 2010 up from EUR 99 million in 2009. Operating expenses increased 13.4%, primarily reflecting higher marketing costs, the roll-out of payment accounts and increased staff costs. The addition to the loan loss provisioning decreased to EUR 446 million, or 59 basis points of average risk-weighted assets from EUR 765 million in 2009 (or 112 basis points), supported by signs of stabilisation in the US housing market and US unemployment rate as well as diminishing delinquencies.

Retail Central Europe

Underlying result before tax of Retail Central Europe rose 82.4% to EUR 155 million, driven by higher results in Poland and Romania, while results in Turkey declined from the strong performance in 2009. Underlying income in Central Europe rose 13.5% supported by higher volumes in all countries and improved interest margins in Poland and Romania. In Turkey, margins declined due to increased competition, while income was furthermore impacted by negative fair value changes on derivatives (not eligible for hedge accounting). Operating expenses were up 15.3% reflecting business growth and increased staff costs. Risk costs declined to EUR 61 million, or 28 basis points of average risk weighted assets, from EUR 116 million (or 61 basis points) in 2009. The decline in risk costs was mainly in Turkey and Romania supported by releases of specific provisions and improved data quality.

Retail Asia

Retail Asia's underlying result before tax tripled to EUR 80 million from EUR 25 million in 2009. The strong improvement was mainly attributable to higher results from ING Vysya Bank in India, driven by higher volumes and margins, a one-off gain on the sale of an investment and lower risk costs. This was partly offset by higher expenses due to further investments in business growth and increased staff costs, including additional pension provisions. The result in Asia was furthermore supported by the increased profit contribution from ING Bank's share in the result of TMB in Thailand and higher dividends from Bank of Beijing and Kookmin Bank.

COMMERCIAL BANKING

FINANCIAL DEVELOPMENTS

The underlying result before tax of Commercial Banking doubled to EUR 2,315 million from EUR 1,119 million in 2009. ING Real Estate recorded a loss before tax of EUR 63 million compared with a loss of EUR 987 million in 2009. The underlying result before tax of Commercial Banking excluding Real Estate increased 12.9% to EUR 2,378 million.

The increased result of Commercial Banking excluding Real Estate was largely attributable to Structured Finance, which result increased threefold to EUR 938 million thanks to higher volumes and improved margins, combined with lower risk costs. Underlying result before tax from Financial Markets declined 28.7% to EUR 919 million as a result of lower income in the client business following the normalisation of the markets, as well as higher expenses partly caused by an accrual adjustment related to the deferral of incentive compensation in 2009. The results of General Lending & Payments and Cash Management (PCM) increased by 6.8%, as lower commission income and somewhat higher expenses were more than offset by significantly lower risk costs. Result before tax in Leasing & Factoring doubled to EUR 133 million, driven by the strong improvement in the second-hand car market.

ING Real Estate reported an underlying loss before tax of EUR 63 million compared with a loss of EUR 987 million in 2009. This was mainly due to the gradual stabilisation in market conditions, which even led to ING Real Estate showing a profit in the last quarter of 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 434 million in 2010, compared with EUR 1,213 million in 2009. Excluding revaluations and impairments, underlying result before tax increased to EUR 371 million in 2010 from EUR 226 million in 2009, mainly driven by improved operational results within Real Estate Finance business due to lower risk costs.

In 2010, net production of client balances was EUR 12 billion bringing the total to EUR 278 billion at year-end. The net production was largely realised in funds entrusted. The net production in lending was EUR 3 billion driven by the increased demand for Structured Finance loans in the last quarter of 2010.

Total underlying income increased 14.0% to EUR 5,810 million driven mainly by ING Real Estate and Structured Finance as well as Leasing & Factoring. This more than offset the decline at Financial Markets and General Lending & PCM. Underlying operating expenses increased 8.3% to EUR 2,998 million partly caused by an accrual adjustment related to the deferral of incentive compensation in 2009 and despite lower impairments on real estate development projects. The underlying cost/income ratio improved to 51.6% from 54.3% in 2009. Excluding ING Real Estate, the cost/income ratio was 44.0% compared with 37.9% in 2009.

ING Bank continued

Risk costs decreased significantly to EUR 497 million compared with EUR 1,210 million in 2009. As the economic environment started to stabilise, the number of significant files declined, particularly within Structured Finance, but also in ING Real Estate and General Lending. Risk costs in basis points of average risk-weighted assets (RWA) declined to 33 basis points in 2010 from 71 basis points in 2009.

The return on equity, based on a 7.5% core Tier 1 ratio, improved to 15.8% from 7.3% in 2009, driven by the increased results. In 2010, total RWA declined by 10.3% to EUR 142 billion at year-end as a result of model updates and reduced market RWA.

PROFIT RETENTION AND DISTRIBUTION POLICY

ING Bank's profit retention and distribution policy is determined by its internal requirements and its growth opportunities on the one hand and the capital providers' dividend expectations on the other. ING Bank's internal needs are determined by statutory solvency requirements and capital ratios, in relation to which ING Bank needs to maintain reasonable buffers. Credit ratings are important factors to ING, because they directly affect the company's financing costs and hence profitability. For their part, the capital providers expect a dividend which reflects ING Bank's financial results and is relatively predictable. Dividends are paid when the Management Board considers such a dividend appropriate.

In March 2011 ING Group announced its intent to repurchase EUR 2 billion of the non-voting equity securities (core Tier 1 securities) with a 50% repurchase premium of EUR 1 billion on 13 May 2011. In relation to this intent, it is probable that ING Bank will decide in 2011 to pay a dividend, from retained earnings, to ING Group of approximately the same amount on the same date.

Corporate Governance Statement and Dutch Banking Code

CORPORATE GOVERNANCE STATEMENT

This chapter is our Corporate Governance Statement, required pursuant to of 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 2010, which was audited by ING Group's external auditor. For more information, please refer to the 2010 Annual Report of ING Group which is available on its website (www.ing.com).

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 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, 14 MARCH 2011
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. 2010 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. 2010 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 2010 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, 14 MARCH 2011

Jan H.M. Hommen
CEO, chairman of the Management Board

Eric F.C.B. Boyer de la Giroday
vice-chairman of the Management Board

Patrick G. Flynn
CFO, member of the Management Board

J.V. (Koos) Timmermans
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 2010 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. In December 2010 an interim dividend was paid of EUR 200 million. No final dividend will be paid over 2010.

MEETINGS

The Supervisory Board met eight times in 2010. On average, 95% of the Supervisory Board members were present. Apart from closely monitoring the financial results in 2010, the implications of the Restructuring Plan of the European Commission as well as the strategy for the bank were important topics on the agenda. Committees of the Supervisory Board discussed a range of subjects on which the Supervisory Board received advice, the main ones being the quarterly results, risk management, the new remuneration policy and human resources.

In 2010, the Audit Committee met five times, with no absentees, to discuss the annual and quarterly results. In the second half of the year, the exposure of ING in Greece and other Southern European countries, including Spain, was a topic of frequent debate. The Audit Committee was regularly updated on the capital position of the bank and on the developments regarding Basel III regulations. Other topics discussed in the Audit Committee meetings were capital management, internal control and regulatory matters.

The Risk Committee met four times with no absentees. In each Risk Committee meeting the financial risk reports and the non-financial risk reports for banking were discussed. Management reported on the outcome of stress tests for banking. The Risk Committee closely monitored the effect of the non-financial risk mitigating activities during the year. Each meeting ended with a general discussion on possible future risks.

The Nomination Committee met once with one absentee in 2010, to discuss the future composition of the Supervisory Board and its committees as well as the succession planning of the Management Board. The Nomination Committee advised positively on a number of Supervisory Board candidates for appointment in the 2011 annual General Meeting. The Nomination Committee discussed an appointment in the Management Board which was publicly announced in November.

The Remuneration Committee met four times in 2010. Two members were absent once at the Remuneration Committee meetings. The first two meetings focussed on finalising the new remuneration policy based on the Dutch Banking Code. An independent external adviser assisted the Remuneration Committee in assessing the new remuneration policy. In February, the 2009 performance of the individual Management Board members was discussed on the basis of the performance criteria and the individual targets. The proposed 2010 performance objectives for the Management Board were decided upon as well. In April, the Remuneration Committee advised positively on the adjusted remuneration policy for senior management. In November, the Remuneration Committee discussed the possible impact of the new EU Capital Requirements Directive (CRD III) for the remuneration policy which was approved in the 2010 annual General Meeting.

COMPOSITION OF THE MANAGEMENT BOARD

As of 1 January 2011, William Connelly was appointed as member of the Management Board and as CEO of Commercial Banking, succeeding Eric Boyer who continued in his role as vice chairman of the Management Board Banking.

COMPOSITION OF THE SUPERVISORY BOARD

Piet Hoogendoorn, Harish Manwani and Karel Vuursteen did not apply for reappointment and retired from the Supervisory Board and the relevant Supervisory Board committees following the General Meeting in April 2010. No new members were appointed to the Supervisory Board in 2010. Jackson Tai resigned from the Supervisory Board as of 6 January 2011. Godfried van der Lugt resigned from the Supervisory Board as of 24 January 2011 after having stayed on the Supervisory Board for almost one more year. The composition of the Supervisory Board committees changed accordingly.

Claus Dieter Hoffmann will not apply for reappointment for one year and will retire from the Supervisory Board after the annual General Meeting in May 2011. The Supervisory Board has nominated 3 candidates for appointment: Sjoerd van Keulen, Joost Kuiper and Luc Vandewalle. For the proposed appointments approval has been obtained from the Dutch central bank.

APPRECIATION FOR THE EXECUTIVE BOARD AND ING EMPLOYEES

The Supervisory Board would like to thank the members of the Management Board for their continuing hard work in 2010. Next to improving the results for the banking businesses, the work of the Management Board also focused on improving the image of ING within society, improving the services to clients and developing the new strategy. The Supervisory Board would also like to thank all employees who have continued to serve the interests of the customers, the shareholders and other stakeholders of ING, and have shown continued commitment in the past year.

AMSTERDAM, 14 MARCH 2011
THE SUPERVISORY BOARD

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Consolidated balance sheet of ING Bank

as at 31 December

amounts in millions of euros	2010	2009
ASSETS		
Cash and balances with central banks 1	**9,519**	12,602
Amounts due from banks 2	**51,828**	43,397
Financial assets at fair value through profit and loss 3		
– trading assets	**125,070**	110,981
– non-trading derivatives	**8,990**	8,610
– designated as at fair value through profit and loss	**3,066**	3,178
Investments 4		
– available-for-sale	**99,200**	92,182
– held-to-maturity	**11,693**	14,409
Loans and advances to customers 5	**587,448**	551,774
Investments in associates 6	**1,494**	1,396
Real estate investments 7	**562**	2,283
Property and equipment 8	**5,615**	5,567
Intangible assets 9	**2,265**	2,377
Assets held for sale 10	**300**	4,583
Other assets 11	**26,023**	28,780
Total assets	**933,073**	882,119
EQUITY		
Shareholders' equity (parent) 12	**34,452**	30,222
Minority interests	**617**	995
Total equity	**35,069**	31,217
LIABILITIES		
Subordinated loans 13	**21,021**	21,193
Debt securities in issue 14	**125,066**	109,357
Amounts due to banks 15	**72,852**	84,235
Customer deposits and other funds on deposit 16	**519,304**	477,602
Financial liabilities at fair value through profit and loss 17		
– trading liabilities	**108,049**	98,245
– non-trading derivatives	**15,825**	16,777
– designated as at fair value through profit and loss	**12,707**	11,474
Liabilities held for sale 10	**145**	4,631
Other liabilities 18	**23,035**	27,388
Total liabilities	**898,004**	850,902
Total equity and liabilities	**933,073**	882,119

References relate to the notes starting on page 35. 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	2010	2010	2009	2009	2008	2008
Interest income	**68,952**		80,348		97,578	
Interest expense	**–55,365**		–67,586		–86,292	
Interest result 32		**13,587**		12,762		11,286
Investment income 33		**447**		–1,742		–2,386
Net result on disposals of group companies 34		**313**		–13		162
Gross commission income	**3,556**		3,553		3,994	
Commission expense	**–923**		–875		–1,099	
Commission income 35		**2,633**		2,678		2,895
Valuation results on non-trading derivatives 36		**–724**		–921		343
Net trading income 37		**1,195**		833		–405
Share of profit from associates 6		**104**		–388		–210
Other income 38		**346**		456		492
Total income		**17,901**		13,665		12,177
Addition to loan loss provisions 5		**1,751**		2,973		1,280
Intangible amortisation and other impairments 39		**504**		496		154
Staff expenses 40		**5,570**		5,243		5,988
Other operating expenses 41		**4,093**		4,453		4,222
Total expenses		**11,918**		13,165		11,644
Result before tax		**5,983**		500		533
Taxation 42		**1,408**		–43		–170
Net result (before minority interests)		**4,575**		543		703
Attributable to:						
Shareholders of the parent		**4,495**		684		772
Minority interests		**80**		–141		–69
		4,575		543		703

	2010	2009	2008
Dividend per ordinary share (in euros)	**0.43**	0.00	9.14
Total amount of dividend paid (in millions of euros)	**200**	0	4,250

References relate to the notes starting on page 35. 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	2010	2009	2008
Net result	**4,575**	543	703
Unrealised revaluations after taxation [1]	**–760**	5,554	–6,757
Realised gains/losses transferred to profit and loss [1]	**–293**	877	1,523
Changes in cash flow hedge reserve	**–167**	–344	–556
Exchange rate differences	**1,089**	333	–630
Other revaluations	**25**	–75	–374
Total amount recognised directly in equity (other comprehensive income)	**–106**	6,345	–6,794
Total comprehensive income	**4,469**	6,888	–6,091
Comprehensive income attributable to:			
Shareholders of the parent	**4,377**	7,125	–5,639
Minority interests	**92**	–237	–452
	4,469	6,888	–6,091

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

The Unrealised revaluations after taxation comprises EUR –10 million (2009: EUR 2 million; 2008: EUR 83 million) related to the share of other comprehensive income of associates.

The Exchange rate differences comprises EUR 100 million (2009: EUR 70 million; 2008: EUR –99 million) related to the share of other comprehensive income of associates.

Reference is made to Note 42 '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		2010	2009	2008
Result before tax		**5,983**	500	533
Adjusted for	– depreciation	**1,533**	1,488	1,224
	– addition to loan loss provisions	**1,751**	2,973	1,280
	– other	**971**	3,674	4,510
Taxation paid		**–488**	–551	–227
Changes in	– amounts due from banks, not available on demand	**–4,333**	8,611	7,162
	– trading assets	**–14,641**	47,893	33,335
	– non-trading derivatives	**–2,062**	827	7,977
	– other financial assets at fair value through profit and loss	**1,038**	1,878	3,321
	– loans and advances to customers	**–19,665**	9,489	–76,154
	– other assets	**1,769**	2,298	–9,308
	– amounts due to banks, not payable on demand	**–9,831**	–67,410	13,210
	– customer deposits and other funds on deposit	**21,052**	14,266	18,750
	– trading liabilities	**9,804**	–54,366	3,501
	– other financial liabilities at fair value through profit and loss	**952**	–2,557	99
	– other liabilities	**–4,919**	–4,733	3,042
Net cash flow from operating activities		**–11,086**	–35,720	12,255
Investments and advances	– group companies		–5	–592
	– associates	**–104**	–70	–383
	– available-for-sale investments	**–89,614**	–58,424	–95,036
	– held-to-maturity investments	**–141**		–314
	– real estate investments	**–57**	–114	–295
	– property and equipment	**–450**	–541	–547
	– assets subject to operating leases	**–1,284**	–1,034	–1,401
	– loan portfolio			–2,526
	– other investments	**–241**	–275	–614
Disposals and redemptions	– group companies	**1,663**		201
	– associates	**88**	108	140
	– available-for-sale investments	**88,333**	62,669	94,976
	– held-to-maturity investments	**2,620**	1,675	1,640
	– real estate investments	**289**	648	190
	– property and equipment	**40**	65	24
	– assets subject to operating leases	**53**	93	428
	– loan portfolio	**105**	18	
	– other investments	**3**	6	8
Net cash flow from investing activities **45**		**1,303**	4,819	–4,101
Proceeds from issuance of subordinated loans		**944**	1,931	3,643
Repayments of subordinated loans		**–1,787**	–1,985	–1,432
Proceeds from borrowed funds and debt securities		**318,206**	419,224	355,942
Repayments of borrowed funds and debt securities		**–308,939**	–397,639	–322,055
Issuance of ordinary shares/capital injection			150	7,200
Dividends paid		**–200**		–4,250
Net cash flow from financing activities		**8,224**	21,681	39,048
Net cash flow **46**		**–1,559**	–9,220	47,202
Cash and cash equivalents at beginning of year		**18,170**	27,395	–19,389
Effect of exchange rate changes on cash and cash equivalents		**577**	–5	–418
Cash and cash equivalents at end of year **47**		**17,188**	18,170	27,395

As at 31 December 2010 Cash and cash equivalents includes Cash and balances with central banks of EUR 9,519 million (2009: EUR 12,602 million; 2008: EUR 18,169 million). Reference is made to Note 47 ‘Cash and cash equivalents’.

References relate to the notes starting on page 35. 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 2008	525	9,192	15,794	25,511	1,684	27,195
Unrealised revaluations after taxation			–6,757	–6,757		–6,757
Realised gains/losses transferred to profit and loss			1,523	1,523		1,523
Changes in cash flow hedge reserve			–556	–556		–556
Exchange rate differences			–630	–630		–630
Other revaluations			9	9	–383	–374
Total amount recognised directly in equity			–6,411	–6,411	–383	–6,794
Net result			772	772	–69	703
			–5,639	–5,639	–452	–6,091
Employee stock options and share plans			67	67		67
Dividends [1]			–4,250	–4,250		–4,250
Capital injection		7,200		7,200		7,200
Balance as at 31 December 2008	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
			7,125	7,125	–237	6,888
Employee stock options and share plans			58	58		58
Dividends [2]						
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**
			4,377	**4,377**	**92**	**4,469**
Employee stock options and share plans			**53**	**53**		**53**
Changes in the composition of the group [4]					**–470**	**–470**
Dividends [3]			**–200**	**–200**		**–200**
Balance as at 31 December 2010	**525**	**16,542**	**17,385**	**34,452**	**617**	**35,069**

(1) 2008 interim dividend of EUR 9.14 per ordinary share.
(2) 2009 nil interim dividend per ordinary share.
(3) 2010 interim dividend of EUR 0.43 per ordinary share.
(4) 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 27 'Companies acquired and companies disposed'.

Consolidated statement of changes in equity of ING Bank continued

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

In 2008, an amount of EUR 7,200 million additional share premium was received from ING Group to strengthen solvency.

Reserves include Revaluation reserve of EUR 1,457 million (2009: EUR 2,329 million; 2008: EUR –3,857 million), Currency translation reserve of EUR 500 million (2009: EUR –241 million; 2008: EUR –475 million) and Other reserves of EUR 15,428 million (2009: EUR 11,067 million; 2008: EUR 10,304 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 2010 were authorised for issue in accordance with a resolution of the Management Board on 14 March 2011. 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'.

BASIS OF PRESENTATION

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

The following new or revised standards, interpretations and amendments to standards and interpretations became effective in 2010:

- Amendment to IFRS 1 'First-time adoption of IFRS';
- IFRS 3 'Business Combinations' (revised) and IAS 27 'Consolidated and Separate Financial Statements' (amended);
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement – Eligible Hedged Items';
- IFRIC 17 'Distributions of Non-cash Assets to Owners';
- 2009 Annual Improvements to IFRS;
- Amendment to IFRS 2 'Group Cash-settled Share-based Payment Transactions';
- Amendments to IFRS 1 'Additional Exemptions for First-time Adopters'.

The following new or revised standards and interpretations were issued by the IASB, which become effective for ING Bank as of 2011 (unless otherwise indicated) if and when endorsed by the EU:

- Classification of Rights Issues (Amendment to IAS 32);
- 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';
- Amendment to IFRS 1 'Limited Exemption from Comparative IFRS 7 Disclosure for First-time Adopters';
- 2010 Annual Improvements to IFRS;
- Amendments to IFRS 7 'Disclosures – Transfers of Financial Assets', effective as of 2012.

ING Bank does not expect the adoption of these new or revised standards and interpretations to have a significant effect on the consolidated financial statements.

Furthermore, in 2009 IFRS 9 'Financial Instruments' was issued, which is effective as of 2013. However, 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.

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.

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. Operating segments have changed in 2010 to reflect changes in internal management reporting. The impact of these changes is explained in the relevant notes when significant.

Accounting policies for the consolidated annual accounts of ING Bank continued

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 VALUE OF REAL ESTATE
Real estate investments are reported at fair value; all changes in fair value are recognised directly in the profit and loss account. The fair value of real estate investments is based on regular appraisals by independent qualified valuers. 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. The valuations are based on the assumption that the properties are let and sold to third parties based on the actual letting status. The valuations are based on a discounted cash flow analysis of each property. The discounted cash flow analyses are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values when leases expire.

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 are monitored as part of the procedures to back test the indexation methodology. Valuations performed earlier in the year are updated if necessary to reflect the situation at year end.

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

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.

Accounting policies for the consolidated annual accounts of ING Bank continued

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 materially incorrect or misused models.

Reference is made to Note 31 '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 amortised cost and fair value is removed from equity and recognised in net profit and loss. 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 book value (including goodwill) of the reporting unit to the best estimate of the recoverable amount of that reporting unit. The book 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 book 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. Materially different results can occur as circumstances change and additional information becomes known.

EMPLOYEE BENEFITS

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

The 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

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 26 '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. 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 asset) is available for immediate sale in its present condition; management must be committed to the sale, which should be expected to occur within one year from the date of classification as held for sale.

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. There are no material restrictions on subsidiaries to transfer funds to ING Bank N.V.

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.

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.

Accounting policies for the consolidated annual accounts of ING Bank continued

SEGMENT REPORTING
An operating segment is a distinguishable component of the 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 the 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 the 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 37 '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 in Group companies below 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.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES
The fair value of financial instruments is based on quoted market prices at the balance sheet date where available. The quoted market price used for financial assets held by the Bank is the current bid price; the quoted market price used for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. The 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 31 'Fair value of financial assets and liabilities' for the basis of the determination of the fair value of financial instruments.

Accounting policies for the consolidated annual accounts of ING Bank continued

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 the 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 the Bank has transferred substantially all risks and rewards of ownership. If the 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, the 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 the 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 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 so designated by management. 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 securities and loans quoted in active markets with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities and actively traded loans intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale.

Available-for-sale financial assets

Available-for-sale financial assets include available-for-sale debt securities and available-for-sale equity securities. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. For available-for-sale debt securities, the difference between cost and redemption value is amortised. Interest income is recognised using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available-for-sale is recognised in Interest income in the profit and loss account 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity which the 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).

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

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

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit and loss, and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account. An assessment is carried out when the 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. The 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

At the inception of the transaction ING Bank documents the transaction the relationship between hedging instruments and hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. The 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 the Bank as part of its risk management strategies but which do not qualify for hedge accounting under ING Bank’s accounting policies are presented as non-trading derivatives. Non-trading derivatives are stated at fair value with changes in the fair value taken to the profit and loss account.

OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES
Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet when the 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 the Bank's credit risk systems.

The 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.

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The collective evaluation of impairment includes the application of a 'loss confirmation period' to default probabilities. The loss confirmation period is a concept which recognises that there is a period of time between the emergence of impairment triggers and the point-in-time at which those events are captured by the 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 the Bank's loan loss provision. Although the loss confirmation periods are inherently uncertain, the 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 the 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

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, the 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 the 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.

The Bank's investment in associates (net of any accumulated impairment loss) includes goodwill identified on acquisition. The 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 the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the 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 the Bank. The reporting dates of all material associates are consistent with the reporting date of the Bank.

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

REAL ESTATE INVESTMENTS
Real estate investments are stated 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 book 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. Each year 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 the group, are monitored as part of the procedures to back test the indexation methodology. All properties are valued independently at least every five years.

The valuations are based on the assumption that the properties are let and sold to third parties based on the actual letting status. Valuations drawn up earlier in the year are updated if necessary to reflect the situation at year end. The fair values are based on market values, being 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. Market values are based on appraisals using valuation methods such as: comparable market transactions, capitalisation of income methods or discounted cash flow calculations, based on calculations of the future rental income and expenses in accordance with the terms in existing leases and estimations of the rental values when leases expire.

Accounting policies for the consolidated annual accounts of ING Bank continued

Any gain or loss arising from a change in fair value is recognised in the income statement. Subsequent expenditures are charged to 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 of an item can be measured reliably. All other repairs and maintenance costs are charged to the income statement.

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 the Bank and the cost of the item can be measured reliably.

Property obtained from foreclosures

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

Property development

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

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

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 charged to 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 book 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

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

The Bank as the lessee
The leases entered into by ING Bank are primarily operating leases. The total payments made under operating leases are charged to 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 payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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

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

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

As of 2010, following changes to IFRS 3 'Business Combinations', 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 profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of. Acquisition-related costs are recognised in profit or loss 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 charged directly to 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 Bank companies, the difference between the sale proceeds and book 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

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 net result for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account but it is charged or credited directly to equity if the tax relates to items that are credited or charged directly to 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 the Bank and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to 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 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.

Accounting policies for the consolidated annual accounts of ING Bank continued

OTHER LIABILITIES

Employee benefits – pension obligations

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. The 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 charged or credited to 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.

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

Accounting policies for the consolidated annual accounts of ING Bank continued

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 the 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 the employees provide the service. A corresponding increase in equity is recognised if the services are received in an equity-settled share-based payment transaction. The cost of acquiring the services is expensed as a staff expense. The fair value of equity-settled share-based payment transactions is measured at the grant date.

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 the 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		
	2010	2009
Amounts held at central banks	**7,983**	10,989
Cash and bank balances	**1,536**	1,613
	9,519	12,602

2 AMOUNTS DUE FROM BANKS

Amounts due from banks						
		Netherlands		International		Total
	2010	2009	**2010**	2009	**2010**	2009
Loans and advances to banks	**14,416**	9,101	**34,640**	30,641	**49,056**	39,742
Cash advances, overdrafts and other balances	**1,754**	2,550	**1,039**	1,151	**2,793**	3,701
	16,170	11,651	**35,679**	31,792	**51,849**	43,443
Loan loss provision			**–21**	–46	**–21**	–46
	16,170	11,651	**35,658**	31,746	**51,828**	43,397

As at 31 December 2010, Amounts due from banks included receivables with regard to securities, which have been acquired in reverse repurchase transactions amounting to EUR 4,621 million (2009: EUR 2,458 million), and receivables related to finance lease contracts amounted to EUR 82 million (2009: EUR 64 million).

As at 31 December 2010, the non-subordinated receivables amounted to EUR 51,788 million (2009: EUR 43,396 million) and the subordinated receivables amounted to EUR 40 million (2009: EUR 1 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 the 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		
	2010	2009
Trading assets	**125,070**	110,981
Non-trading derivatives	**8,990**	8,610
Designated as at fair value through profit and loss	**3,066**	3,178
	137,126	122,769

Trading assets by type		
	2010	2009
Equity securities	**5,310**	2,306
Debt securities	**27,925**	25,250
Derivatives	**42,390**	41,450
Loans and receivables	**49,445**	41,975
	125,070	110,981

As at 31 December 2010, the balance sheet value included equity securities which were lent or sold in repurchase transactions amounting to EUR 69 million (2009: EUR 175 million) and nil (2009: nil), respectively. As at 31 December 2010, the balance sheet value included debt securities which were lent or sold in repurchase transactions amounting to EUR 65 million (2009: EUR 325 million) and EUR 667 million (2009: EUR 353 million) respectively.

As at 31 December 2010, Trading assets included receivables of EUR 47,894 million (2009: EUR 40,940 million) with regard to reverse repurchase transactions.

Notes to the consolidated annual accounts of ING Bank continued

Non-trading derivatives by type	2010	2009
Derivatives used in		
– fair value hedges	**3,714**	2,417
– cash flow hedges	**2,876**	4,095
– hedges of net investments in foreign operations	**72**	33
Other non-trading derivatives	**2,328**	2,065
	8,990	8,610

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

Designated as at fair value through profit and loss by type	2010	2009
Equity securities	**142**	237
Debt securities	**2,354**	2,417
Loans and receivables	**570**	524
	3,066	3,178

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 amounts to a gain of EUR 29 million (2009: EUR 24 million) and the change for the current year is EUR 5 million (2009: nil).

The notional value of the related credit derivatives is EUR 205 million (2009: EUR 79 million). The change in fair value of the credit derivatives attributable to changes in credit risk since the loans were first designated amounts to nil (2009: nil) and the change for the current year is nil (2009: 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	2010	2009
Available-for-sale		
– equity securities	**2,741**	3,682
– debt securities	**96,459**	88,500
	99,200	92,182
Held-to-maturity		
– debt securities	**11,693**	14,409
	11,693	14,409
	110,893	106,591

The fair value of the securities classified as held-to-maturity amounts to EUR 11,854 million as at 31 December 2010 (2009: EUR 14,809 million).

Notes to the consolidated annual accounts of ING Bank continued

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

	Available-for-sale equity securities		Available-for-sale debt securities		Held-to-maturity		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Opening balance	**3,682**	1,863	**88,500**	131,502	**14,409**	15,440	**106,591**	148,805
Additions	**162**	326	**89,452**	54,757	**141**		**89,755**	55,083
Amortisation			**98**	210	**–13**	–30	**85**	180
Transfers and reclassifications	**12**	28	**282**	–23,755	**–282**	689	**12**	–23,038
Changes in the composition of the group and other changes	**–10**			–35			**–10**	–35
Changes in unrealised revaluations	**–225**	1,634	**297**	7,269			**72**	8,903
Impairments	**–32**	–49	**–146**	–1,491			**–178**	–1,540
Reversal of impairments								
Disposals and redemptions	**–905**	–116	**–85,582**	–82,360	**–2,620**	–1,675	**–89,107**	–84,151
Exchange rate differences	**57**	–4	**3,558**	2,403	**58**	–15	**3,673**	2,384
Closing balance	**2,741**	3,682	**96,459**	88,500	**11,693**	14,409	**110,893**	106,591

Included in 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	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
To/from held-to-maturity			**282**	–689			**282**	–689
To/from available-for-sale					**–282**	689	**–282**	689
To/from loans and advances to customers / amounts due from banks		11		–22,828				–22,817
To/from Investments in associates	**12**	17					**12**	17
To/from Other assets/Other liabilities				–238				–238
	12	28	**282**	–23,755	**–282**	689	**12**	–23,038

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 investments held-to-maturity (2009)
In 2009 ING Bank reclassified EUR 689 million of available-for-sale investments to held-to-maturity. The reclassification resulted from reduction in market liquidity for these assets; ING Bank has the intent and ability to hold these assets until maturity.

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 an intent 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
Effective interest rate (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 impairment (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	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) 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) 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) 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
2007		
Unrealised fair value losses recognised in shareholders' equity (before tax) during the year		–20
Recognised impairments (before tax)		nil

Notes to the consolidated annual accounts of ING Bank continued

Derecognition of available-for-sale debt securities – Transaction with the Dutch State (2009)
ING Group and the Dutch government ('State') reached an agreement on an Illiquid Assets Back-Up Facility ('IABF') on 26 January 2009; the transaction closed on 31 March 2009. Under the IABF, ING Bank has transferred 80% of the economic ownership of its Alt-A portfolio to the Dutch State. This portfolio was included in Available-for-sale debt securities. Reference is made to Note 30 'Related parties'.

Available-for-sale equity securities – listed and unlisted

	2010	2009
Listed	2,159	3,209
Unlisted	582	473
	2,741	3,682

As at 31 December 2010, the balance sheet value included debt securities which were lent or sold in repurchase transactions amounting to EUR 2,477 million and EUR 14,275 million respectively (2009: EUR 6,358 million and EUR 20,664 million).

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

Debt securities

	2010	2009
Available-for-sale investments	96,459	88,500
Held-to-maturity investments	11,693	14,409
Loans and advances to customers	27,866	32,253
Due from banks	8,122	8,720
Available-for-sale investments and Assets at amortised cost	144,140	143,882
Trading assets	27,925	25,250
Financial assets at fair value through profit and loss	2,354	2,417
	30,279	27,667
	174,419	171,549

ING Bank's total exposure to debt securities included in available-for-sale investments and assets at amortised cost of EUR 144,140 million (2009: EUR 143,882 million) is specified as follows by type of exposure:

Debt securities by type

	2010	2009
Government bonds	51,960	47,954
Covered bonds	28,947	31,986
Corporate bonds	1,066	978
Financial institution bonds	25,863	25,727
Bond portfolio (excluding ABS)	107,836	106,645
US agency RMBS	10,930	8,280
US prime RMBS	706	877
US Alt-A RMBS	2,431	2,560
US subprime RMBS	87	59
Non-US RMBS	14,677	16,836
CDO/CLO	574	575
Other ABS	4,490	5,543
CMBS	2,409	2,507
ABS portfolio	36,304	37,237
	144,140	143,882

Further comments on the ABS portfolio and the Bond portfolio (excluding ABS), including pressurised ABS and pressurised Greek and Irish Government and Financial Institution bonds, is provided in the Risk management section under 'Impact on pressurised asset classes'.

Notes to the consolidated annual accounts of ING Bank continued

5 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers analysed by type

	Netherlands		International		Total	
	2010	2009	**2010**	2009	**2010**	2009
Loans to, or guaranteed by, public authorities	**28,671**	28,149	**27,282**	22,933	**55,953**	51,082
Loans secured by mortgages	**161,938**	159,990	**172,801**	147,484	**334,739**	307,474
Loans guaranteed by credit institutions	**308**	468	**5,460**	6,228	**5,768**	6,696
Personal lending	**5,125**	4,972	**16,618**	14,988	**21,743**	19,960
Asset backed securities			**18,605**	21,831	**18,605**	21,831
Corporate loans	**52,195**	49,980	**103,619**	99,104	**155,814**	149,084
	248,237	243,559	**344,385**	312,568	**592,622**	556,127
Loan loss provisions	**–1,932**	–1,461	**–3,242**	–2,892	**–5,174**	–4,353
	246,305	242,098	**341,143**	309,676	**587,448**	551,774

Loans and advances to customers analysed by subordination

	2010	2009
Non-subordinated	**582,025**	551,359
Subordinated	**5,423**	415
	587,448	551,774

As at 31 December 2010, 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 1,609 million (2009: EUR 2,409 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.

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

Finance lease receivables

	2010	2009
Maturities of gross investment in finance lease receivables		
– within 1 year	**5,060**	5,163
– more than 1 year but less than 5 years	**9,700**	9,739
– more than 5 years	**6,089**	6,041
	20,849	20,943
Unearned future finance income on finance leases	**–3,328**	–3,783
Net investment in finance leases	**17,521**	17,160
Maturities of net investment in finance lease receivables		
– within 1 year	**4,363**	4,365
– more than 1 year but less than 5 years	**8,294**	8,088
– more than 5 years	**4,864**	4,707
	17,521	17,160
Included in		
– Amounts due from banks	**82**	64
– Loans and advances to customers	**17,439**	17,096
	17,521	17,160

The allowance for uncollectible finance lease receivables included in the loan loss provisions amounted to EUR 177 million as at 31 December 2010 (2009: EUR 161 million).

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

Notes to the consolidated annual accounts of ING Bank continued

Loan loss provisions analysed by type

	Netherlands		International		Total	
	2010	2009	**2010**	2009	**2010**	2009
Loans to, or guaranteed by, public authorities			**3**	3	**3**	3
Loans secured by mortgages	**416**	290	**1,183**	1,066	**1,599**	1,356
Loans guaranteed by credit institutions	**1**		**22**	47	**23**	47
Personal lending	**131**	254	**536**	436	**667**	690
Asset backed securities				15		15
Corporate loans	**1,384**	917	**1,519**	1,371	**2,903**	2,288
	1,932	1,461	**3,263**	2,938	**5,195**	4,399
Included in						
– Amounts due from banks			**21**	46	**21**	46
– Loans and advances to customers	**1,932**	1,461	**3,242**	2,892	**5,174**	4,353
	1,932	1,461	**3,263**	2,938	**5,195**	4,399

Changes in the loan loss provisions

	2010	2009
Opening balance	**4,399**	2,611
Changes in the composition of the group		–3
Write-offs	**–1,166**	–1,217
Recoveries	**105**	148
Increase in loan loss provisions	**1,751**	2,973
Exchange rate differences	**155**	–48
Other changes	**–49**	–65
Closing balance	**5,195**	4,399

6 INVESTMENTS IN ASSOCIATES

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				

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 71 million (2009: EUR 59 million) have been recognised.

For the above associates in which the interest held is below 20%, significant influence exists based on the combination of ING Bank’s financial interest for own risk and its role as investment manager. For the above associates in which the interest held is above 50%, control is held by other parties through agreements. ING Bank can exercise significant influence over such investments.

Notes to the consolidated annual accounts of ING Bank continued

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 date 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

2009	Interest held (%)	Fair value of listed invest-ment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	25	284	384	11,474	10,503	309	281
ING Retail Property Fund Australia	29		107	886	479	20	65
ING Real Estate Asia Retail Fund	28		99	723	417	–46	140
ING Industrial Fund Australia	8	61	78	2,265	1,343	344	387
Lion Industrial Trust	10		72	2,374	1,640	–174	729
ING REI Investment DOF B.V.	3		66	2,402	514	–215	266
Lion Properties Fund	5		65	2,766	1,506	–226	1,167
Steadfast Capital Fund II LP	68		56	83		2	6
Appia Group Ltd	29		36	690	566	–641	706
ING Office Fund Australia	2	27	32	1,853	723	277	199
Lion Gables Apartment Fund LP	6		31	1,514	971	–16	254
Lion Value Fund	23		31	263	127	–12	160
ING Nationale-Nederlanden PTE	20		28	155	14	122	44
ING REI Investment REOFN B.V.	32		27	222	139	–53	96
RE Italian Retail Fund	33		25	336	259	–27	44
Other investments in associates			259				
			1,396				

Changes in investments in associates

	2010	2009
Opening balance	**1,396**	1,813
Additions	**104**	70
Changes in the composition of the group	**–4**	–1
Transfers to and from Investments	**–12**	–17
Revaluations	**–10**	2
Share of results	**107**	–386
Dividends received	**–129**	–37
Disposals	**–88**	–108
Impairments	**–3**	–2
Exchange rate differences	**167**	70
Other changes	**–34**	–8
Closing balance	**1,494**	1,396

In 2010, share of results of EUR 107 million (2009: EUR –386 million) less impairment of EUR 3 million (2009: EUR 2 million) are presented in the profit and loss account in Share of profit from associates for EUR 104 million (2009: EUR –388 million).

Notes to the consolidated annual accounts of ING Bank continued

7 REAL ESTATE INVESTMENTS

Changes in real estate investments

	2010	2009
Opening balance	**2,283**	2,884
Additions	**57**	114
Changes in the composition of the group	**–1,621**	
Transfers to and from Other assets	**–23**	295
Fair value gains/(losses)	**–50**	–588
Disposals	**–289**	–648
Exchange rate differences	**205**	226
Closing balance	**562**	2,283

In 2010, Changes in the composition of the group comprises the sale of ING Summit Industrial Fund LP. Reference is made to Note 27 'Companies acquired and companies disposed'.

The total amount of rental income recognised in profit and loss for the year ended 31 December 2010 was EUR 234 million (2009: EUR 264 million). The total amount of contingent rent recognised in the profit and loss account for the year ended 31 December 2010 was nil (2009: nil).

The total amount of direct operating expenses (including repairs and maintenance) incurred from real estate investments that generated rental income for the year ended 31 December 2010 was EUR 101 million (2009: EUR 75 million). The total amount of direct operating expenses (including repairs and maintenance) incurred from real estate investments that did not generate rental income for the year ended 31 December 2010 was EUR 6 million (2009: EUR 32 million).

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

in percentages	2010
Most recent appraisal in 2010	**89**
Most recent appraisal in 2009	**10**
Most recent appraisal in 2006	**1**
	100

8 PROPERTY AND EQUIPMENT

Property and equipment by type

	2010	2009
Property in own use	**1,329**	1,364
Equipment	**1,231**	1,212
Assets under operating leases	**3,055**	2,991
	5,615	5,567

Notes to the consolidated annual accounts of ING Bank continued

Changes in property in own use

	2010	2009
Opening balance	**1,364**	1,447
Additions	**45**	40
Transfers to and from Other assets	**–4**	–26
Depreciation	**–26**	–27
Revaluations	**–24**	–49
Impairments	**–26**	–8
Reversal of impairments	**5**	12
Disposals	**–17**	–24
Exchange rate differences	**12**	–1
Closing balance	**1,329**	1,364
Gross carrying amount as at 31 December	**2,140**	2,224
Accumulated depreciation as at 31 December	**–669**	–738
Accumulated impairments as at 31 December	**–142**	–122
Net book value	**1,329**	1,364
Revaluation surplus		
Opening balance	**492**	563
Revaluation in year	**–7**	–71
Closing balance	**485**	492

The cost or the purchase price amounted to EUR 1,655 million (2009: EUR 1,732 million). Cost less accumulated depreciation and impairments would have been EUR 844 million (2009: EUR 872 million).

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

in percentages	2010
Most recent appraisal in 2010	**49**
Most recent appraisal in 2009	**16**
Most recent appraisal in 2008	**23**
Most recent appraisal in 2007	**3**
Most recent appraisal in 2006	**9**
	100

Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2010	2009	2010	2009	2010	2009
Opening balance	**293**	264	**919**	827	**1,212**	1,091
Additions	**147**	159	**258**	342	**405**	501
Changes in the composition of the group	**–4**		**–1**		**–5**	
Disposals	**–8**	–12	**–15**	–29	**–23**	–41
Depreciation	**–138**	–129	**–218**	–209	**–356**	–338
Impairments	**–1**				**–1**	
Exchange rate differences	**8**	5	**11**	1	**19**	6
Other changes	**12**	6	**–32**	–13	**–20**	–7
Closing balance	**309**	293	**922**	919	**1,231**	1,212
Gross carrying amount as at 31 December	**1,447**	1,380	**2,228**	2,667	**3,675**	4,047
Accumulated depreciation as at 31 December	**–1,137**	–1,087	**–1,306**	–1,748	**–2,443**	–2,835
Accumulated impairments as at 31 December	**–1**				**–1**	
Net book value	**309**	293	**922**	919	**1,231**	1,212

Notes to the consolidated annual accounts of ING Bank continued

Changes in assets under operating leases

	Cars		Other leased-out assets		Total	
	2010	2009	**2010**	2009	**2010**	2009
Opening balance	**2,986**	3,140	**5**	8	**2,991**	3,148
Additions	**1,284**	1,034			**1,284**	1,034
Changes in the composition of the group	**–3**				**–3**	
Disposals	**–53**	–93			**–53**	–93
Depreciation	**–784**	–789	**–3**	–3	**–787**	–792
Exchange rate differences	**13**	28			**13**	28
Transfer and other changes	**–390**	–334			**–390**	–334
Closing balance	**3,053**	2,986	**2**	5	**3,055**	2,991
Gross carrying amount as at 31 December	**4,617**	4,516	**18**	27	**4,635**	4,543
Accumulated depreciation as at 31 December	**–1,564**	–1,530	**–16**	–22	**–1,580**	–1,552
Net book value	**3,053**	2,986	**2**	5	**3,055**	2,991

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 the Bank.

The 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

	2010	2009
Within 1 year	**1,155**	1,094
More than 1 year but less than 5 years	**1,887**	1,893
More than 5 years	**13**	4
	3,055	2,991

9 INTANGIBLE ASSETS

Changes in intangible assets

	Goodwill		Software		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Opening balance	**1,463**	1,432	**669**	681	**245**	302	**2,377**	2,415
Capitalised expenses			**114**	126			**114**	126
Additions		39	**127**	134		1	**127**	174
Disposals			**–2**	–5	**–1**	–1	**–3**	–6
Amortisation			**–312**	–282	**–52**	–49	**–364**	–331
Impairments			**–28**			–8	**–28**	–8
Reversal of impairments					**1**		**1**	
Changes in the composition of the group		3	**3**		**–19**		**–16**	3
Exchange rate differences	**47**	–5	**6**	3	**11**	1	**64**	–1
Other changes	**–8**	–6	**12**	12	**–11**	–1	**–7**	5
Closing balance	**1,502**	1,463	**589**	669	**174**	245	**2,265**	2,377
Gross carrying amount as at 31 December	**1,502**	1,463	**1,799**	1,539	**343**	362	**3,644**	3,364
Accumulated amortisation as at 31 December			**–1,161**	–849	**–161**	–109	**–1,322**	–958
Accumulated impairments as at 31 December			**–49**	–21	**–8**	–8	**–57**	–29
Net book value	**1,502**	1,463	**589**	669	**174**	245	**2,265**	2,377

Notes to the consolidated annual accounts of ING Bank continued

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

There were no additions to goodwill in 2010. Additions to Goodwill in 2009 mainly relate to the consolidation of 3W Holding BV (EUR 26 million) and to the extension of ING Group's Interhyp AG share of EUR 7 million.

No goodwill impairment was recognised in 2010. There was also no goodwill impairment in 2009.

Allocation of Goodwill to reporting units

Goodwill is allocated to reporting units as follows:

Goodwill allocation to reporting units

	2010	2009
Retail Central Europe	**870**	834
Retail Belgium	**49**	49
Retail Netherlands	**1**	1
ING Direct	**468**	460
Commercial Banking - Lease	**68**	66
ING Real Estate	**31**	39
Commercial Banking - Other	**15**	14
	1,502	1,463

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 book value of the reporting unit to the best estimate of the recoverable amount of that reporting unit. The book 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 book 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 book 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.

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 components, a full internal valuation was performed upon acquisition. In such case, the recoverable amount is determined by updating the acquisition model for business and market related developments. The most important assumptions in the acquisition model are the estimated short term expected profit, the terminal growth rate (3.5% approximately) and the discount rate (between 10.8% and 12.8%). Based on this determination of recoverable amount, it was concluded that the goodwill allocated to Retail Central Europe is not impaired.

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. For 31 December 2010 this relates mainly to ING Real Estate Investment Management (ING REIM) and Clarion Real Estate Securities. For 31 December 2009 this relates mainly to the Swiss and Asian Private Banking business. Reference is made to Note 27 'Companies acquired and companies disposed' for more details.

Notes to the consolidated annual accounts of ING Bank continued

Assets held for sale		
	2010	2009
Cash and balances with central banks		183
Amounts due from banks		474
Financial assets at fair value through profit and loss	**5**	381
Available-for-sale investments		277
Loans and advances to customers	**100**	3,205
Investments in associates	**43**	
Property and equipment	**9**	35
Intangible assets	**15**	3
Other assets	**128**	25
	300	4,583

Liabilities held for sale		
	2010	2009
Amounts due to banks		30
Customer deposits and other funds on deposit		4,480
Financial liabilities at fair value through profit and loss		36
Other liabilities	**145**	85
	145	4,631

Cumulative other comprehensive income include EUR 1 million (2009: EUR 14 million) related to Assets 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 30 ‘Related parties’. However, none of these businesses qualify as held for sale as at 31 December 2010 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		
	2010	2009
Deferred tax assets	**2,969**	3,158
Property development and obtained from foreclosures	**2,088**	2,473
Income tax receivable	**401**	690
Accrued interest and rents	**12,836**	14,699
Other accrued assets	**930**	1,015
Pension assets	**2,266**	2,030
Other	**4,533**	4,715
	26,023	28,780

Other includes EUR 1,875 million (2009: EUR 2,058 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 4,911 million (2009: EUR 4,859 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 2010 is EUR 18 million (2009: EUR 98 million).

Notes to the consolidated annual accounts of ING Bank continued

Property development and obtained from foreclosures		
	2010	2009
Property under development	**821**	1,439
Property developed	**1,016**	909
Property obtained from foreclosures	**251**	125
	2,088	2,473
Gross carrying amount as at 31 December	**3,175**	3,186
Accumulated impairments as at 31 December	**–1,087**	–713
Net book value	**2,088**	2,473

Notes to the consolidated annual accounts of ING Bank continued

EQUITY
12 SHAREHOLDERS' EQUITY (PARENT)

Shareholders' equity (parent)			
	2010	2009	2008
Share capital	525	525	525
Share premium	16,542	16,542	16,392
Revaluation reserve	1,457	2,329	–3,857
Currency translation reserve	500	–241	–475
Other reserves	15,428	11,067	10,304
Shareholders' equity (parent)	34,452	30,222	22,889

The Revaluation reserve, Share of associates reserve (included in Other reserves), Currency translation reserve and the part of the Other reserves that relates to the former Stichting Regio Bank cannot be freely distributed.

As at 31 December 2010, Other reserves included an amount of EUR 741 million (2009: EUR 645 million; 2008: EUR 566 million) related to the former Stichting Regio Bank.

Share capital								
	Preference shares (par value EUR 1.13)				Ordinary shares (par value EUR 1.13)			
	Number x1		Amount in euros		Number x1,000		Amount	
	2010	2009	2010	2009	2010	2009	2010	2009
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 2010, 2009 or 2008.

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 2010 465 million 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

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 revaluation reserve

2008	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	415	1,262	428	2,105
Unrealised revaluations after taxation	21	–6,950		–6,929
Realised gains/losses transferred to profit and loss		1,523		1,523
Changes in cash flow hedge reserve			–556	–556
Closing balance	436	–4,165	–128	–3,857

Changes in currency translation reserve

	2010	2009	2008
Opening balance	–241	–475	–18
Unrealised revaluations after taxation	–348	–99	173
Exchange rate differences	1,089	333	–630
Closing balance	500	–241	–475

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

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

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			645	11,067

Notes to the consolidated annual accounts of ING Bank continued

Changes in other reserves

2008	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	13,072	69		566	13,707
Result for the year	772				772
Dividend	–4,250				–4,250
Employee stock options and share plans	67				67
Other	–51	59			8
Closing balance	9,610	128		566	10,304

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 8,438 million (2009: EUR 8,057 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 5.4% (2009: 5.7%). The interest expense during the year 2010 was EUR 1,024 million (2009: EUR 981 million).

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

	2010	2009
Fixed rate debt securities		
Within 1 year	**63,472**	64,731
More than 1 year but less than 2 years	**6,177**	922
More than 2 years but less than 3 years	**5,816**	5,735
More than 3 years but less than 4 years	**9,580**	1,851
More than 4 years but less than 5 years	**5,648**	9,446
More than 5 years	**10,516**	4,989
Total fixed rate debt securities	**101,209**	87,674
Floating rate debt securities		
Within 1 year	**12,259**	10,021
More than 1 year but less than 2 years	**4,321**	5,796
More than 2 years but less than 3 years	**2,555**	1,164
More than 3 years but less than 4 years	**2,038**	1,375
More than 4 years but less than 5 years	**864**	1,478
More than 5 years	**1,820**	1,849
Total floating rate debt securities	**23,857**	21,683
Total debt securities	**125,066**	109,357

As of 31 December 2010, ING Bank had unused lines of credit available including the payment of commercial paper borrowings relating to debt securities in issue of EUR 6,462 million (2009: EUR 6,983 million).

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.

All were issued under the Credit Guarantee Scheme of the State of the Netherlands and are part of ING Bank'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.

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 2010 liabilities concerning securities sold in repurchase transactions amounted to EUR 12,200 million (2009: EUR 17,991 million).

Amounts due to banks by type

	Netherlands		International		Total	
	2010	2009	**2010**	2009	**2010**	2009
Non-interest bearing	**1,893**	1,615	**701**	669	**2,594**	2,284
Interest bearing	**37,429**	35,681	**32,829**	46,270	**70,258**	81,951
	39,322	37,296	**33,530**	46,939	**72,852**	84,235

16 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

Customer deposits and other funds on deposit

	2010	2009
Savings accounts	**324,581**	304,104
Credit balances on customer accounts	**128,553**	111,502
Corporate deposits	**55,024**	53,272
Other	**11,146**	8,724
	519,304	477,602

Customer deposits and other funds on deposit by type

	Netherlands		International		Total	
	2010	2009	**2010**	2009	**2010**	2009
Non-interest bearing	**13,522**	13,541	**6,773**	5,936	**20,295**	19,477
Interest bearing	**140,253**	132,581	**358,756**	325,544	**499,009**	458,125
	153,775	146,122	**365,529**	331,480	**519,304**	477,602

No funds have been entrusted to the Bank by customers on terms other than those prevailing in the normal course of business. As at 31 December 2010 Customer deposits and other funds on deposit included liabilities with regard to securities sold in repurchase transactions amounting to EUR 5,272 million (2009: EUR 7,326 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

	2010	2009
Trading liabilities	**108,049**	98,245
Non-trading derivatives	**15,825**	16,777
Designated as at fair value through profit and loss	**12,707**	11,474
	136,581	126,496

Trading liabilities by type

	2010	2009
Equity securities	**4,811**	3,052
Debt securities	**16,707**	12,457
Funds on deposit	**44,767**	42,505
Derivatives	**41,764**	40,231
	108,049	98,245

As at 31 December 2010, the Funds on deposit include amounts payable of EUR 43,995 million (2009: EUR 41,876 million) with regard to mainly repurchase transactions.

Notes to the consolidated annual accounts of ING Bank continued

Non-trading derivatives by type		
	2010	2009
Derivatives used in		
– fair value hedges	**8,216**	8,420
– cash flow hedges	**4,820**	5,932
– hedges of net investments in foreign operations	**108**	168
Other non-trading derivatives	**2,681**	2,257
	15,825	16,777

Designated as at fair value through profit and loss by type		
	2010	2009
Debt securities	**10,533**	9,396
Funds entrusted	**934**	560
Subordinated liabilities	**1,240**	1,518
	12,707	11,474

In 2010, 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 28 million (2009: EUR –191 million) and EUR 67 million (2009: EUR 39 million) on a cumulative basis. This change has been determined as the amount of change in fair value of the financial liability that is not attributable to changes in market conditions that gave rise to market risk (i.e. mainly interest rate risk based on yield curves).

The amount that ING Bank is contractually required to pay at maturity to the holders of financial liabilities designated as at fair value through profit and loss is EUR 12,438 million (2009: EUR 11,444 million).

18 OTHER LIABILITIES

Other liabilities by type		
	2010	2009
Deferred tax liabilities	**1,385**	1,499
Income tax payable	**1,066**	762
Pension benefits	**143**	240
Post-employment benefits	**98**	89
Other staff-related liabilities	**665**	545
Other taxation and social security contributions	**724**	849
Accrued interest	**11,624**	14,775
Costs payable	**1,745**	1,666
Reorganisation provision	**333**	490
Other provisions	**385**	575
Prepayments received under property under development	**173**	120
Amounts to be settled	**2,139**	2,929
Other	**2,555**	2,849
	23,035	27,388

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

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

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

As at 31 December 2010 Other liabilities includes an amount of EUR 7.91 (2009: 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 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

Changes in deferred tax

	Net liability 2008	Change through equity	Change through net result	Changes in the composition of the group	Exchange rate differences	Other	Net liability 2009
Investments	–3,312	2,856	78		–110	–25	–513
Financial assets and liabilities at fair value through profit and loss	–17		–325		7	2	–333
Depreciation	16				1	1	18
Other provisions	14	–1	–86	1	3		–69
Receivables	–103		–71		–2	–12	–188
Loans and advances to customers	560		139	–28	1	45	717
Cash flow hedges	–126	–45			–8	7	–172
Pension and post-employment benefits	213		213				426
Unused tax losses carried forward	–932		–274	7	31	25	–1,143
Other	–86	–8	–378	–16	–6	92	–402
	–3,773	2,802	–704	–36	–83	135	–1,659
Comprising							
– deferred tax liabilities	2,297						1,499
– deferred tax assets	–6,070						–3,158
	–3,773						–1,659

In 2009, the Other changes in Change through net result mainly to the tax effect on tax losses of foreign branches carried forward.

Notes to the consolidated annual accounts of ING Bank continued

Deferred tax in connection with unused tax losses carried forward		
	2010	2009
Total unused tax losses carried forward	**4,895**	4,787
Unused tax losses carried forward not recognised as a deferred tax asset	**716**	635
Unused tax losses carried forward recognised as a deferred tax asset	**4,179**	4,152
Average tax rate	**28.3%**	27.5%
Deferred tax asset	**1,183**	1,143

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	
	2010	2009	**2010**	2009
Within 1 year	**12**	20	**27**	56
More than 1 year but less than 5 years	**189**	177	**78**	255
More than 5 years but less than 10 years	**157**	169	**2,857**	2,468
More than 10 years but less than 20 years	**267**	221	**621**	912
Unlimited	**91**	48	**596**	461
	716	635	**4,179**	4,152

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 year or the preceding year. The aggregate amount for the most significant entities where this applies is EUR 817 million (2009: EUR 1,065 million). This can be specified by jurisdiction as follows:

Breakdown by jurisdiction		
	2010	2009
The Netherlands	**230**	119
United States	**347**	932
Great Britain	**87**	
Belgium	**75**	
Australia	**40**	
Spain	**19**	14
Germany	**19**	
	817	1,065

Notes to the consolidated annual accounts of ING Bank continued

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

As of 31 December 2010 and 31 December 2009, 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

	2010	2009
Opening balance	**490**	551
Changes in the composition of the group	**29**	
Additions	**167**	382
Interest	**5**	11
Releases	**–58**	–43
Charges	**–303**	–423
Exchange rate differences	**5**	
Other changes	**–2**	12
Closing balance	**333**	490

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.

As at 31 December 2009, the provision for reorganisation, of which EUR 291 million relates to termination benefits, mainly related to the reorganisation of Postbank and Postkantoren.

Changes in other provisions

	Litigation		Other		Total	
	2010	2009	2010	2009	2010	2009
Opening balance	**270**	353	**305**	198	**575**	551
Changes in the composition of the group	**–27**	4	**–1**	5	**–28**	9
Additions	**–1**	1	**29**	198	**28**	199
Charges	**–5**	–102	**–19**	–51	**–24**	–153
Exchange rate differences	**2**	1	**3**	1	**5**	2
Other changes	**10**	13	**–181**	–46	**–171**	–33
Closing balance	**249**	270	**136**	305	**385**	575

As at 31 December 2009 Other provisions includes the provision for the industry-wide deposit guarantee scheme in the Netherlands due to the bankruptcy of DSB Bank. In 2010, Dutch banks provided financing for the further dissolution of DSB. ING's share is recognised, net of the 2009 provision, under amounts due from banks at its fair value at issue.

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.

Notes to the consolidated annual accounts of ING Bank continued

Pension and post-employment benefits

Summary of pension benefits					
	2010	2009	2008	2007	2006
Defined benefit obligation	**10,424**	9,234	9,049	9,253	10,061
Fair value of plan assets	**11,551**	10,208	8,670	9,463	9,298
	–1,127	–974	379	–210	763
Unrecognised actuarial gains/(losses)	**–996**	–816	–1,117	260	–262
	–2,123	–1,790	–738	50	501
Presented as					
– Other liabilities	**143**	240	374	489	752
– Other assets	**–2,266**	–2,030	–1,112	–439	–251
	–2,123	–1,790	–738	50	501

Summary of post-employment benefits					
	2010	2009	2008	2007	2006
Defined benefit obligation	**98**	86	97	94	63
Unrecognised past service costs	**1**	2	1	2	2
Unrecognised actuarial gains/(losses)	**–1**	1		1	
	98	89	98	97	65

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

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

The 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.

Notes to the consolidated annual accounts of ING Bank continued

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 2010 includes EUR –675 million (2009: EUR –283 million; 2008: EUR 1,678 million; 2007: EUR 481 million; 2006: EUR 278 million) experience loss adjustments for assets and EUR –117 million (2009: EUR –37 million; 2008: EUR 73 million; 2007: EUR 11 million; 2006: EUR 170 million) experience loss adjustments for liabilities.

Changes in defined benefit obligation

	Pension benefits		Post-employment benefits other than pensions	
	2010	2009	**2010**	2009
Opening balance	**9,234**	9,049	**86**	97
Current service cost	**196**	210	**5**	–11
Interest cost	**510**	504	**4**	5
Participants contributions	**3**	3		
Benefits paid	**–407**	–416	**–1**	–1
Actuarial gains and losses	**864**	–1	**4**	–2
Past service cost	**–1**	20		–1
Changes in the composition of the group and other changes	**–17**	–90		
Effect of curtailment or settlement	**–4**	–88		
Exchange rate differences	**46**	43		–1
Closing balance	**10,424**	9,234	**98**	86
Relating to				
– funded plans	**10,365**	9,178		
– unfunded plans	**59**	56	**98**	86
	10,424	9,234	**98**	86

Actuarial gains and losses in 2010 includes the impact of changes in mortality and indexation assumptions as set out below.

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 2011 are nil and EUR 6 million, respectively.

Changes in fair value of plan assets

	Pension benefits	
	2010	2009
Opening balance	**10,208**	8,670
Expected return on plan assets	**590**	546
Employer's contribution	**453**	1,115
Participants contributions	**2**	3
Benefits paid	**–402**	–388
Actuarial gains and losses	**675**	283
Changes in the composition of the group and other changes	**–19**	–75
Exchange rate differences	**44**	54
Closing balance	**11,551**	10,208

The actual return on the plan assets amounted to EUR 1,265 million (2009: EUR 829 million).

No plan assets are expected to be returned to ING Bank during 2011.

Notes to the consolidated annual accounts of ING Bank continued

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	
	2011	**2010**	2009	**2010**	2009
Equity securities	**37**	**35**	42	**7.5**	7.8
Debt securities	**51**	**51**	45	**4.3**	4.8
Other	**12**	**14**	13	**6.0**	6.3
	100	**100**	100	**5.7**	5.9

Equity securities include ING Groep N.V. ordinary shares of EUR 1 million (0.01% of total plan assets) at 31 December 2010 (2009: EUR 2 million, 0.01% of total plan assets). Debt securities include investments in ING Groep N.V. of EUR 36 million (0.42% of total plan assets) as at 31 December 2010 (2009: nil, 0.00% 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.

Weighted averages of basic actuarial assumptions in annual % as at 31 December

	Pension benefits		Post-employment benefits other than pensions	
	2010	2009	**2010**	2009
Discount rates	**5.40**	5.60	**4.70**	4.70
Mortality rates	**1.00**	1.30	**1.00**	1.30
Expected rates of salary increases (excluding promotion increases)	**2.70**	2.70	**2.70**	2.70
Medical cost trend rates			**6.10**	6.10
Indexation	**1.80**	2.10	**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 2010 (2009: EUR 3 million) and an increase in the charge for the year of EUR 1 million (2009: EUR 2 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 2010 (2009: EUR 2 million) and a decrease in the charge for the year of EUR 2 million (2009: EUR 1 million).

Notes to the consolidated annual accounts of ING Bank continued

The actuarial assumption for Mortality rates decreased from 1.3% in 2009 to 1.0% in 2010, mainly as a result of more recent information on mortality rates in the Netherlands that became available in 2010. The actuarial assumption for Indexation for inflation decreased from 2.0% in 2009 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 current circumstances the probability of granting indexation in the short-term future decreased. These changes in the actuarial assumptions for Mortality and Indexation resulted in an increase respectively decrease of the defined benefit obligation which was accounted for as an (unrecognised) actuarial gain/(loss). As a result, these changes did not directly impact shareholders' equity and net result in 2010.

Expected cash flows
During 2011 the expected contributions to pension plans are EUR 362 million.

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

Benefit payments

	Pension benefits
2011	402
2012	371
2013	350
2014	344
2015	298
Years 2016-2020	1,988

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

2010	Less than 1 month	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			300				300
Other assets	10,065	2,092	6,502	3,048	4,316		26,023
Remaining assets (where maturities are not applicable) (1)						7,671	7,671
Total assets	168,905	34,168	69,024	246,685	402,203	12,088	933,073

(1) 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

2009	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	12,602						12,602
Amounts due from banks	25,598	2,649	4,448	7,733	2,969		43,397
Financial assets at fair value through profit and loss							
– trading assets	39,844	8,316	12,395	28,008	22,418		110,981
– non-trading derivatives	202	66	413	4,160	3,769		8,610
– designated as at fair value through profit and loss	400	167	518	1,135	958		3,178
Investments							
– available-for-sale	2,495	3,091	7,107	45,195	30,611	3,683	92,182
– held-to-maturity	171	475	1,840	10,337	1,586		14,409
Loans and advances to customers	61,449	14,056	31,409	136,569	308,291		551,774
Intangible assets			223	446		1,708	2,377
Assets held for sale	4,524		59				4,583
Other assets	12,186	2,377	6,227	3,648	4,342		28,780
Remaining assets (where maturities are not applicable) (1)						9,246	9,246
Total assets	159,471	31,197	64,639	237,231	374,944	14,637	882,119

(1) 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 CONTRACTUAL 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. Reference is made to the Liquidity risk paragraph in the 'Risk management' section for a description on how liquidity risk is managed.

Liabilities by contractual maturity

2010	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Adjust-ment [1]	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			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] 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).

Notes to the consolidated annual accounts of ING Bank continued

Liabilities by contractual maturity

2009	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Adjust-ment [1]	Total
Subordinated loans	16	1	1,090	4,734	15,922	–570	21,193
Debt securities in issue	18,851	36,184	19,717	28,399	6,978	–772	109,357
Amounts due to banks	45,326	15,044	10,131	9,769	3,966	–1	84,235
Customer deposits and other funds on deposit	410,522	28,190	27,315	9,918	1,657		477,602
Financial liabilities at fair value through profit and loss							
– other trading liabilities	41,942	1,891	3,243	7,022	4,376	–460	58,014
– trading derivatives	2,725	3,419	11,235	27,908	12,258	–17,314	40,231
– non-trading derivatives	1,105	1,680	5,868	21,555	8,298	–21,729	16,777
– designated as at fair value through profit and loss	218	616	1,715	5,220	4,047	–342	11,474
Financial liabilities	520,705	87,025	80,314	114,525	57,502	–41,188	818,883
Liabilities held for sale	4,629		2				4,631
Other liabilities	13,023	2,436	7,215	3,193	1,518	3	27,388
Non-financial liabilities	17,652	2,436	7,217	3,193	1,518	3	32,019
Total liabilities	538,357	89,461	87,531	117,718	59,020	–41,185	850,902
Coupon interest due on financial liabilities	4,050	1,463	4,585	11,821	49,781		71,700

[1] 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).

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 the 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 for according to 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 resultant profit and loss account volatility by designating hedged assets and liabilities at fair value through profit and loss. If hedge accounting is applied under IFRS-EU, it can arise that during the hedge a hedge relationship no longer qualifies for hedge accounting, and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the profit and loss account may be higher than would be expected from an economic point of view.

With respect to exchange rate and interest rate derivative contracts, the notional or contractual 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.

Notes to the consolidated annual accounts of ING Bank continued

Fair value hedge accounting
ING Bank's fair value hedges principally consist of interest rate swaps and cross-currency interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates.

Gains and losses on derivatives designated under fair value hedge accounting are recognised in the profit and loss account. The effective portion of the fair value change on the hedged item is also recognised in the profit and loss account. As a result, only the net accounting ineffectiveness has an impact on the net result.

For the year ended 31 December 2010, ING Bank recognised EUR –747 million (2009: EUR –1,301 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 754 million (2009: EUR 1,181 million) fair value changes recognised on hedged items. This resulted in EUR 7 million net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2010 the fair values of outstanding derivatives designated under fair value hedge accounting was EUR –4,502 million (2009: EUR –6,003 million), presented in the balance sheet as EUR 3,714 million (2009: EUR 2,417 million) positive fair values under assets and EUR 8,216 million (2009: EUR 8,420 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 income 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 2010, ING Bank recognised EUR –167 million (2009: EUR –1,301 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 2010 was EUR –836 million (2009: EUR –644 million) gross and EUR –639 million (2009: EUR –472 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 59 years, with the largest concentration in the range of 1 year to 12 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in a gain of EUR 2 million (2009: EUR 2 million loss), that was recognised in the profit and loss account.

As at 31 December 2010, the fair values of outstanding derivatives designated under cash flow hedge accounting was EUR –1,944 million (2009: EUR –1,837 million), presented in the balance sheet as EUR 2,876 million (2009: EUR 4,095 million) positive fair values under assets and EUR 4,820 million (2009: EUR 5,932 million) negative fair values under liabilities.

As at 31 December 2010 and 31 December 2009, there were no non-derivatives designated as hedging instruments for cash flow hedge accounting purposes.

Included in Interest income and interest expense on non-trading derivatives is EUR 3,243 million (2009: EUR 1,780 million) and EUR 2,951 million (2009: EUR 1,624 million), respectively, relating to derivatives used in cash flow hedges.

Notes to the consolidated annual accounts of ING Bank continued

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 2010, the fair values of outstanding derivatives designated under net investment hedge accounting was EUR –36 million (2009: EUR –135 million), presented in the balance sheet as EUR 72 million (2009: EUR 33 million) positive fair values under assets and EUR 108 million (2009: EUR 168 million) negative fair values under liabilities.

As at 31 December 2010, there were EUR 1,751 million (2009: EUR 555 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 2010 on derivatives and non-derivatives designated under net investment hedge accounting was EUR 5 million (2009: nil).

22 MAXIMUM CREDIT EXPOSURE
ING Bank's maximum credit exposure as at 31 December 2010 and 2009 is represented as follows:

Maximum credit exposure

	2010	2009
Cash and balances with central banks	**9,519**	12,602
Amounts due from banks		
– loans and advances to banks	**49,035**	39,696
– cash advances, overdrafts and other balances	**2,793**	3,701
Trading assets		
– debt securities	**27,925**	25,250
– loans and receivables	**49,445**	41,975
– derivatives	**42,390**	41,450
Non-trading derivatives	**8,990**	8,610
Designated as at fair value through profit and loss	**3,066**	3,178
Available-for-sale debt securities	**96,459**	88,500
Held-to-maturity debt securities	**11,693**	14,409
Loans and advances to customers		
– to, or guaranteed by, public authorities	**55,950**	51,079
– secured by mortgages	**333,140**	305,170
– guaranteed by credit institutions	**5,744**	6,696
– personal lending	**21,076**	19,270
– asset backed securities	**18,605**	21,816
– corporate lending	**152,911**	147,744
Accrued interest and rents	**12,836**	14,699
Other accrued assets	**930**	1,015
Other receivables	**4,533**	4,715
Maximum credit exposure on balance sheet	**907,040**	851,575
Off-balance sheet credit commitments		
– discounted bills	**3**	1
– guarantees	**21,711**	21,545
– irrevocable letters of credit	**15,540**	12,352
– other	**428**	202
– irrevocable facilities	**90,027**	85,835
Maximum credit exposure off balance sheet	**127,709**	119,935
Maximum credit exposure	**1,034,749**	971,510

The maximum credit exposure for relevant items on the balance sheet is the balance sheet 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.

Notes to the consolidated annual accounts of ING Bank continued

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

23 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

	2010	2009
Investments	8,405	5,656
Loans and advances to customers	35,977	31,152
Banks	12,025	7,441
Other assets	8,633	6,350
	65,040	50,599

Banks include Amounts due from banks and balances with central banks. ING Bank N.V. has an obligation to maintain a reserve with an average monthly balance with the Dutch central bank. In December 2010 the required monthly average was EUR 5,909 million (2009: EUR 5,620 million). As at 31 December 2010 the balance on this reserve was EUR 334 million (2009: EUR 354 million).

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 30 'Related parties' and loans that for liquidity purposes have been pledged as collateral in the United States of EUR 7 billion (2009: EUR 7 billion), Germany of EUR 5 billion (2009: EUR 5 billion) and Canada of EUR 5 billion (2009: nil).

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' and Note 4 'Investments' for the relevant amounts.

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

24 CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business the Bank is a party in activities whose risks are not reflected in whole or 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

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

Notes to the consolidated annual accounts of ING Bank continued

Contingent liabilities and commitments						
2009	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Contingent liabilities in respect of						
– discounted bills		1				1
– guarantees	14,492	403	1,017	2,359	3,274	21,545
– irrevocable letters of credit	5,413	4,460	1,190	757	532	12,352
– other	112	36	42	12		202
	20,017	4,900	2,249	3,128	3,806	34,100
Irrevocable facilities	36,284	17,539	8,351	20,130	3,531	85,835
	56,301	22,439	10,600	23,258	7,337	119,935

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.

Future rental commitments for operating lease contracts	
2011	**148**
2012	**142**
2013	**124**
2014	**107**
2015	**108**
Years after 2015	**222**

25 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	2010	2009
Loans to small and medium-sized enterprises	**5,273**	6,583
Mortgages	**6,476**	6,865
Total	**11,749**	13,448

Notes to the consolidated annual accounts of ING Bank continued

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.

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.

Notes to the consolidated annual accounts of ING Bank continued

26 PRINCIPAL SUBSIDIARIES
The principal subsidiaries and their statutory seat of ING Bank N.V. 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
Westland Utrecht Bank N.V.	The Netherlands
ING België N.V.	Belgium
ING Bank Slaski S.A.	Poland
ING Bank Deutschland A.G.	Germany
ING Financial Holdings Corporation	United States of America
ING Middenbank Curaçao N.V.	Netherlands Antilles
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

27 COMPANIES ACQUIRED AND COMPANIES DISPOSED
Acquisitions effective in 2010
There were no significant acquisitions in 2010.

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.

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.

Acquisitions and disposals announced and occurring or expected to occur in 2011
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. The proceeds for these REIM businesses and the equity interests amount to approximately USD 1.0 billion. ING REIM Europe, ING REIM Asia and CRES combined have EUR 44.7 billion in assets under management as of 31 December 2010. In a separate transaction, ING has agreed to sell 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. Clarion Partners has EUR 16.5 billion in assets under management as of 31 December 2010. The Real Estate Investment Management business in Australia (ING REIMA), with EUR 4.8 billion in assets under management as of 31 December 2010, is not included in these transactions. Within the context of the previously announced evaluation, ING finalised the review of the strategic options and implementation has commenced. As a result ING will undertake a phased withdrawal from its Australian real estate investment management activities in a timely and controlled manner. In the transaction with CB Richard Ellis, ING Insurance has agreed to continue its asset management mandate with CB Richard Ellis as the new manager of the funds. ING Bank will continue to have an equity interest in some REIM funds in Europe, Asia, the US and Australia. The equity stakes held by the Bank will be monetised over time as it continues to steadily reduce its exposure to real estate. Combined, the transactions are expected to result in an after-tax gain on disposal of approximately EUR 500 million at current exchange rates. The final terms are subject to potential adjustments at closing, customary for this kind of transaction. ING Real Estate Development and ING Real Estate Finance are not impacted by the transactions and will continue to be part of ING Bank. Both transactions are expected to close in the second half of 2011 and are subject to approvals by certain stakeholders including various regulators.

The above described disposals will be deconsolidated in 2011 when ING loses control. They qualify as disposal groups held for sale at 31 December 2010 as ING expects to recover the carrying amount principally through the sale transactions. They are available for sale in their immediate condition subject to terms that are usual and customary for sales of such assets and the sales are considered to be highly probable.

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 ING Bank has not disposed any significant company.

Most significant companies acquired in 2008

	Aconto B.V.	Interhyp AG	Universal Lease Iberia	Total
General				
Date of acquisition	22 April 2008	1 August 2008	1 October 2008	
Percentage of voting shares acquired	100%	99%	100%	
Purchase price				
Purchase price	174	418		592
Cash purchase price	174	418		592
Cash outflow / inflow on acquisition	174	418		592
Assets				
Loans and advances to customers	1,714			1,714
Amounts due from banks	164	43		207
Miscellaneous other assets	21	20	235	276
Liabilities				
Amounts due to banks	1,527			1,527
Customer deposits and other funds on deposit	154		224	378
Miscellaneous other liabilities	44	16	20	80
Net assets	174	47	–9	212
Minority interests				
Net assets acquired	174	47	–9	212
Goodwill recognised (1)		371	9	380
Profit since date of acquisition	30	–7		23
Income if acquisition effected at start of year	46	61	42	149
Profit if acquisition effected at start of year	43	–20	–1	22

(1) Goodwill recognised in 2008 on immaterial acquisitions was EUR 29 million, resulting in total goodwill recognised in 2008 of EUR 409 million as disclosed in Note 9 ‘Intangible assets’.

Notes to the consolidated annual accounts of ING Bank continued

Acquisitions effective in 2008
In April 2008, ING Bank acquired Aconto B.V. from ING Insurance for EUR 174 million. No goodwill was recognised on this acquisition.

In August 2008, ING Bank acquired approximately 97% of Interhyp AG, Germany's largest independent residential mortgage distributor for a total consideration of EUR 418 million. Goodwill of EUR 371 million was recognised on the acquisition and is mainly attributable to the future potential for enhancing ING's distribution platforms in Europe resulting from the acquisition.

In October 2008, ING Bank acquired the Spanish car leasing company Universal Lease Iberia. Goodwill of EUR 9 million was recognised on the acquisition.

Most significant companies disposed in 2008

	ING Investment Management Luxemburg	ING Investment Management België	Total
Sales proceeds			
Sales proceeds	42	159	201
Cash proceeds	42	159	201
Cash outflow / inflow on disposal [(1)]	42	159	201
Assets			
Loans and advances to customers	34	27	61
Amounts due from banks	4	74	78
Miscellaneous other assets		6	6
Liabilities			
Miscellaneous other liabilities	27	78	105
Net assets	11	29	40
% disposed	100%	100%	
Net assets disposed	11	29	40
Gain/loss on disposal [(2)]	31	130	161

(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.

Disposals effective in 2008
In October 2008, ING Bank has sold ING Investment Management Luxemburg and ING Investment Management België to ING Insurance for EUR 201 million.

28 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.

Notes to the consolidated annual accounts of ING Bank continued

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 January 2011 the Association of Stockholders (Vereniging van Effectenbezitters, 'VEB') has issued a writ alleging that investors were misled by the prospectus that was issued with respect to the September 2007 rights issue of Fortis N.V. (now: Ageas N.V.) against Ageas N.V., the underwriters of such rights issue, including ING Bank, and former directors of Fortis N.V. According to the VEB the prospectus shows substantive incorrect and misleading information. The VEB states that the impact and the risks of the subprime crisis for Fortis and Fortis' liquidity position have been reflected incorrectly in the prospectus. The VEB requests a declaratory decision stating that the summoned parties have acted wrongfully and are therefore responsible for the damages suffered by the investors in Fortis. The amount of damages of EUR 18 billion has not been substantiated yet. ING will defend itself against this claim; at this time ING is not able to assess the future outcome.

In March 2011, ING Groep N.V. was informed of the decision of the board of Stichting Pensioenfonds ING (the Dutch ING Pension Fund) to institute arbitration against ING's decision not to provide funding for indexing pensions. While it is not feasible to predict the ultimate outcome of these arbitration proceedings, the Company's management is of the opinion that these will not have a significant effect on the financial position or profitability of the Company.

29 JOINT VENTURES

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

Most significant joint ventures

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

Most significant joint ventures

2009	Interest held (%)	Assets	Liabilities	Income	Expenses
Postkantoren B.V.	50	147	152	143	141
		147	152	143	141

30 RELATED PARTIES

In the normal course of business, ING Bank enters into various transactions with related companies. 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	
	2010	2009	2010	2009
Receivables	114	432	1,236	648
Liabilities	41	187	38	6
Income received	6	90	127	115
Expenses paid		136	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. The Bank together with ING Insurance forms the ING Group. These transactions vary from financing activities to regular purchases and sales transactions.

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

	ING Groep N.V.		ING Verzekeringen N.V.	
	2010	2009	2010	2009
Receivables	736	793	3,141	865
Liabilities	9,411	9,154	8,541	7,695
Income received	194	237	343	231
Expenses paid	825	725	236	169

Notes to the consolidated annual accounts of ING Bank continued

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.

In 2010, EUR 1.8 billion (2009: EUR 2.4 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.

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'.

Three of the Management Board members of ING Bank N.V. are also Executive Board members of ING Groep N.V. For the year 2010, 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.

For the year 2009, the total remuneration of the Executive Board of ING Groep N.V. the Management Boards of ING Bank N.V. and ING Verzekeringen N.V. and the Supervisory Board was borne by ING Groep N.V. The remuneration of the members and former members of the Executive Board, Management Boards and Supervisory Board was 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)

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 cash bonus	**4,121**	**3,650**	**7,771**
Pension costs	**292**	**542**	**834**
Fair market value of bonus in shares	**1,268**	**1,150**	**2,418**
Total compensation	**5,681**	**5,342**	**11,023**

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

Key management personnel compensation (Executive Board and Management Boards)

2009 amounts in thousands of euros	Executive Board of ING Groep N.V. (1)	Management Boards of ING Bank N.V. and ING Verzekeringen N.V. (2)	Total
Base salary	4,936	2,933	7,869
Pension costs	935	772	1,707
Termination benefit		665	665
Retirement benefit	1,353	1,200	2,553
Total compensation	7,224	5,570	12,794

(1) Comprising eight members from 1 January 2009 to 31 May 2009 and three members from 1 June 2009 to 31 December 2009.
(2) As of 1 June 2009, excluding three members that are also members of the Executive Board of ING Groep N.V.

In 2009 was as result of the change in strategy of ING Groep N.V. the Executive Board of ING Bank N.V. reduced from eight to six members and was referred to as Management Board. The effective date of this change was 1 June 2009.

Key management personnel compensation (Supervisory Board)

amounts in thousands of euros	**2010**	2009
Base salary	**1,010**	1,128
Total compensation	**1,010**	1,128

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

Notes to the consolidated annual accounts of ING Bank continued

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
amounts in thousands of euros	**2010**	2009	**2010**	2009	**2010**	2009
Executive Board members ING Groep N.V.	**1,968**	380	**3.6%**	4.6%		
Management Board members of ING Bank N.V.	**13**	244	**4.3%**	3.6%	**4**	933
Supervisory Board members	**282**	282	**8.6%**	8.6%		
Total	**2,263**	906			**4**	933

In 2010, the total remuneration costs amounted to EUR 5.7 million for members and former members of the Executive Board, of these renumeration costs EUR 2.9 million was allocated to ING Bank. In 2009, the total remuneration costs amounted to EUR 12.8 million for members and former members of the Executive Board and Management Boards Bank and Insurance, of these remuneration costs EUR 6.4 million was allocated to ING Bank. The total remuneration costs amounted EUR 1.0 million (2009: EUR 1.1 million) for members and former members of the Supervisory Board, of these remuneration costs EUR 0.5 million (2009: EUR 0.6 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 US, 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).

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 31 'Fair value of financial assets and liabilities'.

As at 31 December 2010, the remaining outstanding amount from the transaction price that remained payable by the Dutch State is 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 0.6 billion payable by ING Bank.

Notes to the consolidated annual accounts of ING Bank continued

European Commission Restructuring Plan
In 2009, ING Groep N.V. submitted a Restructuring Plan to the European Commission as part of the process to receive approval for the government support measures. The Restructuring Plan has formally been approved by the European Commission. The main elements of the Restructuring Plan as announced on 26 October 2009 are as follows:
- ING will eliminate double leverage and significantly reduce its balance sheet;
- ING will divest all Insurance and Investment Management activities;
- ING needs to divest ING Direct USA by the end of 2013;
- ING will create 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, will be divested;
- ING will not be a price leader in any EU country for certain retail and SME banking products and will refrain from the acquisition of 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;
- ING Groep N.V. will agree with the Dutch State to alter the repayment terms of 50% of the non-voting equity securities;
- EUR 5 billion of the non-voting equity securities issued in November 2008 by ING Groep N.V. to the Dutch State will be repurchased;
- 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;
- ING Groep N.V. would launch a EUR 7.5 billion rights issue, in order to finance the repayment of 50% of the non-voting equity securities and to mitigate 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;
- ING will execute the Restructuring Plan before the end of 2013;
- ING will refrain from acquisitions of financial institutions for a certain period;
- Whenever 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).

On 28 January 2010, ING lodged an appeal against specific elements of the European Commission's decision. The outcome of ING’s appeal to the European court is anticipated at the end of 2011.

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., as long as the Illiquid Assets Back-Up Facility is in place or any of the Government Guaranteed Bonds is outstanding (whichever expires last). These arrangements entail that:

Notes to the consolidated annual accounts of ING Bank continued

- 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 the 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 over 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.

31 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	
	2010	2009	**2010**	2009
Financial assets				
Cash and balances with central banks	**9,519**	12,602	**9,519**	12,602
Amounts due from banks	**51,651**	43,506	**51,828**	43,397
Financial assets at fair value through profit and loss				
– trading assets	**125,070**	110,981	**125,070**	110,981
– non-trading derivatives	**8,990**	8,610	**8,990**	8,610
– designated as at fair value through profit and loss	**3,066**	3,178	**3,066**	3,178
Investments				
– available-for-sale	**99,200**	92,182	**99,200**	92,182
– held-to-maturity	**11,854**	14,809	**11,693**	14,409
Loans and advances to customers	**588,216**	551,096	**587,448**	551,774
Other assets [(1)]	**18,299**	20,429	**18,299**	20,429
	915,865	857,393	**915,113**	857,562
Financial liabilities				
Amounts due to banks	**73,226**	84,968	**72,852**	84,235
Customer deposits and other funds on deposit	**516,698**	474,916	**519,304**	477,602
Debt securities in issue	**126,150**	108,448	**125,066**	109,357
Financial liabilities at fair value through profit and loss				
– trading liabilities	**108,049**	98,245	**108,049**	98,245
– non-trading derivatives	**15,825**	16,777	**15,825**	16,777
– designated as at fair value through profit and loss	**12,707**	11,474	**12,707**	11,474
Other liabilities [(2)]	**18,063**	22,379	**18,063**	22,379
Subordinated loans	**20,618**	20,721	**21,021**	21,193
	891,336	837,928	**892,887**	841,262

[(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.

Notes to the consolidated annual accounts of ING Bank continued

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.

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

Financial assets
Cash and balances with central banks
The carrying amount of cash approximates its fair value.

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

Financial assets at fair value through profit and loss and Investments
Derivatives
Derivatives contracts can either be exchange traded or over the counter (OTC). The fair value of exchange-traded derivatives is determined using quoted market prices in an active market and those derivatives are classified in Level 1 of the fair value hierarchy. For those instruments not actively traded, fair values are estimated based on valuation techniques. OTC derivatives and derivatives trading in an inactive market are valued using valuation techniques because quoted market prices in an active market are not available for such instruments. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instruments. The principle 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 upon 'no-arbitrage' principles. These models are commonly used in the banking industry. Inputs to valuation models are determined from observable market data wherever 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 public 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 class. The main assumptions in this matrix include:

Notes to the consolidated annual accounts of ING Bank continued

- 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.

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, judgment 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 carrying amount of other assets 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 book value which is not materially different than fair value.

Notes to the consolidated annual accounts of ING Bank continued

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 upon whether fair values were determined based upon quoted prices in an active market (Level 1), valuation techniques with observable parameters (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument (Level 3). Financial assets in Level 3 include for example illiquid debt securities, complex OTC and credit derivatives, certain complex loans (for which current market information about similar assets to use as observable, corroborated data for all significant inputs into a valuation model is not available) and asset backed securities for which there is no active market and a wide dispersion in quoted prices.

Observable inputs reflect market data obtained from independent sources. Unobservable inputs are inputs which are based on ING Bank's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates and certain credit spreads.

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

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

Methods applied in determining fair values of financial assets and liabilities

2009	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	39,987	70,024	970	110,981
Non-trading derivatives	251	8,025	334	8,610
Financial assets designated as at fair value through profit and loss	533	1,954	691	3,178
Available-for-sale investments	50,333	40,099	1,750	92,182
	91,104	120,102	3,745	214,951
Liabilities				
Trading liabilities	27,518	69,870	857	98,245
Financial liabilities designated as at fair value through profit and loss	4,460	4,425	2,589	11,474
Non-trading derivatives	363	15,927	487	16,777
	32,341	90,222	3,933	126,496

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.

Notes to the consolidated annual accounts of ING Bank continued

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.

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 US as described above under ‘Debt securities’. Level 3 Trading assets, Non-trading derivatives and Assets designated at fair value through profit and loss account 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’.

Change in Level 3 classification (2010)
ING changed the classification of certain assets and liabilities in the fair value hierarchy compared to prior years. The changes relate to Trading assets/liabilities and Financial liabilities designated as at fair value through profit and loss. These changes result from further improvements in the classification by fair value hierarchy in order to better align with common practices that have emerged within the industry. As a result, certain financial instruments that were previously classified mainly in Level 2 (Valuation technique supported by observable inputs) are now classified in Level 3 (Valuation technique supported by unobservable inputs). The comparatives for 2009 have been adjusted accordingly.

The category of financial instruments that is most impacted by this change are issued structured notes that are classified as Financial liabilities designated as at fair value through profit and loss. These structured notes are a combination of deposit-, loan- and derivative components. Certain components of the structure represent Level 1 or Level 2 in the fair value hierarchy, whereas other components represent Level 3. ING also has other positions that are not measured at fair value or are measured at fair value and are classified in various levels of the fair value hierarchy. The combination of these instruments represents no significant exposure of ING to fair value changes related to unobservable inputs and, therefore, until 2009 the overall exposure was classified mostly in Level 2. As of 2010, individual financial instruments are classified individually in the fair value hierarchy. Furthermore, if the fair value of a financial instrument is based on unobservable inputs for a component of that instrument, in most cases the entire instrument (including the components that are not impacted by unobservable inputs) is now classified in Level 3.

The change to the 2009 comparatives resulted in assets in Level 3 of the fair value hierarchy increasing from 1.1 % to 1.7% of total assets measured at fair value. Liabilities in Level 3 of the fair value hierarchy increased from 0.3% to 3.1% of total liabilities measured at fair value.

As a result of the offsetting impact as explained above, there is no significant impact on the sensitivity of fair values to unobservable inputs.

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 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 Assets

2009	Trading assets	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	821	4	305	19,915	21,045
Amounts recognised in profit and loss during the year	–70	–1	15	–1,227	–1,283
Revaluation recognised in equity during the year				6,459	6,459
Purchase of assets	919	335	799	573	2,626
Sale of assets	–112		–254	–20,093	–20,459
Maturity/settlement	–41	–4	–116	–1,957	–2,118
Reclassifications	–43		–68	141	30
Transfers into Level 3	1		107	3	111
Transfers out of Level 3	–505		–78	–2,845	–3,428
Changes in the composition of the group			–2		–2
Exchange rate differences			–17	781	764
Closing balance	970	334	691	1,750	3,745

Notes to the consolidated annual accounts of ING Bank continued

Main changes in fair value hierarchy (2009 compared to 2008)

As a result of changes in portfolios and/or markets during 2009, the following main changes in the fair value hierarchy occurred:

- *Decrease in Level 1 and Level 2* – reclassifications from Available-for-sale investments to Loans and advances and Amounts due from banks: The reclassification in the first quarter from Available-for-sale investments to Loans and advances (EUR 17.2 billion) and Amounts due from banks (EUR 5.6 billion) resulted in a reduction in Level 2 of approximately EUR 22.8 billion. After reclassification to Loans and advances and Amounts due from banks these are no longer recorded at fair value and therefore no longer subject to disclosure in the fair value hierarchy;
- *Decrease in Level 3* – derecognition of asset backed securities in the United States: The Illiquid Assets Back-up Facility agreed with the Dutch State resulted in the derecognition of asset backed securities in the United States that were classified in Level 3. As a result of this transaction, financial assets in Level 3 (Available-for-sale investments) decreased by approximately EUR 13.5 billion. This decrease includes the sale proceeds of EUR 19.8 billion and revaluation recognised in equity of EUR 6.3 billion;
- *Decrease in Level 3* – reclassification of asset backed securities in the United States to Level 2: During 2009, the pricing transparency and the level of trading activity in the secondary markets for asset backed securities in the United States increased and the price of the securities as provided by the external pricing services converged. Accordingly, in the fourth quarter of 2009, investments in asset backed securities in the United States of approximately EUR 2.8 billion were transferred from Level 3 to Level 2. These assets were transferred into Level 3 during 2008, when the market became inactive and the dispersion between prices for the same security from different prices sources increased significantly;
- *Other* – Amounts in each of the levels are impacted by changes in the amount and composition of the relevant balance sheet items during the year.

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 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

Changes in Level 3 Liabilities

2009	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit and loss	Total
Opening balance	356	1	64	421
Amounts recognised in profit and loss during the year	–64	1	124	61
Issue of liabilities	859	486	2,793	4,138
Early repayment of liabilities	–109	–2	–155	–266
Maturity/settlement	–173		–121	–294
Transfers into Level 3	30	2	174	206
Transfers out of Level 3	–42		–290	–332
Changes in the composition of the group		–1		–1
Closing balance	857	487	2,589	3,933

Notes to the consolidated annual accounts of ING Bank continued

Amounts recognised in profit and loss 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

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

2009	Held at balance sheet date	Derecognised during the year	Total
Assets			
Trading assets	–70		–70
Non-trading derivatives	–1		–1
Financial assets designated as at fair value through profit and loss	15		15
Available-for-sale investments	–1,233	6	–1,227
	–1,289	6	–1,283
Liabilities			
Trading liabilities	–64		–64
Non-trading derivatives	1		1
Financial liabilities designated as at fair value through profit and loss	124		124
	61		61

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.

Asset backed securities in the United States
Level 3 assets include EUR 0.9 billion at 31 December 2010 and EUR 1.7 billion at 31 December 2009 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.

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.

Notes to the consolidated annual accounts of ING Bank continued

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 2010.

Furthermore, the 'Risk management' section provides under Impact of financial crisis a breakdown of the methods applied in determining fair values of pressurised assets.

32 INTEREST RESULT

Interest result

	2010	2009	2008
Interest income on loans	24,844	24,891	31,088
Interest income on impaired loans	40	24	–24
Total interest income on loans	24,884	24,915	31,064
Interest income on available-for-sale securities	3,532	3,923	7,448
Interest income on held-to-maturity securities	549	612	669
Interest income on trading portfolio	32,692	40,843	45,510
Interest income on non-trading derivatives	1,709	3,936	7,076
Other interest income	5,586	6,119	5,811
Total interest income	68,952	80,348	97,578
Interest expense on deposits by banks	652	1,266	4,856
Interest expense on customer deposits and other funds on deposit	8,324	10,976	19,594
Interest expense on debt securities	2,504	2,344	3,760
Interest expense on subordinated loans	1,024	981	1,088
Interest on trading liabilities	32,847	40,024	44,092
Interest on non-trading derivatives	2,166	4,483	7,391
Other interest expense	7,848	7,512	5,511
Total interest expense	55,365	67,586	86,292
Interest result	13,587	12,762	11,286

Interest margin

in percentages	2010	2009	2008
Interest margin	1.44	1.34	1.09

In 2010, the growth in average total assets led to an increase of the interest result amounting to EUR 90 million (in 2009 the decline in average assets led to an decrease of the interest result of EUR 929 million; in 2008 the growth in average assets led to an increase of the interest result of EUR 811 million). The increase of the interest margin by 10 basis points led to a increase of the interest result with EUR 915 million (in 2009 the increase of the interest margin by 25 basis points led to a increase of the interest result with EUR 2,406 million; in 2008 the increase of the interest margin by 15 basis points led to a increase of the interest result with EUR 1,440 million).

Total interest income and total interest expense for items not valued at fair value through profit and loss in 2010 were EUR 34,347 million and EUR 19,947 million respectively (2009: EUR 35,352 million and EUR 22,618 million; 2008: EUR 44,659 million and EUR 34,169 million).

Notes to the consolidated annual accounts of ING Bank continued

33 INVESTMENT INCOME

Investment income	2010	2009	2008
Income from real estate investments	**128**	157	196
Dividend income	**59**	46	84
	187	203	280
Realised gains/losses on disposal of equity securities	**338**	24	29
Impairments of available-for-sale equity securities	**–32**	–49	–258
Realised gains/losses and impairments on equity securities	**306**	–25	–229
Impairments of available-for-sale debt securities	**–146**	–1,491	–2,127
Realised gains/losses on disposal of debt securities	**150**	159	40
Realised gains/losses and impairments on debt securities	**4**	–1,332	–2,087
Change in fair value of real estate investments	**–50**	–588	–350
Investment income	**447**	–1,742	–2,386

Reference is made to the 'Risk management' section for further information on impairments.

34 NET RESULT ON DISPOSALS OF GROUP COMPANIES

Net result on disposals of group companies	2010	2009	2008
Asian Private Banking business	**332**		
Swiss Private Banking business	**73**		
ING Summit Industrial Fund LP	**–26**		
ING Investment Management België			32
ING Investment Management Luxemburg			130
Other	**–66**	–13	
	313	–13	162

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.

Reference is made to Note 27 'Companies acquired and companies disposed' for more details.

Notes to the consolidated annual accounts of ING Bank continued

35 COMMISSION INCOME

Gross fee and commission income	2010	2009	2008
Funds transfer	**861**	859	888
Securities business	**695**	780	891
Asset management fees	**515**	584	934
Brokerage and advisory fees	**329**	317	256
Insurance broking	**190**	188	175
Other	**966**	825	850
	3,556	3,553	3,994

Other include commission fees of EUR 15 million (2009: EUR 18 million; 2008: EUR 21 million) in respect of underwriting syndication loans.

Fee and commission expenses	2010	2009	2008
Funds transfer	**257**	200	185
Securities business	**125**	159	268
Management fees	**19**	24	169
Brokerage and advisory fees	**70**	43	5
Insurance broking			–4
Other	**452**	449	476
	923	875	1,099

36 VALUATION RESULTS ON NON-TRADING DERIVATIVES

Valuation results on non-trading derivatives	2010	2009	2008
Change in fair value of derivatives relating to			
– fair value hedges	**–747**	–1,301	–5,441
– cash-flow hedges (ineffective portion)	**2**	–2	
– other non-trading derivatives	**–802**	–242	–19
Net result on non-trading derivatives	**–1,547**	–1,545	–5,460
Change in fair value of assets and liabilities (hedged items)	**754**	1,181	5,676
Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading)	**69**	–557	127
Net valuation results	**–724**	–921	343

The Valuation results on assets and liabilities designated at fair value through profit and loss includes fair value changes on private equity funds and issued debt securities, designated at fair value through profit and loss. In 2009, the Valuation results on assets and liabilities designated at fair value through profit and loss are mainly a result of changes in fair value of financial liabilities, designated at fair value through profit and loss, due to market circumstances; it includes fair value changes on issued debt securities, designated at fair value through profit and loss, including fair value changes attributable to changes in own credit risk as disclosed in Note 17 'Financial liabilities at fair value through profit and loss'.

37 NET TRADING INCOME

Net trading income	2010	2009	2008
Securities trading results	**231**	331	130
Foreign exchange transactions results	**726**	–127	274
Derivatives trading results	**174**	814	–766
Other	**64**	–185	–43
	1,195	833	–405

Notes to the consolidated annual accounts of ING Bank continued

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 2010 relating to trading securities still held as at 31 December amounted to EUR 19 million (2009: EUR 105 million; 2008: EUR –245 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.

38 OTHER INCOME

Other income

	2010	2009	2008
Net operating lease income	**213**	175	196
Income post office		99	144
Income from real estate development projects	**36**	59	124
Other	**97**	123	28
	346	456	492

Net operating lease income comprises income of EUR 1,000 million (2009: EUR 967 million; 2008: EUR 962 million) and depreciation of EUR 787 million (2009: EUR 792 million; 2008: EUR 766 million).

39 INTANGIBLE AMORTISATION AND OTHER IMPAIRMENTS

Intangible amortisation and (reversals of) impairments

	Impairment losses			Reversals of impairments			Total		
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Property and equipment	**27**	8	12	**–5**	–12		**22**	–4	12
Property development	**403**	450	92		–7	–30	**403**	443	62
Software and other intangible assets	**28**	8	27	**–1**			**27**	8	27
Other									
(Reversals of) other impairments	**458**	466	131	**–6**	–19	–30	**452**	447	101
Amortisation of other intangible assets							**52**	49	53
							504	496	154

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.

In 2010, impairments on property development are recognised on a large number of Real Estate development projects in The Netherlands, Spain and the US. Although the expectation is that the Real Estate markets will not further deteriorate, 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 US. 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.

Notes to the consolidated annual accounts of ING Bank continued

40 STAFF EXPENSES

Staff expenses

	2010	2009	2008
Salaries	**3,835**	3,555	3,815
Pension and other staff-related benefit costs	**200**	178	105
Social security costs	**532**	510	516
Share-based compensation arrangements	**79**	58	75
External employees	**627**	660	1,056
Education	**61**	57	105
Other staff costs	**236**	225	316
	5,570	5,243	5,988

Number of employees

	Netherlands			International			Total		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Average number of employees at full time equivalent basis	**19,415**	19,678	20,326	**51,872**	52,899	53,091	**71,287**	72,577	73,417

Pension and other staff-related benefit costs

	Pension benefits			Post-employment benefits other than pensions			Other			Total		
	2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008
Current service cost	**196**	210	212	**5**	–11	–3	**1**	–24	9	**202**	175	218
Past service cost	**–1**	20	77		–1					**–1**	19	77
Interest cost	**510**	504	502	**4**	5	5	**5**	7	7	**519**	516	514
Expected return on assets	**–590**	–546	–565				**1**	1	4	**–589**	–545	–561
Amortisation of unrecognised past service costs					–1						–1	
Amortisation of unrecognised actuarial (gains)/losses	**21**	20	–28		1		**1**	5	2	**22**	26	–26
Effect of curtailment or other settlement	**–4**	–88	–140							**–4**	–88	–140
Other							**–15**	15	–21	**–15**	15	–21
Defined benefit plans	**132**	120	58	**9**	–7	2	**–7**	4	1	**134**	117	61
Defined contribution plans										**66**	61	44
										200	178	105

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.

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 (so-called delta hedge). As at 31 December 2010 45,213,891 own shares (2009: 35,178,086) were held in connection with the option plan compared to 124,836,694 options outstanding (2009: 122,334,486). 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 has 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 has 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 has 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.

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 certain continuous period of service. The exercise prices of the options are the same as the quoted prices of ING Groep N.V. shares at the date on which the options are granted.

The entitlement to the share awards for ING Group shares is granted conditionally. If the participant remains in employment for an uninterrupted period of three years from the grant date, the entitlement becomes unconditional. In 2010, no shares (2009: nil) have been granted to the members of the Executive Board of ING Group, Management Boards of ING Bank and ING Insurance and 26,369,146 shares (2009: 6,273,467) have been granted to senior management and other employees.

Every year, the ING Group Executive Board will decide to whether the option and share schemes are to be continued and, if so, to what extent. In 2010, the Group Executive Board has 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.

Included in the tables below are the disclosures relating to ING Bank whereas the information above relates to ING Group as a whole.

Changes in option rights outstanding [1]

	Options outstanding (in numbers)			Weighted average exercise price (in euros)		
	2010	2009	2008	**2010**	2009	2008
Opening balance	**73,393,164**	52,906,156	43,505,026	**17.95**	26.36	27.24
Granted	**11,251,643**	7,714,884	8,867,259	**7.35**	3.97	21.98
Exercised and transferred	**–417,682**	–329,607	2,314,913	**9.01**	27.44	24.65
Forfeited	**–1,597,054**	–2,583,773	–1,781,042	**13.82**	28.42	29.08
Rights issue		17,035,619				
Expired	**–6,956,364**	–1,350,115		**21.52**	32.55	
Closing balance	**75,673,707**	73,393,164	52,906,156	**16.23**	17.95	26.36

[1] 2008 reflect original numbers and amounts, not restated for the rights issue adjustment factor.

The weighted average share price at the date of exercise for options exercised in 2010 is EUR 7.46 (2009: EUR 8.57; 2008: EUR 24.07).

Changes in option rights non-vested [1]

	Options non-vested (in numbers)			Weighted average grant date fair value (in euros)		
	2010	2009	2008	**2010**	2009	2008
Opening balance	**28,843,472**	22,346,408	20,568,406	**3.61**	6.03	5.66
Granted	**11,251,643**	7,714,884	8,867,259	**3.26**	2.55	5.27
Vested and transferred	**–8,865,571**	–6,660,929	–5,832,798	**4.81**	6.48	3.84
Forfeited	**–1,185,503**	–1,250,537	–1,256,459	**3.36**	5.83	5.65
Rights issue		6,693,646				
Closing balance	**30,044,041**	28,843,472	22,346,408	**3.13**	3.61	6.03

[1] 2008 reflect original numbers and amounts, not restated for the rights issue adjustment factor.

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		

Summary of stock options outstanding and exercisable

2009 Range of exercise price in euros	Options outstanding as at 31 December 2009	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2009	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	9,608,665	8.36	2.87			
5.00 – 10.00	4,589,702	3.60	9.49	4,291,165	3.18	9.54
10.00 – 15.00	5,521,311	3.45	14.26	5,337,300	3.27	14.26
15.00 – 20.00	20,113,278	6.19	17.33	9,423,479	4.55	17.80
20.00 – 25.00	19,166,534	3.59	23.23	11,852,191	1.71	22.39
25.00 – 30.00	14,393,674	4.17	25.94	13,645,557	4.00	25.97
	73,393,164			44,549,692		

The aggregate intrinsic value of options outstanding and exercisable as at 31 December 2010 was EUR 39 million and nil respectively.

As at 31 December 2010 total unrecognised compensation costs related to stock options amounted to EUR 38 million (2009: EUR 36 million; 2008: EUR 56 million). These costs are expected to be recognised over a weighted average period of 1.9 years (2009: 1.5 years; 2008: 1.8 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 by 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 year 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.

Notes to the consolidated annual accounts of ING Bank continued

41 OTHER OPERATING EXPENSES

Other operating expenses	2010	2009	2008
Depreciation of property and equipment	382	365	354
Amortisation of software	312	282	103
Computer costs	693	637	733
Office expenses	659	679	687
Travel and accommodation expenses	102	99	163
Advertising and public relations	591	539	833
External advisory fees	363	399	459
Postal charges	87	111	130
Addition/(releases) of provision for reorganisations and relocations	109	339	136
Other	795	1,003	624
	4,093	4,453	4,222

Other operating expenses include lease and sublease payments in respect of operating leases of EUR 192 million (2009: EUR 161 million; 2008: EUR 166 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.

42 TAXATION
Profit and loss account

Taxation by type	Netherlands			International			Total		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Current taxation	256	237	–248	922	424	819	1,178	661	571
Deferred taxation	139	–481	–183	91	–223	–558	230	–704	–741
	395	–244	–431	1,013	201	261	1,408	–43	–170

Reconciliation of the weighted average statutory income tax rate to ING Bank's effective income tax rate	2010	2009	2008
Result before tax	5,983	500	533
Weighted average statutory tax rate	28.7%	6.1%	8.4%
Weighted average statutory tax amount	1,719	30	45
Associates exemption	–213	–8	46
Other income not subject to tax	–120	–242	–161
Expenses not deductible for tax purposes	53	25	95
Impact on deferred tax from change in tax rates	7		
Deferred tax benefit from previously unrecognised amounts		–32	
Write down/reversal of deferred tax assets	13	236	44
Adjustment to prior periods	–51	–52	–239
Effective tax amount	1,408	–43	–170
Effective tax rate	23.5%	–8.7%	–31.9%

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 weighted average statutory tax rate slightly decreased in 2009 compared to 2008 and remained low. This is caused by the fact that a relative large part of the losses was incurred in high tax jurisdictions.

Notes to the consolidated annual accounts of ING Bank continued

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

The lower effective tax rate in 2009 compared to 2008 is mainly caused by tax exempt income only partly offset by a reduction of the carrying value of deferred tax assets.

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

Comprehensive income

Income tax related to components of other comprehensive income

	2010	2009	2008
Unrealised revaluations	**61**	2,376	–3,102
Realised gains/losses transferred to profit and loss (reclassifications from equity to profit and loss)	**–17**	480	792
Changes in cash flow hedge reserve	**–20**	–45	–283
Exchange rate differences	**–20**	–7	–23
Other revaluations	**–12**	–2	36
Total income tax related to components of other comprehensive income	**–8**	2,802	–2,580

Notes to the consolidated annual accounts of ING Bank continued

43 OPERATING SEGMENTS

ING Bank's operating segments relate to the internal segmentation by business lines. During 2010 the internal management reporting structure was changed in order to improve transparency. The operating segments have changed accordingly. As at 31 December 2010 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

In 2009 ING Bank identified the following operating segments: Retail Banking, ING Direct and Commercial Banking.

All information by segment for 2010 and comparative years presented below reflect the operating segments as at 31 December 2010.

ING Bank has adopted IFRS 8 'Operating Segments' including the amendment following the issue of 'Improvements to IFRSs' in 2009, with effect from 1 January 2009.

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 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.

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. 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

2010	Retail Netherlands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commercial Banking	ING Real Estate	Corporate Line Banking	Total segments	Eliminations	Total
Underlying income											
Net interest result	3,795	1,603	3,774	670	169	3,153	439	18	13,621		13,621
Commission income	507	347	151	278	55	937	367	–13	2,629		2,629
Total investment and other income	31	104	–143	29	62	858	56	218	1,215		1,215
Total underlying income	4,333	2,054	3,782	977	286	4,948	862	223	17,465		17,465
Underlying expenditure											
Operating expenses	2,376	1,349	1,886	761	180	2,175	823	148	9,698		9,698
Additions to loan loss provision	561	160	446	61	26	395	102		1,751		1,751
Total underlying expenses	2,937	1,509	2,332	822	206	2,570	925	148	11,449		11,449
Underlying result before taxation	1,396	545	1,450	155	80	2,378	–63	75	6,016		6,016
Taxation	367	92	463	31	15	497	46	–3	1,508		1,508
Minority interests		–6	1	20	22	28	8		73		73
Underlying net result	1,029	459	986	104	43	1,853	–117	78	4,435		4,435

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

2010	Income	Expenses	Net result
Underlying	17,465	11,449	4,435
Divestments	436	13	400
Special items		456	–340
IFRS-EU	17,901	11,918	4,495

Divestments in 2010 mainly relate 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.

Special items in 2010 mainly relate 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.

Impairments and reversal of impairments on investments per operating segment

2010	Impairments
ING Direct	107
Commercial Banking (excluding Real Estate)	70
Corporate Line Banking	1
	178

In 2010 no reversals of impairments on investments were recognised.

The impairments on investments are presented within Investment income.

Notes to the consolidated annual accounts of ING Bank continued

Operating segments

2009	Retail Netherlands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commercial Banking	ING Real Estate	Corporate Line Banking	Total segments	Eliminations	Total
Underlying income											
Net interest result	3,278	1,614	3,136	675	110	3,420	429	68	12,730		12,730
Commission income	535	342	167	261	43	834	362	15	2,559		2,559
Total investment and other income	69	106	–1,541	–75	43	703	–651	–192	–1,538		–1,538
Total underlying income	3,882	2,062	1,762	861	196	4,957	140	–109	13,751		13,751
Underlying expenditure											
Operating expenses	2,470	1,284	1,663	660	132	1,880	888	319	9,296		9,296
Additions to loan loss provision	529	200	765	116	39	971	239		2,859		2,859
Total underlying expenses	2,999	1,484	2,428	776	171	2,851	1,127	319	12,155		12,155
Underlying result before taxation	883	578	–666	85	25	2,106	–987	–428	1,596		1,596
Taxation	233	79	–252	29	5	378	–193	–119	160		160
Minority interests		2	1	5	10	29	25		72		72
Underlying net result	650	497	–415	51	10	1,699	–819	–309	1,364		1,364

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

2009	Income	Expenses	Net result
Underlying	13,751	12,155	1,364
Divestments	–189	284	–241
Special items	103	726	–439
IFRS-EU	13,665	13,165	684

Divestments in 2009 mainly relates to the operational result from the in 2010 divested units Private Banking business Asia and Switzerland and Summit.

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

Impairments and reversal of impairments on investments per operating segment

2009	Impairments
ING Direct	1,394
Commercial Banking (excluding Real Estate)	129
Corporate Line Banking	17
	1,540

In 2009 no reversals of impairments on investments were recognised.

The impairments on investments are presented within Investment income.

Notes to the consolidated annual accounts of ING Bank continued

Operating segments

2008	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	3,564	1,262	2,517	589	90	3,009	260	–25	11,266		11,266
Commission income	633	404	150	279	43	742	427	71	2,749		2,749
Total investment and other income	138	54	–1,790	2	62	–91	–60	–184	–1,869		–1,869
Total underlying income	4,335	1,720	877	870	195	3,660	627	–138	12,146		12,146
Underlying expenditure											
Operating expenses	2,826	1,387	1,719	796	144	2,234	623	162	9,891		9,891
Additions to loan loss provision	251	26	283	65	13	516	81		1,235		1,235
Total underlying expenses	3,077	1,413	2,002	861	157	2,750	704	162	11,126		11,126
Underlying result before taxation	1,258	307	–1,125	9	38	910	–77	–300	1,020		1,020
Taxation	264	64	–394	2	2	205	–16	–280	–153		–153
Minority interests			2	21	15	15	–5		48		48
Underlying net result	994	243	–733	–14	21	690	–56	–20	1,125		1,125

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

2008	Income	Expenses	Net result
Underlying	12,146	11,126	1,125
Divestments	31	217	–86
Special items		301	–267
IFRS-EU	12,177	11,644	772

Divestments in 2008 mainly relates to the operational result from the in 2010 divested units Private Banking business Asia and Switzerland and Summit.

Special items in 2008 relate to the combining of ING Bank and Postbank and the unwinding of Postkantoren.

Impairments and reversal of impairments on investments per operating segment

2008	Impair-ments
Retail Belgium	4
ING Direct	1,891
Commercial Banking (excluding Real Estate)	267
Corporate Line Banking	223
	2,385

In 2008 no reversals of impairments on investments were recognised.

The impairments on investments are presented within Investment income.

Interest income (external) and interest expenses (external) breakdown by 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**
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**

Notes to the consolidated annual accounts of ING Bank continued

Interest income (external) and interest expenses (external) breakdown by 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
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

Interest income (external) and interest expenses (external) breakdown by operating segments

2008	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
Interest income	8,405	4,260	13,293	1,915	469	66,406	2,133	697	97,578
Interest expense	2,942	3,392	10,501	1,512	332	65,095	374	2,144	86,292
	5,463	868	2,792	403	137	1,311	1,759	–1,447	11,286

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'.

44 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

2010	**Nether-lands**	**Bel-gium**	**Rest of Europe**	**North Ame-rica**	**Latin Ame-rica**	**Asia**	**Aus-tralia**	**Other**	**Elimi-nations**	**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	Nether-lands	Bel-gium	Rest of Europe	North Ame-rica	Latin Ame-rica	Asia	Aus-tralia	Other	Elimi-nations	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

Geographical areas

2008	Nether-lands	Bel-gium	Rest of Europe	North Ame-rica	Latin Ame-rica	Asia	Aus-tralia	Other	Elimi-nations	Total
Total income	4,196	2,596	4,816	–332	52	683	167		–1	12,177
Total assets	664,225	164,249	417,118	154,124	20,060	50,277	28,692	108	–464,164	1,034,689

Notes to the consolidated annual accounts of ING Bank continued

45 NET CASH FLOW FROM INVESTING ACTIVITIES
Information on the impact of companies acquired or disposed of is presented in Note 27 'Companies acquired and companies disposed'.

46 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

Interest and dividend received and paid			
	2010	2009	2008
Interest received	**70,816**	82,231	95,489
Interest paid	**–56,357**	–68,288	–82,916
	14,459	13,943	12,573
Dividend received	**187**	82	181
Dividend paid	**–200**		–4,250

47 CASH AND CASH EQUIVALENTS

Cash and cash equivalents			
	2010	2009	2008
Treasury bills and other eligible bills	**4,442**	3,181	7,009
Amounts due from/to banks	**3,227**	2,387	2,217
Cash and balances with central banks	**9,519**	12,602	18,169
Cash and cash equivalents at end of year	**17,188**	18,170	27,395

Treasury bills and other eligible bills included in cash and cash equivalents			
	2010	2009	2008
Treasury bills and other eligible bills included in trading assets	**1,698**	2,283	2,770
Treasury bills and other eligible bills included in available-for-sale investments	**2,744**	898	4,239
	4,442	3,181	7,009

Amounts due to/from banks			
	2010	2009	2008
Included in cash and cash equivalents			
– amounts due to banks	**–12,898**	–12,334	–13,738
– amounts due from banks	**16,125**	14,721	15,955
	3,227	2,387	2,217
Not included in cash and cash equivalents			
– amounts due to banks	**–59,954**	–71,901	–138,527
– amounts due from banks	**35,703**	28,676	32,492
	–24,251	–43,225	–106,035
Included in balance sheet			
– amounts due to banks	**–72,852**	–84,235	–152,265
– amounts due from banks	**51,828**	43,397	48,447
	–21,024	–40,838	–103,818

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

EXECUTIVE SUMMARY / RISK MANAGEMENT IN 2010

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, ING Bank has integrated risk management in its daily business activities and strategic planning. Risk Management assists 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. The way ING Bank manages these risks on a day-to-day basis is described in this risk management section.

ING Bank has implemented a revised 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.

The economic capital model for credit risk was updated to bring it more in line with the regulatory capital framework, and now relies less on diversification benefits.

ING Bank needs to prepare for significant changes in the regulatory requirements, i.e. the implementation of Basel III (which is the Basel II reform packages on risk and liquidity). Additionally, ING continued its stress testing efforts, with stress testing becoming more important and more embedded in the risk culture.

During 2010 strengthening of ING balance sheet continued. In 2010, ING continued to reduce the exposure on the ABS portfolio by limiting the reinvestments in ABS to agency paper only. Because of the strengthening of the US Dollar and the improvements in the revaluation reserve this policy does not result in a lower balance sheet amount for this asset class.

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. The impact on ING's revaluation reserve in relation to sovereign debt is limited per 31 December 2010: 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 2010, ING reduced its sovereign debt exposure to these troubled countries.

IMPACT ON PRESSURISED ASSET CLASSES

Exposures, revaluations and losses on pressurised asset classes

	31 December 2010		Change in 2010			31 December 2009	
	Balance Sheet Value [1]	Revaluations through equity (pre-tax)	Revaluations through equity (pre-tax)	Write-downs through P&L (pre-tax)	Other changes	Balance Sheet Value [1]	Revaluations through equity (pre-tax)
US Subprime RMBS	87	6	12	–3	18	60	–6
US Alt-A RMBS	2,488	214	391	–97	–433	2,627	–177
CDO/CLOs	799	7	82	–9	–129	855	–75
CMBS	2,421	–149	132	–24	–243	2,556	–281
Total pressurised ABS	5,795	78	617	–133	–787	6,098	–539
Pressurised Government and Financial Institution bonds for both Greece and Ireland [2]	928	–285	–206		–1,034	2,168	–79

[1] For assets classified as loans and receivables: amortised cost; otherwise: fair value.
[2] Country is based on the country of residence of the obligor; Covered bonds are excluded; government only includes central government.

In 2009, certain ABS (US Subprime RMBS, Alt-A RMBS, CMBS and CDO/CLOs) were considered pressurised asset classes. As of 2010, Greek and Irish Government and Financial Institution bonds are also considered pressurised asset classes. Ireland and Greece are the only countries that used the European Financial Stability Fund (EFSF) during 2010, only the government and financial institution unsecured bonds for these countries are considered as pressurised assets by ING.

Risk management continued

Changes in the ABS portfolio

The total ABS portfolio remained relatively stable, changing slightly from 37.8 billion at year-end 2009 to 36.7 billion per end of year 2010. The value of the ING Bank ABS portfolio decreased ca. 1.1 billion during 2010. ING maintained its policy to restrict reinvestment of maturing debt securities as much as possible and any reinvestments were mainly in government guaranteed paper. Revaluation reserve improvements are visible for all pressurised ABS classes, with the total revaluation reserve for the pressurised ABS assets changing from negative to positive, with CMBS being the only pressurised ABS class that still has a negative revaluation reserve per year end 2010. Despite the improved market values, ING Bank still took impairments on the pressurised ABS portfolio, though for a much smaller amount than previous year (EUR 133 million in 2010 versus EUR 1,406 million in 2009). The credit quality of the ING ABS portfolio did not materially change, with 83% of the portfolio rated A or better at year-end 2010 (88% in 2009).

Of the exposure on pressurised ABS, EUR 3.3 billion is measured at fair value (with the revaluation recognised in equity, except impairments on these trades going through P&L). The tables below provide the fair value hierarchy per year-end 2010 and 2009 for the ABS bond exposure measured at fair value. The table shows how the total fair values are determined through the following Level 1, 2, 3 hierarchy:
Level 1 – Quoted prices in active markets
Level 2 – Valuation technique supported by observable inputs
Level 3 – Valuation technique supported by unobservable inputs
An analysis of the method applied in determining the fair values of financial assets and liabilities is provided in Note 31 'Fair value of financial assets and liabilities'.

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

Fair value hierarchy of pressurised ABS bonds

2009	Level 1	Level 2	Level 3	Total
US Subprime RMBS		16	44	60
US Alt-A RMBS		2,051	576	2,627
CDO/CLOs	7	64	301	372
CMBS	123	203	18	344
Total pressurised ABS	130	2,334	939	3,403

Changes in the bond portfolio (excluding ABS)

The ING Bank bond portfolio increased EUR 4.1 billion from EUR 131.3 billion at year-end 2009 to EUR 135.4 billion at end of year 2010. The change is mainly caused by changes in the government bond portfolio. For the government bonds the revaluation changes are triggered by a loss of confidence with regards to several southern European countries and Ireland. During 2010 ING closely monitored the developments with regards to these countries and its sovereign debt exposure to these countries. Ireland and Greece are the only countries that used the European Financial Stability Fund (EFSF) during 2010, only the government and financial institution unsecured bonds for these countries are classified as pressurised assets by ING.

For ING Bank, the bonds portfolio includes Government and Financial Institutions unsecured bond exposures in Greece and Ireland classified as available-for-sale of EUR 570 million (fair value), with a related negative revaluation reserve in equity of EUR –285 million. Furthermore it includes similar exposures classified as loans and advances of EUR 358 million (amortised cost).

The Greek and Irish Government and Financial Institution unsecured bonds measured at fair value are in the fair value hierarchy levels 1 and 2.

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 make sure that a crisis in the financial system can be avoided in the future. To accomplish this, regulations focus primarily at the following issues:

Risk management continued

- More stringently aligning risk taking with the capital position of the financial institutions (revised Basel II for Banks). The revised Basel II 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 bad times when it is most scarce. Lastly, there is the proposal to introduce additional capital requirements for counterparty credit risk.
  Collectively these proposals are referred to as Basel III. These were issued by the Basel Committee in December 2010, and 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 run on their parents. In the absence of a supranational harmonization 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.

ING BANK RISK GOVERNANCE

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.

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's risk profile is transparent, managed to avoid surprises, and is consistent with delegated authorities;
- Delegated authorities are consistent with the overall Bank strategy and risk appetite;
- Transparent communication to internal and external stakeholders on risk management and value creation.

Risk Management benefits ING 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's businesses more competitive in their markets.

RISK GOVERNANCE

ING'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 (and ratified by the Supervisory Board) and is cascaded throughout ING. This concept provides a clear allocation of responsibilities for the ownership and management of risk, to avoid overlaps and/or gaps in risk governance. 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. Risk managers in the business lines have a functional reporting line to the Risk General Managers described below. 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 Function

The risk management function is embedded in all levels of the ING Bank organisation.

Chief Risk Officer

The Chief Risk Officer (CRO), who is a Management Board 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'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.

Risk Organisation

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

Risk management continued

The risk organisation is structured independently from the business lines and is organised through five risk departments:
- Corporate Credit Risk Management (CCRM) is responsible for credit risk management;
- Corporate Market Risk Management (CMRM) is responsible for market and liquidity risk management;
- Corporate Operational Risk Management (CORM) is responsible for the operational risk management;
- Compliance Risk Management (GCRM) is responsible for (i) identifying, assessing, monitoring and reporting on the compliance risks faced by ING, (ii) supporting and advising management on fulfilling its compliance responsibilities, and (iii) advising employees on their (personal) compliance obligations.

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

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

Risk Committees

The risk committees described below are also part of the second line of defence. They act within the overall risk policy and delegated authorities granted by the Management Board and have an advisory role to the CRO. To ensure a close link between the business lines and the risk management function, the business line heads and the respective Risk General Managers are represented on each committee (except for the Operational and Residual Risk Committee where the business is not represented). An important element of the Risk Committee Governance is that the Chairman of each committee is responsible for making decisions after advice from other committee members. Each committee is chaired by a senior risk representative.

- ING Credit Committee – Policy (GCCP): Discusses and approves policies, methodologies and procedures related to credit, country and reputation risks within ING Bank. The GCCP meets on a monthly basis;
- ING Credit Committee – Transaction Approval (GCCTA): Discusses and approves transactions which entail taking credit risk (including issuer investment risk). The GCCTA meets twice a week;
- ING Investment Committee (GIC): Discusses and approves investment proposals for ING Real Estate. The GIC meets on a monthly basis;
- 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;
- Operational and Residual Risk Committee (ORRC): Discusses and approves issues related to Methods, Models and Parameters for Operational risk, Business risk, inter-risk diversification and consistency across risk types and businesses. The committee meets at least twice a year.

Due to the implementation of the operational separation for ING Bank and ING Insurance the process was started to change Group level risk committees into a separate Bank committee and a separate Insurance committee. As a result of these governance changes the ORRC was disbanded towards the end of 2010, and the topics for this committee were transferred to other committees, like the newly created Operational Risk Committee Bank (ORC Bank).

In addition, the Finance and Risk Committee (F&RC) is a platform for the CRO and the CFO, along with their respective direct reports, to discuss and decide on issues that relate to both the finance and risk domains.

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.

Board level risk oversight

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

Risk management continued

- The Bank Management Board is responsible for managing risks associated with the activities of ING Bank. As ING Bank is a 100% subsidiary of ING Groep N.V. ('ING'), its strategic planning and risk management are to observe the frameworks set by ING; in addition, some of its strategic planning and risk management functions, reporting lines and reports are shared with or integrated into those of ING. At the highest level of the ING organisation, there are board committees which oversee risk taking of ING in its entirety, including ING Bank and which have ultimate approval authority. Taking into account the foregoing, the Management Board'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 Management Board reports on these issues and discusses the internal risk management and control systems with the Supervisory Board. On a quarterly basis, the Management Board reports on the Bank's risk profile versus its risk appetite to the Audit Committee, explaining changes in the risk profile.
- The Supervisory Board is responsible for supervising the policy of the Management Board, the general course of affairs of the Company and its business (including its financial policies and corporate structure). The Supervisory Board has several sub-committees, related to specific topics. Of these, two sub-committees are relevant for the risk management organisation and risk reporting, which are:
  - The Audit Committee, which assists the Supervisory Board in reviewing and assessing ING'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.
  - The Risk Committee, which assists the Supervisory Board on matters related to risk governance, risk policies and risk appetite setting. The committee was established in 2009. It reports in the Supervisory Board on the main risk issues within ING Bank.

  Committee membership is organised such that specific business know-how and expertise relating to the activities of ING and the subject matter of the committees is available. The CRO attends the meetings of the Audit Committee and the Risk Committee.

The CRO makes sure 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's risk appetite levels and on ING Group's risk profile. In addition the CRO briefs the board committees on developments in internal and external risk related issues and makes sure the board committees understand specific risk concepts.

ING has integrated its risk management into the annual strategic planning process. This process aligns strategic goals, business strategies and resources throughout ING Bank. The Management Board 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. It is part of the process to explicitly discuss strategic limits and risk appetite levels. At each level, strategies and metrics are identified to measure success in achieving objectives and to assure adherence to the strategic plan. Based on the business plans, the Management Board formulates the Strategic Plan which is submitted to the Supervisory Board for approval.

Risk policies

ING 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 on all business units. The governance framework of the business units aligns with the Bank level framework and meets local (regulatory) requirements. Senior Management is responsible to ensure policies, procedures and standards are implemented and adhered to. Policies, procedures and standards are regularly reviewed and updated via the relevant risk committees to reflect changes in markets, products and emerging best practices.

RISK PROFILE

ING Bank uses an integrated risk management approach for its banking activities. The Management Board Bank uses the risk appetite frameworks to monitor and manage the actual risk profile in relation to the risk appetite, which is derived from the Group target AA rating. It enables the Management Board to identify possible risk concentrations and to support strategic decision making. The risk appetite level is reported to the Management Board on a quarterly basis and is subsequently presented to the Risk Committee.

ING's risk appetite is defined by the Management Board as part of the strategic planning process. As a next step, strict boundaries are established with regard to acceptable risk types and levels for ING Bank. In 2010, the revised risk appetite framework was implemented, after approval by the Management Board.

Risk management continued

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.

ING's 'three lines of defence' governance framework ensures that risk is managed in line with the risk appetite as defined by the Management Board. Risk appetite is 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 Management Board monitors that the financial and non-financial risks are within the boundaries of the risk appetite as set in the strategic planning process.

Risk types
ING 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'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 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;
- 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.

Stress Testing
ING 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.

Several stress tests are produced both scheduled and ad hoc, both in the form of sensitivity or scenario analysis, either for a specific risk type or for ING Bank as a whole. The stress test can represent various economic situations from mild recession to extreme shock. In addition to regulatory required stress tests like those required by the Dutch Central Bank (De Nederlandsche Bank (DNB)) and the Committee for European Banking Supervision (CEBS; which per 1 January 2011 became the European Banking Authority (EBA)), several ad hoc tests have been conducted.

ING participated in the stress test conducted by the CEBS, which included a baseline scenario, adverse scenario and an additional sovereign shock for 2010 and 2011. 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.

Risk models
A description of the models, underlying assumptions and key principles used by ING for calculating the risk metrics are provided in the Model Disclosure section at the end of the risk management section.

ING BANK FINANCIAL RISKS
ING Bank is engaged in selling a broad range of products. The Bank Management Board is responsible for managing risks associated with the activities of ING Bank. The financial risks that arise from selling these products are managed by the Credit and Market Risk departments. Operational risks are managed by the Operational Risk department.

ING BANK RISK PROFILE
Risk appetite
For financial risks, ING 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 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).

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

Risk management continued

Due to the way the risk departments are organised, these metrics are presented at a higher aggregation level than the identified segments in Note 43 'Operational 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);
- Bank Corporate Line coincides with Corporate Line.

ING Bank Economic Capital and Regulatory Capital

Main risk management tools for ING Bank are Economic Capital and Regulatory Capital. 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. The main difference in these metrics is the point of view, where Regulatory Capital is driven by methodologies prescribed by regulators and Economic Capital 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.

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

	Economic Capital		Regulatory Capital	
	2010	2009	**2010**	2009
Credit risk (including Transfer risk)	**15,245**	9,991	**22,452**	22,790
Market risk	**7,233**	8,435	**364**	491
Business Risk	**2,435**	2,581		
Operational Risk	**1,619**	2,074	**2,872**	3,309
Total banking operations	**26,532**	23,081	**25,688**	26,590

Economic Capital (Bank diversified only) by business line combination

	Economic Capital		Regulatory Capital	
	2010	2009	**2010**	2009
Commercial Banking	**10,695**	8,662	**11,395**	12,824
Retail Banking Benelux	**4,613**	4,215	**5,498**	5,470
Retail Banking Direct & International	**8,881**	7,417	**8,587**	7,977
Corporate Line Bank (1)	**2,343**	2,787	**208**	319
Total banking operations	**26,532**	23,081	**25,688**	26,590

(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.

The EC figures shown reflect all diversification effects within ING Bank, including risk reduction between the risk categories; while for Regulatory capital no diversification is taken into account. The ING Bank Economic Capital model is described in more detail in the Model Disclosure section.

In 2010, ING has been recalibrating the underlying assumptions for credit, transfer and operational risk. As the economic capital model for credit risk was updated to bring closer alignment with the regulatory capital framework there was a material increase in the economic capital.

Closer aligning the credit risk economic capital with the regulatory capital means that the difference between economic capital and regulatory capital for credit risk decreases significantly. Given the different point of view of RC and EC, the market risk economic capital is higher than the regulatory capital primarily due to the inclusion of the banking books in EC. The EC figures include Business risk, while RC does not have any requirements for business risk. Another difference in scope is the confidence level used; a 99.95% confidence level for EC, and a 99.9% confidence level for RC. Given the increase in Credit Risk EC and the differences in scope and methodology between EC and RC the 2010 figures for EC are higher than the RC figure, while for 2009 this was exactly opposite. Correcting for the difference in confidence level will lead to an EC figure that is lower than the RC figure.

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.

ING BANK – CREDIT RISKS

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. Corporate Credit Risk Management (CCRM) is responsible for the measurement and management of credit risk incurred by all ING Bank entities, including country-related risks. CCRM is organised along the business lines of ING Bank. The CCRM 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. CCRM 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. ING Bank applies a Risk Adjusted Return on Capital framework (RAROC) which measures the performance of different activities and links to shareholder value creation. 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. More sophisticated RAROC-based tools are used internally to ensure a proper balance of risk and reward within the portfolio and concentration parameters. ING'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.

Risk categories for credit risk

Lending risk

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

Investment risk

Investment risk is the credit default and risk rating migration risk that is associated with ING's investments in bonds, commercial paper, securitisations, and other similar publicly traded securities. Investment risk arises when ING purchases a (synthetic) bond with the intent to hold the bond for a longer period of time (generally through maturity). 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 Corporate 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.

Money market risk

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

Pre-settlement risk

Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk (potential or expected risk) is the cost of ING replacing a trade in the market. This credit risk category is associated with dealing room products such as options, swaps, and securities financing transactions. Where there is a mutual exchange of value, the amount of 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 has paid or delivered its side of the trade. The risk is that ING 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.

Risk management continued

For those transactions where DVP settlement is not possible, ING 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 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 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 or its counterparties to meet their respective foreign currency obligations due to a specific country event.

In countries where ING 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'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 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. ING uses different credit risk mitigation techniques, of which entering into Master Agreements, Collateral Agreements and CDS contracts are the main techniques used.

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'.

Compensation and Master agreements

ING uses various market pricing and measurement techniques to determine the amount of credit risk on pre-settlement activities. These techniques estimate ING'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 matches trades with similar characteristics to determine their eligibility for offsetting. This offsetting effect is called 'compensation'. Subsequently, ING 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 under CSAs or other similar agreements.

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 determines the amount and type of collateral, if any, that a customer may be required to pledge to ING. 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 actively enters into various legal arrangements whereby ING 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 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'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.

Risk management continued

As part of its securities financing business, ING 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 held as collateral under these types of agreements was EUR 92.0 billion at 31 December 2010 and EUR 72.7 billion at 31 December 2009. The increase is commensurate with the overall increase in open securities financing trades at year end 2010 compared to year end 2009. 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). 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 is obliged to return equivalent securities in such cases.

Repossession policy
It is ING's general policy not to take possession of assets of defaulted debtors. Rather, ING attempts to sell the assets from within the legal entity that has pledged these assets to ING, in accordance with the respective collateral or pledge agreements signed with the obligors. In those cases where ING does take possession of the collateral, ING 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, 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 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.

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

Credit quality: ING Bank portfolio, outstandings

	2010	2009
Neither past due nor impaired	**822,445**	790,377
Past due but not impaired (1-90 days) (1)	**5,638**	7,404
Impaired	**13,779**	11,983
Total	**841,862**	809,764

(1) Based on lending (consumer loans and residential mortgages only).

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	
		2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
1	(AAA)	**3.0%**	3.7%		0.2%	**14.4%**	18.3%	**6.3%**	7.8%
2-4	(AA)	**14.3%**	18.7%	**4.0%**	3.7%	**12.1%**	16.0%	**10.6%**	13.4%
5-7	(A)	**24.0%**	21.4%	**5.3%**	5.2%	**18.8%**	17.1%	**16.8%**	15.2%
8-10	(BBB)	**22.9%**	20.7%	**42.0%**	38.4%	**28.9%**	25.1%	**30.4%**	27.4%
11-13	(BB)	**22.8%**	22.0%	**37.7%**	41.0%	**15.5%**	13.5%	**24.4%**	24.5%
14-16	(B)	**8.8%**	8.5%	**6.2%**	6.4%	**7.2%**	6.9%	**7.5%**	7.3%
17-22	(CCC & Problem Grade)	**4.2%**	5.0%	**4.8%**	5.1%	**3.1%**	3.1%	**4.0%**	4.4%
		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.

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	
		2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
1	(AAA)	**0.8%**	0.8%	**30.8%**	36.9%	**1.2%**	1.2%	**3.5%**	5.9%	**6.3%**	7.8%
2-4	(AA)	**6.0%**	7.0%	**25.0%**	29.4%	**22.0%**	45.6%	**18.2%**	26.1%	**10.6%**	13.4%
5-7	(A)	**9.5%**	9.1%	**27.1%**	23.1%	**62.3%**	40.9%	**50.8%**	46.7%	**16.8%**	15.2%
8-10	(BBB)	**36.9%**	35.0%	**12.5%**	6.5%	**6.8%**	7.2%	**17.2%**	11.0%	**30.4%**	27.4%
11-13	(BB)	**32.0%**	32.7%	**2.0%**	1.8%	**7.4%**	4.7%	**7.3%**	7.3%	**24.4%**	24.5%
14-16	(B)	**9.9%**	9.9%	**0.6%**	0.6%	**0.1%**	0.2%	**1.8%**	1.8%	**7.5%**	7.3%
17-22	(CCC & Problem Grade)	**4.9%**	5.5%	**2.0%**	1.7%	**0.2%**	0.2%	**1.2%**	1.2%	**4.0%**	4.4%
		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.

Within the Investment and Pre-Settlement portfolios, there was a slight downward shift from the high end investment grade, to the midlevel investment grade in 2010. The Lending portfolios remained fairly stable. A large portion of the reduction in investment grade counterparty risks (pre-settlement) is related to the increasing application of collateral and netting agreements with these counterparties. Where such agreements are in place, ING generally has higher absolute volumes, while the credit risks are actually lowered due to the benefit of collateral and netting agreements.

Risk concentration: ING Bank portfolio, by economic sector [1][2]

	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International		Total ING Bank	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Private Individuals	**0.1%**	0.2%	**74.8%**	74.4%	**51.6%**	48.1%	**40.0%**	38.2%
Commercial Banks	**17.9%**	19.5%	**0.3%**	0.5%	**13.2%**	13.7%	**11.2%**	12.0%
Non-Bank Financial Institutions	**13.3%**	13.0%	**1.2%**	1.8%	**16.8%**	18.8%	**11.1%**	11.8%
Central Governments	**11.7%**	12.3%	**1.0%**	0.9%	**8.0%**	8.8%	**7.3%**	7.8%
Real Estate	**13.6%**	13.8%	**4.5%**	4.3%	**0.9%**	0.8%	**6.4%**	6.6%
Natural Resources	**10.3%**	8.7%	**0.4%**	0.4%	**0.4%**	0.3%	**3.9%**	3.4%
Transportation & Logistics	**5.7%**	5.6%	**1.4%**	1.5%	**0.2%**	0.1%	**2.5%**	2.5%
Services	**3.3%**	3.2%	**3.3%**	3.2%	**0.3%**	0.3%	**2.2%**	2.2%
Lower Public Administration	**0.5%**	0.5%	**1.3%**	1.2%	**4.3%**	3.4%	**2.1%**	1.7%
Other	**23.6%**	23.2%	**11.8%**	11.8%	**4.3%**	5.7%	**13.3%**	13.8%
	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's internal credit risk measurement methodologies.
[2] Economic sectors below 2% are not shown separately but grouped in Other.

As part of the Back to Basics focus on core clients, ING Bank reduced its exposure to governments and the financial sector while growing the private individual and corporate portfolios. The industry Central Banks fell below the 2.0% threshold during 2010 (2009: 2.3%).

ING Bank Lending portfolio

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

	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International		Total ING Bank	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Netherlands	**20.7%**	20.2%	**74.8%**	75.4%	**4.8%**	6.1%	**31.2%**	32.1%
Belgium	**7.7%**	9.8%	**23.2%**	21.4%	**0.2%**	0.3%	**9.6%**	9.9%
Rest of Europe	**45.2%**	44.6%	**1.3%**	1.7%	**53.3%**	56.3%	**35.0%**	35.6%
Americas	**14.8%**	15.5%	**0.2%**	0.6%	**26.4%**	24.3%	**14.6%**	14.1%
Asia/Pacific	**11.2%**	9.5%	**0.1%**	0.5%	**15.3%**	13.0%	**9.4%**	8.0%
Rest of World	**0.4%**	0.4%	**0.4%**	0.4%			**0.2%**	0.3%
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.

The largest relative geographic area of growth was Asia/Pacific which corresponds with the region's economic recovery in 2010. Exchange rate effects had further impact on the regional division.

Risk management continued

In line with ING'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 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.

Problem loans

Renegotiated Loans

ING's credit restructuring activities focus on managing the client relationships, improving the borrower's risk profile, maximising collection opportunities and, if possible, avoiding foreclosure or repossession. These activities are pro-actively pursued and primarily relate to Wholesale and Small and Medium Enterprise (SME) borrowers ('Business'), which are not yet in default. Common actions taken include, but are not limited to, revising or extending repayment arrangements, assisting in financial reorganisation and/or turnaround management plans, deferring foreclosure, modifying loan conditions and deferring certain payments pending a change in circumstances. For consumer and residential mortgage loans ('Consumer') the approach is more portfolio oriented.

Restructuring activities for Business borrowers normally start with a watch list indication. Borrowers on the watch list maintain their rating (1-19). A watch list indication may develop into a restructuring status (18-19) or even a recovery status (20-22). Most borrowers with a watch list indication return to a regular status. For Consumer clients the watch list of 'potential problem loan' status is usually caused by payment arrears (more than 1 month) which are subsequently reflected in the risk rating of 18-19 (or comparable status based on an increased probability of default). Following restructuring relationship management is either transferred to the regular banking departments or terminated.

ING's renegotiated loans that would otherwise be past due or impaired are reflected below:

ING Bank renegotiated loans that would otherwise be past due or impaired (outstandings)

			2010			2009
	Business loans	Consumer and mortgage loans	Total	Business loans	Consumer and mortgage loans	Total
From restructuring (18-19) to regular (1-17) status	4,365		4,365	2,737		2,737
From recovery (20-22) to regular or restructuring status (1-19)	2,744	3,209	5,953	2,895	3,210	6,105
Total of renegotiated loans	7,109	3,209	10,318	5,632	3,210	8,842

ING continues to take a proactive approach in working with its Business and Consumer customers which are experiencing financial difficulties to restructure their loans and help return the companies to economic viability. The category 'restructuring status' is not used for consumer borrowers, but only for Business customers.

Past-due obligations

ING 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 the retail loans and small businesses. 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.

Aging analysis (past due but not impaired): ING Bank portfolio, outstandings [1][2]

	2010	2009
Past due for 1-30 days	4,565	5,967
Past due for 31-60 days	973	1,281
Past due for 61-90 days	100	156
Total	5,638	7,404

[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.

There is no significant concentration of a particular type of loan structure in the past due or the impaired loan portfolio.

Risk management continued

ING tracks past due but not impaired loans most closely for the consumer loan and residential mortgage portfolios. 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'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.

Impaired loans and provisions
The credit portfolio is under constant review. 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), which advises the Management Board on specific provisioning levels. ING Bank identifies as impaired loans those loans for which it is probable, based on current information and events that the principal and interest amounts contractually due will not be collected in accordance with the contractual terms of the loan agreements.

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

Impaired Loans: ING Bank portfolio, outstandings by economic sector

	2010	2009
Private Individuals	**4,838**	4,589
Real Estate	**2,777**	1,528
General Industries	**858**	933
Food, Beverages & Personal Care	**837**	681
Transportation & Logistics	**818**	415
Builders & Contractors	**792**	628
Services	**582**	611
Non-Bank Financial Institutions	**527**	304
Other	**1,750**	2,294
Total	**13,779**	11,983

ING holds specific and collective provisions of EUR 2,697 million and EUR 1,404 million, respectively (2009: EUR 2,115 million and EUR 1,246 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 1,051 million in provisions against the performing portfolio and EUR 43 million of Net Present Value forgone for re-modified loans.

Provisions: ING Bank portfolio

	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International		Total ING Bank	
	2010	2009	2010	2009	2010	2009	2010	2009
Opening balance	**1,628**	1,024	**1,290**	802	**1,481**	785	**4,399**	2,611
Changes in the composition of the group				–3				–3
Write-offs	**–337**	–520	**–454**	–468	**–375**	–229	**–1,166**	–1,217
Recoveries	**36**	21	**58**	118	**11**	9	**105**	148
Increase/(decrease) in loan loss provision	**497**	1,211	**721**	728	**533**	1,034	**1,751**	2,973
Exchange differences	**65**	–28	**8**	–3	**82**	–17	**155**	–48
Other changes	**–34**	–80	**18**	116	**–33**	–101	**–49**	–65
Closing balance	**1,855**	1,628	**1,641**	1,290	**1,699**	1,481	**5,195**	4,399

During 2010 we saw a slow reduction to more normalised risk costs. The lower risk costs level was largely the result of an improving portfolio within Commercial Banking, which was partly offset due to the continuing elevated levels of the risk costs in Retail Benelux.

ING BANK – MARKET RISKS

Market risk is the risk that movements in market variables, such as interest rates, equity prices, foreign exchange rates 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

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 Corporate Market Risk Management department (CMRM) 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 CMRM 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.

CMRM 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 CMRM 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.

Market risk in trading books

Organisation

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 and foreign exchange rates.

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

With respect to the trading portfolios, CMRM focuses on the management of market risks of Commercial Banking (mainly Financial Markets) as this is the only business line where significant trading activities take place. Trading activities include facilitation of client business, market making and proprietary position taking in cash and derivatives markets. CMRM 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. CMRM 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 CMRM overall down to specific business areas and trading offices.

Measurement

CMRM uses the 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, foreign exchange rates, equity prices, credit spreads, implied volatilities) if positions remain unchanged for a time period of one day. The impact of historical market movements on today's portfolio is estimated, based on equally weighted observed market movements of the previous year. ING uses VaR with a 1-day horizon for internal risk measurement, control and backtesting, and VaR with a 10-day horizon for determining regulatory capital. ING's VaR model has been approved by De Nederlandsche Bank (DNB: the Dutch Central Bank) to be used for the regulatory capital calculation of its most important trading activities.

Market risk management for the fixed income and equity markets is split into two components: general market risk and specific market risk. The general market risk component estimates the VaR resulting from general market-value movements (e.g. interest rate movements). The specific market risk component estimates the VaR resulting from market-value movements that relate to e.g. the underlying issuer of securities in the portfolios. This specific risk relates to all value movements not related to general market movements.

Risk management continued

CMRM has implemented a historical simulation Value at Risk (HVaR) model for consolidated risk reporting for the trading books that has replaced the Variance Covariance method used previously. ING has chosen to use a phased rollout approach. As of 1 January 2009, ING implemented the first phase after approval from DNB. During 2010, further steps were made with the migration of a large part of the non-linear risks from Monte Carlo simulation to historical simulation. The remaining non-linear risks and specific risk will migrate to historical simulation in 2011.

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 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.

The Basel Committee has proposed to supplement the current VaR regulatory capital framework for trading exposures with an Incremental Risk Charge (IRC) and Stressed VaR to cover for the shortcomings of the current risk framework. The IRC ensures that Basel II capital charges will capture default and credit migration risks which are not reflected in the current 99%, 10-day VaR model for the trading books. The Basel II requirements on the incremental risk charge will come into force in 2011. ING performs experience runs on IRC as part of the approval process with the Dutch regulator, the DNB.

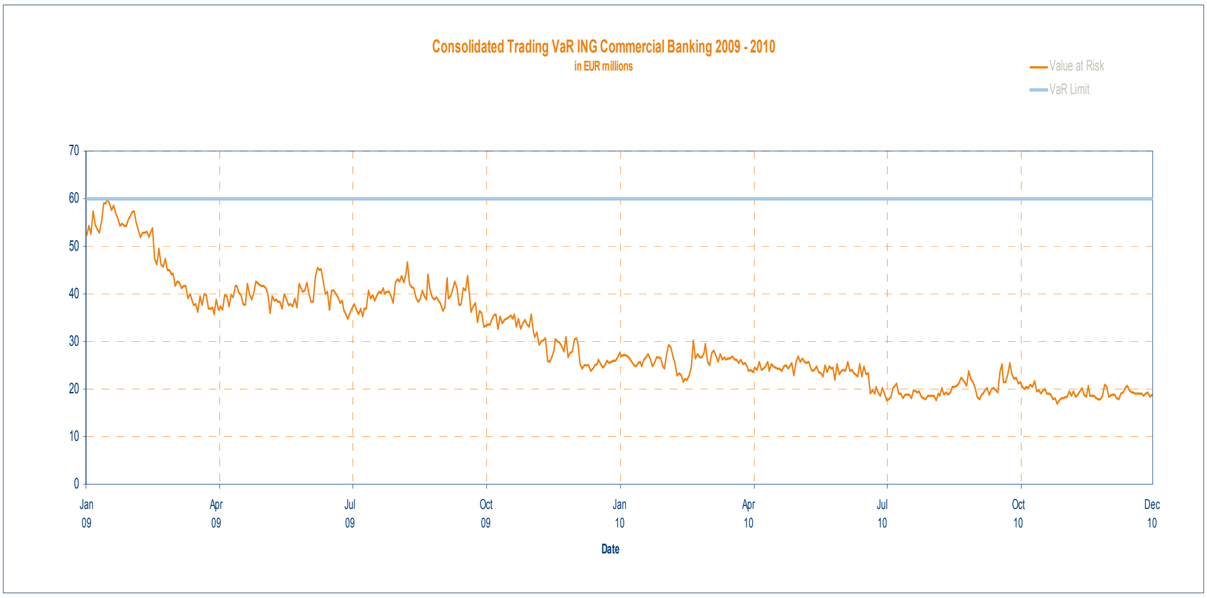
Backtesting
Backtesting is a technique for the ongoing monitoring of the plausibility of the VaR model in use. Although VaR models estimate potential future results, estimates are based on historical market data. In a backtest, the actual daily result is compared with the 1-day VaR. In addition to using actual results for backtesting, ING 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's one-sided confidence level of 99% an outlier is expected once in every 100 business days. In 2010, like in 2009, there was no occurrence where a daily trading loss exceeded the daily consolidated VaR of ING Commercial Banking. ING reports the results of this backtesting to DNB on a quarterly basis.

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 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'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 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.

Other trading controls
VaR and event risk limits are the most important limits to control the trading portfolios. Furthermore, ING 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 exotic derivatives trading. The market risk of these products is controlled by product specific limits and constraints.

Development of market risks
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 2009 and 2010. Several banking books are 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 2010 the overnight VaR for the ING Commercial Banking trading portfolio ranged from EUR 17 million to EUR 30 million. No limit excess was observed in 2010.

More details on the VaR of the ING Commercial Banking trading portfolio for 2010 and 2009 are provided in the table below.

Consolidated VaR trading books: ING Commercial Bank

	Minimum		Maximum		Average		Year end	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Interest rate / Credit spread	**18**	20	**29**	54	**22**	33	**20**	24
Equity	**1**	4	**9**	11	**4**	7	**3**	5
Foreign exchange	**1**	1	**9**	11	**2**	5	**4**	3
Diversification (1)					**–6**	–6	**–8**	–5
Total VaR	**17**	24	**30**	60	**22**	39	**19**	27

(1) 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.
Note: the above categories are consistent with those used for internal risk management purposes and do not relate to financial statement captions.

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 2010, continuing the decreasing trend of 2009. The interest rate market, which includes both the general interest rate and credit spread exposures, provided the largest contribution to the trading VaR. The average VaR over 2010 was substantially lower than over 2009 (average VaR 2010: EUR 22 million and average VaR 2009: EUR 39 million). In line with the trend of 2009, the VaR decreased to EUR 19 million towards the end of 2010. This decrease is to a large extent related to the increased diversification of non-linear and linear risk as a result of the HVaR implementation as explained under 'Measurement'. Another reason is the discontinuing of the strategic trading business in the United States, as part of ING's continuing de-risking strategy.

REGULATORY CAPITAL

According to the Dutch regulation, regulatory capital for trading portfolios can be calculated using the standardised approach (CAD1) or an internal model approach (CAD2). In 1998, ING 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.

Risk management continued

Regulatory capital requirements

	Standardised Approach		Internal Model Approach		Total	
	2010	2009	**2010**	2009	**2010**	2009
Interest rate / Credit spread	**105**	127	**172**	233	**277**	360
Equity			**40**	75	**40**	75
Foreign exchange [1]	**32**	23	**15**	33	**47**	56
Total	**137**	150	**227**	341	**364**	491

[1] The FX exposure under the Standardised Approach contains FX exposures on both trading and banking books

In 2010, ING applied the CAD2 model for most of its trading activities. The standard CAD1 model is used for some trading books in smaller locations and/or products for which the internal model is not yet CAD2 compliant. The aim of ING is to receive CAD2 status for all its trading books. In 2010, several trading books were moved from the standardised model to the internal model, further reducing the number of books under the standardised model. It should be noted that due to the conservative nature of the CAD1 model the capital charge for the standardised approach is much larger than for the internal model approach.

VaR Values for Internal Model Approach Portfolios

	2010			**Year end**	
	Minimum	**Maximum**	**Average**	**2010**	2009
Interest rate / Credit spread	**16**	**28**	**20**	**18**	21
Equity	**1**	**9**	**4**	**3**	5
Foreign exchange	**1**	**9**	**2**	**4**	3
Diversification effect [1]			**–6**	**–8**	–4
Total	**15**	**28**	**20**	**17**	25

[1] 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.
Note: the above categories are consistent with those used for internal risk management purposes and do not relate to financial statement captions.

The VaR figures in the table above only relate to the CAD2 trading books for which the internal model approach is applied. The VaR figures reported under Consolidated VaR trading books relate to all books under trading governance.

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 2010)

	2010		2009
Foreign exchange		**Foreign exchange**	
US dollar	**–457**	US dollar	–266
Taiwan dollar	**155**	Chinese yuan	208
Chinese yuan	**83**	Bulgarian lev	37
South Korean won	**68**	Polish zloty	31
Bulgarian lev	**–57**	South Korean won	20

Most important interest rate and credit spread sensitivities (year-end 2010)

amounts in thousands of euros	**2010**		2009
Interest Rate (BPV [1])		**Interest Rate (BPV [1])**	
Eurozone	**–377**	Eurozone	–1,175
United States	**167**	United States	–359
Mexico	**–147**	Mexico	–153
Japan	**141**	UK	–109
Russia	**–73**	Japan	107
Credit Spread (BPV [1])		**Credit Spread (BPV [1])**	
Eurozone	**–596**	United States	–115
Sweden	**–67**	Eurozone	–86
Hong Kong	**–47**	Mexico	–57
UK	**–47**	Japan	–17
United States	**–42**	Russia	–13

[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

Credit spread sensitivities per risk class and sector (year-end 2010)

amounts in thousands of euros **Credit Spread (BPV [1])**	**2010** **Corporate**	 **Financial Institutions**	2009 Corporate	 Financial Institutions
Risk classes				
1 (AAA)	**–8**	**–211**	–18	–145
2-4 (AA)	**–25**	**–212**	–18	–34
5-7 (A)	**–32**	**–257**	83	–100
8-10 (BBB)	**–77**	**–102**	16	14
11-13 (BB)	**–11**	**–47**	–12	–20
14-16 (B)	**–30**	**–8**	–21	20
17-22 (CCC and Problem Grade)	**–24**	**–33**	–47	–11
No rating			15	–16
Total	**–207**	**–870**	–2	–292

[1] Basis Point Value (BPV) measures the impact on value of a 1 basis point increase in interest rates or credit spreads.

Market risk in banking books

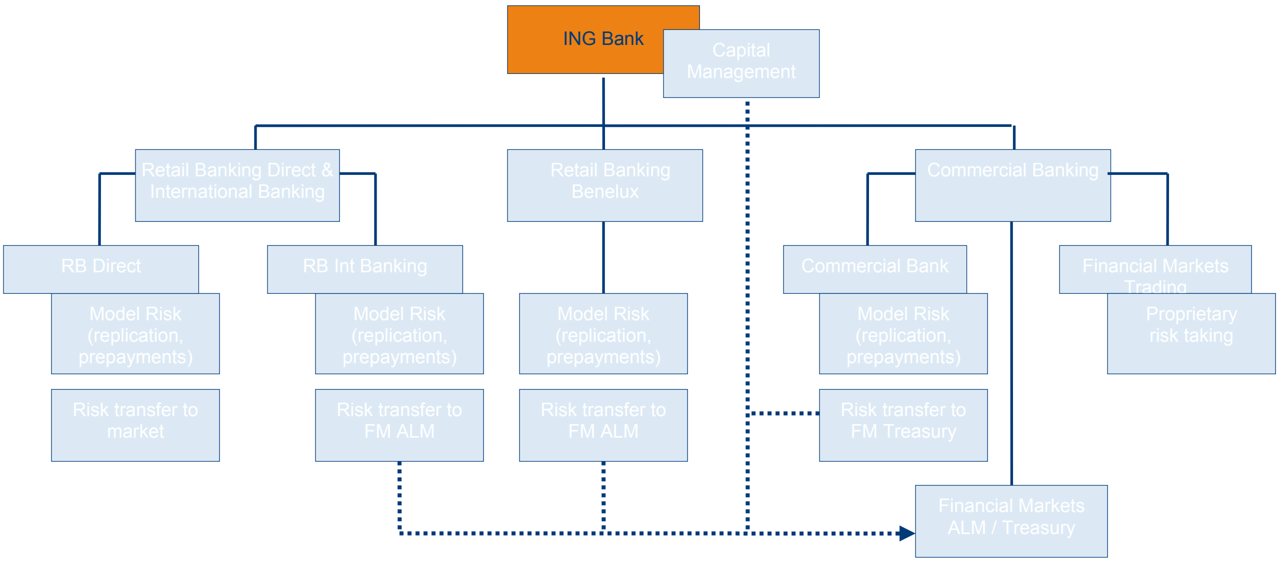
Organisation

ING 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 books

Interest rate risk in the banking books is defined as the potential negative impact that moving interest rates have on earnings or market value. 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 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). Capital is invested longer term, 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.

Risk management continued

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 CMRM, 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 result in an investment rule for the various portfolios. With respect to mortgages and loans, prepayment behaviour and the interest sensitivity of the embedded offered rate options are modelled.

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.

In the following sections, the interest rate risks in the banking books are presented. ING 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’.

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; balance sheet dynamics (e.g. new business) where significant.

The ES is dominated by convexity risk and by the strategic interest rate position in FM ALM. The investment of own funds only impact the ES marginally, given the long term duration.

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

	2010	2009
By currency		
Euro	–237	–262
US dollar	–114	–193
Pound sterling	–15	–26
Other	50	46
Total	–316	–435

In an environment where short term rates remain at relative low levels, both in the Eurozone and the US, the ES showed a limited decrease in 2010. Interest paid on liabilities is expected to be less sensitive to market 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 contribute significantly to the overall NPV at Risk.

Risk management continued

NPV-at-Risk banking books (1% instantaneous upward shock to interest rates)		
	2010	2009
By currency		
Euro	**–2,446**	–1,811
US dollar	**–205**	–39
Pound sterling	**–19**	–53
Other	**48**	68
Total	**–2,622**	–1,835

Total NPV-at-Risk increased in the course of 2010. The change was strongly influenced by the increase in long term interest rates in the 2nd half of 2010, which increased the duration of mortgages and thereby the value sensitivity to a further rate increase. Besides, the slow housing market in the Netherlands also led to an increase in the mortgage duration.

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. Convexity risk plays a less important role, given that BPV only reflects small movements in interest rates.

BPV per currency banking books		
amounts in thousands of euros	**2010**	2009
By currency		
Euro	**–21,760**	–15,340
US dollar	**–548**	757
Pound sterling	**–284**	–684
Other	**175**	475
Total	**–22,417**	–14,792

The total BPV position increased in 2010 for the same reasons as the increase in NPV-at-Risk. The duration of mortgages increased on the back of higher interest rates (both in the United States and the Eurozone) and a slow Dutch housing market.

Foreign exchange (FX) risk in banking books
FX exposures in banking books result from commercial banking business (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.

Commercial banking business
Every business unit hedges the FX risk resulting from commercial results into its base currency. Consequently, assets and liabilities are matched in terms of currency.

FX Translation result
ING'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. Compared to 2009 the strategy has changed in 2010 from protection of the target Tier 1 ratio to protection of the target core Tier 1 ratio instead. The strategy 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. The following table presents the currency exposures in the banking books for the most important currencies:

Risk management continued

Net currency exposures banking books

	Foreign Investments		Hedges		Net Exposure	
	2010	2009	**2010**	2009	**2010**	2009
US dollar	**7,275**	6,913	**–606**	–3,980	**6,669**	2,933
Pound sterling	**–993**	–1,155	**1,144**	1,220	**151**	65
Polish zloty	**1,371**	1,153	**–643**	–486	**728**	667
Australian dollar	**2,908**	2,186	**–2,056**	–1,423	**852**	763
Turkish lira	**1,891**	1,752	**–444**	–233	**1,447**	1,519
Other currency	**7,160**	7,321	**–4,028**	–3,549	**3,132**	3,772
Total	**19,612**	18,170	**–6,633**	–8,451	**12,979**	9,719

The US dollar Net Exposure increased significantly in 2010 due to the changed hedging strategy. The significantly 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 over 30%, decreasing the Chinese renmimbi exposure.

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 are presented that negatively impact the target core Tier 1 ratio: depending on whether the actual foreign currency position is above or below the target position, the worst case scenario is either negative or positive. A positive stress scenario means that the foreign currency appreciates against the Euro. For the Pound sterling this means that at the end of 2010 the target core Tier 1 ratio would only decrease by 0.02% in absolute terms (e.g. from 9.02% to 9.00%) if the Pound Sterling appreciates by 15%. Backtesting shows that the strategy was effective in 2010; the core Tier 1 ratio was hardly affected by changing FX rates.

Core Tier 1 ratio sensitivity ING Bank

	cTaR		Stress Scenario	
	2010	2009	**2010**	2009
currency				
US dollar		0.11%	**15%**	15%
Pound sterling	**0.02%**	0.02%	**15%**	15%
Polish zloty	**0.01%**	0.01%	**–15%**	–15%
Australian dollar	**0.01%**	0.02%	**–20%**	–20%
Turkish lira		0.01%	**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 1,494 million (2009: EUR 1,396 million) and equity securities held in the Available-for-Sale (AFS) portfolio of EUR 2,741 million (2009: EUR 3,682 million). The value of equity securities held in the AFS 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 2010 the revaluation reserve relating to equity securities held in the Available-for-Sale portfolio fluctuated between a month-end low amount of EUR 1,723 million (2009: EUR 1,198 million) and a high amount of EUR 2,370 million (2009: EUR 2,536 million). Investments in associates are measured in accordance with the equity method of accounting and the balance sheet value is therefore not directly linked to equity security prices.

Equities Unrealised Gains and Losses in the AFS portfolio

	2010	2009
Gross unrealised gains	**1,728**	2,570
Gross unrealised losses	**–1**	–12
Total	**1,727**	2,558

Total capital requirement for equity price risk under the Simple Risk Weight Approach at 31 December 2010 results in EUR 310 million (2009: EUR 364 million).

Risk management continued

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. The crisis in the financial markets could lead to a further slowdown of the world economy in general. These global economic factors could have future negative consequences for the value of and earnings related to real estate assets.

ING Bank has three 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. 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. ING Bank's real estate exposure (i.e. including leverage and committed purchases) is EUR 5.2 billion of which EUR 2.0 billion is recorded as fair value through P&L. The remaining EUR 3.1 billion is booked at cost or is revalued through equity (with impairments going through P&L).

In total, Real Estate exposure decreased by EUR 1.8 billion mainly as a result of divestments (EUR –1.5 billion). Other important changes are: negative fair value changes (EUR –0.1 billion), impairments (EUR –0.4 billion) and FX appreciation (EUR +0.2 billion).

Real Estate Exposure banking books recorded as fair value through P&L (by geographic area and sector type)

	2010	2009		2010	2009
Continent			**Sector**		
Europe	**662**	871	Residential	**207**	198
Americas	**812**	1,590	Office	**385**	498
Australia	**189**	493	Retail	**620**	852
Asia	**349**	325	Industrial	**516**	1,255
Other	**14**		Other	**298**	476
Total	**2,026**	3,279	Total	**2,026**	3,279

ING Bank's real estate exposure revaluing through P&L decreased significantly mainly caused by sales of Canadian and Australian funds. The fair value changes (EUR –0.1 billion) related to investments in funds were limited in 2010 compared with 2009.

Real Estate Exposure banking books not revalued through P&L (by geographic area and sector type)

	2010	2009		2010	2009
Continent			**Sector**		
Europe	**2,772**	3,290	Residential	**614**	618
Americas	**70**	235	Office	**1,456**	1,547
Australia	**204**	159	Retail	**874**	883
Asia			Industrial	**43**	74
Other	**99**		Other	**158**	562
Total	**3,145**	3,684	Total	**3,145**	3,684

ING Bank's real estate exposure not revaluing through P&L has decreased, which is mainly driven by impairments in Real Estate Development.

ING Bank - Liquidity Risk

Definition

Liquidity risk is the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions.

Governance

As with other bank market risks, liquidity risk falls under the supervision of the ALCO function within ING Bank, with ALCO Bank as the highest approval authority.

ALCO Bank determines the liquidity risk framework after which this is cascaded down in the organisation under the responsibility of the regional and local ALCOs.

The main objective of ING'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.

Risk management continued

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.

Liquidity Risk Management
CMRM is responsible for liquidity risk management and bears the responsibility for the identification, measurement and monitoring of the liquidity risk position. Next to this it is responsible for performing liquidity risk stress testing. For stress testing purposes, on a monthly basis and as per Dutch Central Bank guidelines, ING Bank's liquidity positions are stress tested under a scenario that is a mix between a market event and an ING specific event. Also on periodic and ad-hoc basis additional stress testing exercises are undertaken on consolidated and local level.

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 Corporate Market Risk Management, 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:
- 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 eligible collateral position amounts to EUR 156.6 billion (nominal);
- Management of liquidity gaps, taking into account the asset mix and both the secured and unsecured funding opportunities of ING Bank;
- Maintaining a funds transfer pricing policy 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), meaning a loan-to-deposit ratio of approximately 1. Ultimo 2010 the LtD ratio (excluding securities at amortised costs and IABF receivable) equals 1.05. In the table below the actual funding mix is displayed.

ING Bank Funding Mix

	2010	2009
Funding type		
Retail deposits	**46%**	46%
Corporate & other deposits	**19%**	17%
Interbank (incl. central bank)	**8%**	10%
Lending / repurchase agreement	**7%**	8%
Public debt	**17%**	16%
Subordinated debt	**3%**	3%
Total	**100%**	100%

The funding mix remained well diversified and according to targets set. Deposits accounted for 65% 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, 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 specific event.

Risk management continued

New developments
In the aftermath of the crisis, all financial institutions have been confronted with a large number of new regulatory requirements which are being implemented or are in the course of implementation. With regard to liquidity ING Bank is well on track in the implementation of CRDII. As in respect of Basel III, and the to be implemented Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), further alignment will take place in the upcoming observation periods, ING will keep track of what is expected and will be at required levels well in time.

NON-FINANCIAL RISKS
In addition to the above financial risks (credit, market, and liquidity risk) the next paragraphs describe the non-financial risks, being operational and compliance risks.

GENERAL
Policy implementation
To ensure robust non-financial risk management, ING monitors the full implementation of ING's Risk Policies and Minimum Standards. Business units have to demonstrate that the appropriate steps have been taken to control their operational and compliance risk. ING applies scorecards to measure the quality of the internal control 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 standard on the agenda for the meetings of the Management Board Bank 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.

OPERATIONAL RISKS
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 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 uses this knowledge (including lessons learned from incidents) to improve the control of key risks.

Organisation of Operational Risk Management
The General Manager Corporate Operational Risk Management (CORM) reports directly to the CRO and is responsible for monitoring operational risks and developing and establishing the Operational Risk Framework within ING Bank. The General Manager Corporate ORM also establishes and approves the policies and minimum standards, and assists and supports the Management Board in managing ING's operational risks.

The CORM 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. The CORM function is responsible for developing and communicating ING's operational risk framework, policies, minimum standards and guidelines. The staff function advises the Management Boards Banking and senior management, supports the business line ORM staff, monitors the quality of operational risk management and leads the group-wide reporting of operational risks to the Management Board Bank and the Risk Committee.

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 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).

Risk management continued

At all levels in the organisation Operational Risk Committees (ORC's) are established that identify, measure and monitor the operational 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. ORC's, chaired by the business management, steer the risk management activities of the first and second line of defence in their entities. On a group level the Operational & Residual Risk Committee approves the operational risk capital model.

IT Risk Governance: IT risk management has become more and more important because of increasing dependency on IT and the increase of IT risk due to amongst others cybercrime. The Executive IT Risk Steering Committees steers and monitors ING's IT Risk Management process and results. In 2011 this Committee will be integrated into the ORC.

The operational risk appetite within ING 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 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.

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, e.g. the structured team approach, scenario analysis, external events inventories, internal incident analysis (e.g. 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 other departments such as Operational Risk, Compliance, Legal and Finance.

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 a global Action Tracking system.

Certain operational risks can best be transferred to the insurance market if risks are high but difficult to mitigate internally. In order to protect ING against financial consequences of uncertain operational events ING has acquired insurance policies issued by third-party insurers for Crime, Professional Liability, Directors and Officers Liability through its Risk Management & Transfer Programmes.

Management at all levels in the organisation periodically needs information on their key operational risks (including compliance and legal risks) and mitigating actions. In order to make it easier for management to access this kind of information, business units periodically report through the Non-Financial Risk Dashboard (NFRD).

The yearly objective setting process for both business management and ORM professionals aims to keep improving the management of operational risk throughout ING to ensure that ING stays in control of its current and future operational risks. ING'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.

Capital calculation

The Operational Risk Capital model of ING 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 scorecard results, taking into account the specific 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. The Operational Risk Regulatory Capital is based on the Advanced Measurement Approach (AMA) and decreased from EUR 3,309 million in 2009 to EUR 2,872 million in 2010 due to the extension and improvement of business environment factors and the update of the external operational loss data in the capital model as approved by the Operational & Residual Risk Committee of ING. ING started in 2010 a program to further enhance its AMA framework in 2011 and align with peer/industry practices as they develop.

Risk management continued

Main developments in 2010

- **Cybercrime** – Based on a High-Tech Crime Prevention assessment a number of potential risks has been identified. Secure Code Review was found as an area of concern and during 2010 a dedicated taskforce has taken action across ING Group. After remediation of the identified gaps, dynamic code scan and review (in order to detect vulnerabilities in websites) has been implemented;
- **Operational Risk Committees** – Following the changes in the organisation and governance of ING and regulatory requirements, ING has installed a periodic Bank Operational Risk Committee (ORC) in December 2010, consisting of the members of the Bank management board, the CEO's of the Regions and Functions, and the General Managers of ORM, Legal and Compliance. The mandate of the Bank ORC has been approved in the Bank Management Board. The responsibility of the Bank ORC is to monitor and manage the operational risks of the bank. Below the Bank ORC six Region/Function ORC's were set up which are responsible for the regional and functional operational risk oversight in their area of responsibility: ORC Netherlands, ORC Belgium, ORC ING Direct, ORC International/Commercial Banking, ORC Financial Markets and ORC OIB;
- **Anti-Fraud** – ING has a 'zero tolerance' approach towards fraud and therefore implemented the ING's Global Anti-Fraud Programme in 2010. This programme aims for a high level of fraud resilience and further mitigation of losses deriving from fraud. Design and implementation of additional fraud controls, training and building the anti-fraud community and risk awareness communication are key elements to the programme;
- **IT security monitoring** – To ensure that the approved enterprise's information security baseline is maintained, ING installed monitoring agents on almost all platforms. This improved monitoring capabilities contributed to the reduction of the IT- risk profile;
- **Disentanglement** - The ORM function monitored during 2010 the operational risks around the disentanglement process of ING Bank and ING Insurance (project Readiness). The Readiness project completed the Day-1 sign off in which CEOs confirmed to be operating at arm's length.

COMPLIANCE RISKS

Compliance Risk is defined as the risk of damage to ING's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies, procedures and ethical standards. In addition to reputational damage, failure to effectively manage Compliance Risk could expose ING 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 believes that fully embedded Compliance Risk Management preserves and enhances the trust of its customers, staff and shareholders. Being trusted is essential to building sustainable businesses. ING's Business Principles set the foundation for the high ethical standards ING expects of all our business activities. ING'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 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 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.

The Scope of the Compliance Risk Management function

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 separates Compliance Risk into four conduct-related integrity risk areas: client conduct, personal conduct, organisational conduct as well as conduct required because of laws and regulations in the financial services industry. In addition to effective reporting systems, ING 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.

The Compliance Risk Management function

The Chief Compliance Officer (CCO) reports directly to the Chief Risk Officer who is a member of the Management Board. The CCO is responsible for developing and establishing the company-wide Compliance Risk Management Charter & Framework, establishes the Minimum Standards for managing Compliance Risks and assists and supports the Management Board in managing ING's Compliance Risks.

Risk management continued

ING uses a functional approach within Business Lines to ensure systematic and consistent implementation of the company-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 division Compliance Officer has a management and supervisory role over all functional activities of the Compliance Officers in the respective region or division. Reporting functionally into the CCO, the Business Line Compliance Officers perform this task for their Business Line and also provide leadership and overall direction to the regional or divisional 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, division or Business Line. 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.

Compliance Risk Management Framework
The Framework consists of three key components: the Compliance Risk Management process, an Advisory component and the Scorecard.

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);
E. Compliance Risk Reporting (includes Incident Management).

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. The scoring indicates the level of control within the business units and the result is integrated with the Operational Risk Management results into ING's Dutch Central Bank approved regulatory capital model.

Extra-territorial regulations
Financial institutions continue to be closely scrutinized 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 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 to meet applicable standards in these areas could result in, among other things, suspension or revocation of ING's licenses, cease and desist orders, fines, civil or criminal penalties and other disciplinary action which could materially damage ING's reputation and financial condition, and accordingly ING's primary focus is to support good business practice through its Business Principles and policies.

Over the past years ING has significantly increased its Compliance efforts, including a major staff increase, amendment of key policies and guidelines and the international rollout of several programmes for education, awareness and monitoring of compliance issues.

As a result of our frequent evaluation of all businesses from economic, strategic and risk perspectives ING continues to believe that for business reasons doing business involving certain specified countries should be discontinued, which includes that ING has a policy not to enter into new relationships with clients from these countries and processes remain in place to discontinue existing relationships involving these countries. At present these countries 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.

Risk management continued

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. In connection with that review and related discussions ING Bank has undertaken to complete the global implementation of enhanced compliance and risk management procedures, and to monitor the implementation of such procedures on an ongoing basis, as instructed by DNB.

ING Bank remains in discussions with authorities in the US and in other jurisdictions 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. It is currently not feasible for ING Bank to determine how the ongoing investigations may be resolved or the timing of any such resolution, nor to estimate reliably the possible amounts of any resulting fines and/or penalties, if any, which could be significant.

Main developments in 2010
- **Regulator relationships** - Group Compliance Risk Management continued to invest in pro-active relationships with regulators in the jurisdictions where ING operates, striving for an open approach and cooperation in identifying and mitigating compliance risks for ING.
- **Promoting Integrity Programme** - Group Compliance Risk Management, together with Group Human Resources and Corporate Communications & Affairs, created and launched the Promoting Integrity Programme (PIP), a global employee education programme focusing on ING's values (including the ING business principles) and the role they play in the business and workplace. A short e-learning course was developed and was followed by manager-led dialogue sessions, where employees discussed what integrity means for them and how the Business Principles can be applied in their daily work.
- **Building Customer Trust –** As part of ING's commitment to building customer trust, Group Compliance Risk Management and the business worked closely together to consider how both products and services could be enhanced to improve the customer experience.
- **Further embedding of Financial Economic Crime & Extra-Territorial Laws** – ING 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 and business with ultra high risk countries.
- **Learning –** Continuous education and awareness training was provided through face-to-face training sessions and online learning tools on topics such as Ultra High Risk Countries & Export Trade, Financial Economic Crime, Competition Law and Customer Suitability. Compliance Risk Management also continued its mandatory global Compliance Officer Training programme for all compliance officers new to ING.

Risk management continued

MODEL DISCLOSURES

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 Group continues to develop, recalibrate and refine the various models that support risk metrics, which may result in changes to the risk metrics as disclosed.

This model disclosure section explains the models applied in deriving the disclosed metrics. The methodologies used to determine Economic Capital are described. The risk models for the Economic Capital 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

Economic Capital is defined as the amount of capital that a transaction or business unit requires in order to support the economic risks it originates. In general Economic Capital 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 Economic Capital modelling enables ING Bank to allocate Economic Capital to the business units and support risk-adjusted performance measurement (RAROC).

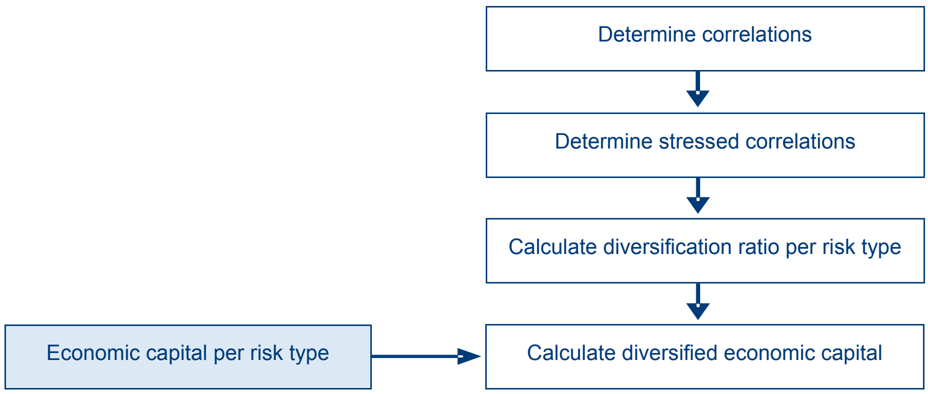
The following fundamental principles and definitions have been established for the model:

- 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 Economic Capital;
- 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 Economic Capital calculation is based on fair value principles. Where complete and efficient markets exist, fair value is equal to market value;
- The Economic Capital calculations reflect known embedded options and the influence of client behaviour in banking products;
- The Economic Capital calculations are on a pre-tax basis and do not consider the effect of regulatory accounting and solvency requirements on capital levels;
- The framework does not include any franchise value of the business, discretionary management intervention or future business volumes and margins.

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

Aggregation model

The main processes executed in the 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 risk expert judgement, external benchmark studies and common logic. As a foundation correlations are applied based on a 90% confidence level, i.e. they correspond to the correlations observed in the 10% largest downward movements (a '1 in 10' event). 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.

Risk management continued

The Economic Capital for ING Bank involves the aggregation of the underlying Economic Capitals of five risk types, namely credit, transfer, market, operational and business risks (latter two also referred to as other risks). 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 Economic Capital exposure for each risk type.

Reporting Framework

For each business unit and product line, the gross Economic Capital for each risk type is delivered to MISRAROC - the financial data warehouse for RAROC and Economic Capital reporting of ING Bank. The net Economic Capital figures are calculated by taking the product of the gross Economic Capital and one minus the diversification factor. Total Economic Capital is calculated as the sum of the net Economic Capital for each risk type at all reporting levels.

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 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 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.

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'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.

Risk management continued

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.

MARKET RISK

General
Economic Capital for market risk is the Economic Capital necessary to withstand unexpected value movements due to changes in market variables, such as interest rates, equity prices, foreign exchange rates and real estate prices. Economic Capital for market risk is calculated for exposures both in trading portfolios and non-trading portfolios.

Measurement
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. The Economic Capital for market risk for non trading portfolios is calculated for each risk type, while for trading portfolios it is calculated on a portfolio level. The calculations for Economic Capital market risk include real estate risk, foreign exchange rate risk, equity price risk, interest rate risk and model risks.

Real estate price risk includes both 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.

For the direct market risks, the actual VaR (measured at a 99% confidence interval, a one day holding period and under the assumption of an expected value of zero) of the trading and non-trading portfolios 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.

The economic capital for the equity investments is calculated based on the ECAPS system. Using Monte-Carlo simulation, the model generates 20,000 possible 'states-of-the-world', by randomly simulating all risk drivers simultaneously. For each state-of-the-world, the market value is recalculated and the 99.95% worst-case change in market value is the Economic Capital level.

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. The Economic Capital model for market risk is based on the estimated 99% confidence adverse interest rate change.

While aggregating the different Economic Capital market risk figures for the different portfolios, diversification benefits 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 Group are a best effort estimate based on available data and expert opinions.

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 risk of reputation loss, as well as legal risk, whereas strategic risks are not included. While operational risk can be limited through management controls and insurance, operational risk incidents may have a substantial impact on the profit and loss account of financial institutions.

The capital model, an actuarial model, consists of a combination of three techniques:
- Loss Distribution approach (LDA), which applies statistical analysis to historical loss data;
- Scorecard approach, which focuses on the quality of risk control measures within a specific business unit;
- 'Bonus/Malus' approach, which focuses on the actual operational incidents of a specific business unit.

Risk management continued

Loss Distribution approach
The main objective of the LDA approach is to derive an objective capital amount based on the size and the risk appetite of an institution and its business units. This approach estimates the likely (fat-tailed) distribution of operational risk losses over some future horizon for each combination of business line and loss event type. The main characteristic of the LDA is the explicit derivation of a loss distribution, which is based on separate distributions for event frequency (Poisson) and severity (Inverse Gaussian). The model uses both external and internal loss data above one million EUR.

The calculation of operational risk capitals for the units follows five basic principles:
- Principle 1: If the world gets riskier, the business units need more Economic Capital;
- Principle 2: If a business unit's size increases, so does its capital;
- Principle 3: If the business of a business unit is more complex, it needs more capital;
- Principle 4: If the level of control of a business unit is higher, it needs less capital;
- Principle 5: If the business units' losses from internal incidents exceed the level of expected loss accounted for in the first four framework principles, it needs more capital.

The capital calculated according to the first three is 'generic': if two business units operate in the same markets and have the same size, the resulting capital will be the same. The specific capital adjustments mentioned below adjust the generic capital of a specific institution to its specific operational risk capital.

Scorecard approach (principle 4)
The scorecard adjustment reflects the level of quality of control in a specific institution. Scorecards aim to measure the quality of key operational risk management processes. The scorecard procedure concerns questions that require quantitative data, qualitative judgements or simple yes/no questions (e.g. indicating compliance with certain group policies). The scorecards are completed by all business units using self-assessment and reviewed by an expert panel who determines the final score. The set of scorecards lead to an increase or decrease of the capital of the specific unit.

'Bonus/Malus' approach (principle 5)
Units are assigned additional capital in case losses from internal incidents exceed the level of expected losses that have been accounted for in the LDA. When the actual loss of a business unit is lower than expected based on a comparison with external losses of peers, the capital of the related business unit is reduced.

BUSINESS RISK (ING BANK)
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.

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 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.

DEVELOPMENTS
In 2010, Capital Management's main focus was 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 Core Tier 1 securities.

In March 2011, ING announced that it has informed the Dutch State of its intention to early repurchase EUR 2 billion of the non-voting equity securities (core Tier 1 securities) on 13 May 2011. The Dutch Central Bank has approved the intended repurchase. The total payment will amount to EUR 3 billion and includes a 50% repurchase premium. In order to fund the repayment, it is probable that ING Bank will pay, in 2011, a dividend out of retained earnings to ING Group for a similar amount. ING disclosed to the market that based on our capital position at that date the intended repurchase in May would reduce the core Tier 1 ratio by 90 basis points and the ratio is expected to remain above 8.5%.

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 many 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 2010 and 2009, ING Bank met all key target capital ratios and metrics and regulatory requirements. During 2010, ING Bank was adequately capitalised in relation to its risk profile and strategic objectives.

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.

Capital Management continued

BASEL II

As of 2008 ING Bank publishes risk-weighted assets (RWA), Tier 1 and BIS capital and the accompanying capital ratios based on Basel II data only. In addition, ING publishes the minimum required capital level according to Basel II and according to the Basel I floor. As of 2009 the Basel I floor is based on 80% of Basel I RWA. The minimum requirements according to Basel II and Basel I are both compared to total BIS available capital according to Basel II.

Capital position of ING Bank

	2010	2009
Shareholders' equity (parent)	34,452	30,222
Minority interests [1]	748	960
Subordinated loans qualifying as Tier 1 capital [2]	8,438	8,057
Goodwill and intangibles deductible from Tier 1 [1]	–1,645	–1,636
Deductions Tier 1	–1,069	–1,073
Revaluation reserve [3]	–1,592	–2,515
Available capital – Tier 1	39,332	34,015
Supplementary capital – Tier 2 [4]	10,882	11,789
Available Tier 3 funds		
Deductions	–1,069	–1,073
BIS capital	49,145	44,731
Risk-weighted assets	321,103	332,375
Core Tier 1 ratio	9.62%	7.81%
Tier 1 ratio	12.25%	10.23%
BIS ratio	15.30%	13.46%
Required capital based on Basel I floor [5]	29,860	28,709
BIS ratio based on Basel I floor [5]	13.17%	12.46%

(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.
(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 in 2010 and 2009 respectively.

Main credit ratings of ING Bank at 31 December 2010

	Standard & Poor's	Moody's	Fitch
ING Bank			
– short term	A-1	P-1	F1+
– long term	A+ stable	Aa3 stable	A+ stable
– financial strength		C+	

ING's Bank 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, 14 March 2011

THE SUPERVISORY BOARD
Peter A.F.W. Elverding, *chairman*
Jeroen van der Veer, *vice-chairman*
J.P. (Tineke) Bahlmann
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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	2010	2009
ASSETS		
Cash and balances with central banks 1	2,791	1,650
Short-dated government paper 2	1,809	2,022
Amounts due from banks 3	80,837	91,405
Loans and advances to customers 4	327,253	282,824
Debt securities 5		
– available-for-sale	16,106	15,232
– trading	21,970	20,209
Equity securities 6		
– available-for-sale	2,297	3,319
– trading	1,799	1,251
Investments in group companies 7	28,252	26,478
Investments in associates 8	561	455
Intangible assets 9	1,375	1,467
Equipment 10	597	557
Other assets 11	60,648	47,622
Total assets	546,295	494,491
LIABILITIES		
Amounts due to banks 12	96,291	101,170
Customer deposits and other funds on deposit 13	213,556	190,112
Debt securities in issue	98,571	86,200
Other liabilities 14	80,983	63,572
General provisions 15	1,029	1,375
Subordinated loans 16	21,413	21,840
Total liabilities	511,843	464,269
EQUITY		
Share capital	525	525
Share premium	16,542	16,542
Legal reserves (1)	2,015	2,247
Other reserves	11,075	10,224
Unappropriated result	4,295	684
Total equity 17	34,452	30,222
Total liabilities and equity	546,295	494,491

(1) Legal reserves includes Share of associates reserve of EUR 26 million (2009: nil), Currency translation reserve of EUR 500 million (2009: EUR –241 million) and Revaluation reserve of EUR 1,489 million (2009: EUR 2,488 million).

References relate to the notes starting on page 140. 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	2010	2009
Result of group companies after taxation	**2,432**	520
Other results after taxation	**2,063**	164
Net result	**4,495**	684

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 2009	525	16,392	128	–475	–3,678	9,997	22,889
Unrealised revaluations after taxation				–99	5,633		5,534
Realised gains/losses transferred to profit and loss					877		877
Changes in cash flow hedge reserve					–344		–344
Exchange rate differences				333			333
Other			–128			169	41
Total amount recognised directly in equity			–128	234	6,166	169	6,441
Net result						684	684
			–128	234	6,166	853	7,125
Dividend						58	58
Capital injection		150					150
Balance as at 31 December 2009	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 share plans						**53**	**53**
Dividend						**–200**	**–200**
Balance as at 31 December 2010	**525**	**16,542**	**26**	**500**	**1,489**	**15,370**	**34,452**

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

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 has been 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.

As of 1 January 2009, ING Bank Nederland NV and Postbank NV merged into ING Bank NV. As a result of these mergers, the balance sheet and profit and loss account of ING Bank Nederland NV and Postbank NV are, as from 2009, an integrated part of the ING Bank NV parent company balance sheet and profit and loss account.

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 2,214 million (2009: EUR 955 million).

2 SHORT-DATED GOVERNMENT PAPER

Short-dated government paper includes international government paper amounting to EUR 1,686 million (2009: EUR 1,710 million) for the company.

3 AMOUNTS DUE FROM BANKS

Amounts due from banks	2010	2009
Non-subordinated receivables from		
Group companies	**30,445**	57,301
Third parties	**47,789**	31,780
	78,234	89,081
Subordinated receivables from		
Group companies	**2,350**	2,090
Third parties	**253**	234
	80,837	91,405

As at 31 December 2010, amounts due from banks included receivables with regard to securities, which have been acquired in reverse repurchase transactions amounting to EUR 24,445 million (2009: EUR 17,144 million).

4 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers – subordinated and non-subordinated	2010	2009
Non-subordinated receivables from		
ING Groep N.V.	**500**	572
Group companies	**88,182**	77,397
Third parties	**238,571**	204,855
	327,253	282,824

As at 31 December 2010, assets held under finance lease contracts amounted to EUR 50 million (2009: EUR 44 million).

As at 31 December 2010, the receivables included in Loans and advances to customers that are part of the trading portfolio amounted to EUR 14,355 million (2009: EUR 9,585 million).

Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 15,043 million (2009: EUR 11,016 million) for the company.

5 DEBT SECURITIES

Debt securities by issuer	2010	2009
Public sector	**29,047**	26,743
Other	**9,029**	8,698
	38,076	35,441

Notes to the parent company annual accounts of ING Bank continued

Debt securities analysed by listing		
	2010	2009
Listed	**36,598**	33,791
Unlisted	**1,478**	1,650
	38,076	35,441

Debt securities – subordinated and non-subordinated		
	2010	2009
Associates	**164**	170
Third parties	**37,835**	34,973
	37,999	35,143
Associates	**77**	63
Third parties		235
	38,076	35,441

Changes in debt securities (available-for-sale)		
	2010	2009
Opening balance	**15,232**	16,800
Additions	**7,470**	6,131
Amortisation	**4**	10
Changes in the composition of the group		523
Gains/(losses) from change in fair value	**112**	267
Provision for impairment		–83
Disposals and redemptions	**–6,918**	–8,555
Exchange rate differences	**205**	137
Other changes	**1**	2
Closing balance	**16,106**	15,232

As at 31 December 2010, the cost of the trading debt securities amounted to EUR 21,970 million (2009: EUR 20,209 million).

As at 31 December 2010, an amount of EUR 13,840 million (2009: EUR 13,622 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 11,077 million as at 31 December 2010 (2009: EUR 12,738 million).

Borrowed debt securities are not recognised in the balance sheet and amount to nil (2009: nil) as at 31 December 2010.

6 EQUITY SECURITIES

Equity securities analysed by listing		
	2010	2009
Listed	**3,878**	4,410
Unlisted	**218**	160
	4,096	4,570

Changes in equity securities (available-for-sale)		
	2010	2009
Opening balance	**3,319**	1,546
Additions		219
Gains/(losses) from change in fair value	**–274**	1,598
Provision for impairments	**–6**	–38
Disposals	**–794**	–2
Exchange rate differences	**52**	–4
Closing balance	**2,297**	3,319

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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 2010 the cost or purchase price of shares in the available-for-sale portfolio was EUR 1,598 million lower (2009: EUR 2,364 million lower) than the carrying amount.

7 INVESTMENTS IN GROUP COMPANIES

Investments in group companies

	Interest held (%) 2010	Balance sheet value 2010	Interest held (%) 2009	Balance sheet value 2009
ING België N.V.	100	10,130	100	10,528
ING Direct N.V.	100	7,086	100	5,305
ING Financial Holdings Corporation	100	1,249	100	876
ING Vastgoed Management Holding B.V.	100	1,208	100	1,578
ING Bank Slaski S.A.	75	1,042	75	858
ING Bank A.S.	100	1,032	100	909
ING Lease Holding N.V.	100	1,270	100	1,213
Other (including financing companies)		5,235		5,211
		28,252		26,478

As at 31 December 2010, Investments in group companies included credit institutions of EUR 21,594 million (2009: EUR 20,231 million). As at 31 December 2010 listed investments in group companies amounted to EUR 1,042 million (2009: EUR 858 million).

Changes in investments in group companies

	2010	2009
Opening balance	26,478	25,410
Additions	532	
Repayment of capital injection	–297	–370
Revaluations	86	4,848
Results from group companies	2,432	520
Dividends received	–1,157	–652
Capital contribution	415	290
Disposals	–1,082	–11
Mergers and liquidations	–56	–3,922
Exchange rate differences	839	353
Other changes	62	12
Closing balance	28,252	26,478

8 INVESTMENTS IN ASSOCIATES

Investments in associates

	Interest held (%) 2010	Balance sheet value 2010	Interest held (%) 2009	Balance sheet value 2009
TMB Public Company Limited	25	474	25	384
Other		87		71
		561		455

Changes in investments in associates

	2010	2009
Opening balance	455	437
Additions	19	18
Share of results	16	–7
Disposals	–2	
Exchange rate differences	74	3
Other changes	–1	4
Closing balance	561	455

Notes to the parent company annual accounts of ING Bank continued

9 INTANGIBLE ASSETS

Changes in intangible assets

	Goodwill		Software		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Opening balance	**853**	859	**498**	8	**116**	148	**1,467**	1,015
Additions			**134**	162			**134**	162
Changes in the composition of the group			**7**	521			**7**	521
Depreciation			**–228**	–195	**–28**	–26	**–256**	–221
Impairments			**–21**			–4	**–21**	–4
Disposals			**–1**				**–1**	
Exchange rate differences	**36**	–5			**6**	–1	**42**	–6
Other changes	**1**	–1	**2**	2		–1	**3**	
Closing balance	**890**	853	**391**	498	**94**	116	**1,375**	1,467

10 EQUIPMENT

Changes in equipment

	2010	2009
Opening balance	**557**	42
Additions	**122**	201
Changes in the composition of the group		458
Depreciation	**–151**	–133
Disposals	**–2**	–14
Exchange rate differences	**2**	
Other changes	**69**	3
Closing balance	**597**	557
Gross carrying amount as at 31 December	**1,600**	1,654
Accumulated depreciation as at 31 December	**–1,003**	–1,097
Net book value	**597**	557

11 OTHER ASSETS

Other assets by type

	2010	2009
Derivatives	**44,953**	32,776
Deferred tax assets	**354**	276
Income tax receivable	**64**	40
Accrued interests and rents	**10,546**	8,980
Other accrued assets	**164**	215
Pension asset	**2,264**	2,029
Other receivables	**2,303**	3,306
	60,648	47,622

As at 31 December 2010, an amount of EUR 2,255 million (2009: EUR 2,474 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		
	2010	2009
Group companies	**28,683**	40,272
Third parties	**67,608**	60,898
	96,291	101,170

13 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

Customer deposits and other funds on deposit by group companies and third parties		
	2010	2009
Group companies	**35,925**	25,101
Third parties	**177,631**	165,011
	213,556	190,112

Customer deposits and other funds on deposit by type		
	2010	2009
Savings accounts	**59,302**	56,696
Credit balances on customer accounts	**60,090**	54,461
Corporate deposits	**68,461**	64,438
Other	**25,703**	14,517
	213,556	190,112

14 OTHER LIABILITIES

Other liabilities		
	2010	2009
Derivatives	**46,942**	35,600
Trading liabilities	**17,689**	14,588
Accrued interest	**10,980**	10,237
Costs payable	**550**	573
Income tax payable	**699**	154
Other taxation and social security contribution	**51**	82
Other amounts payable	**4,072**	2,338
	80,983	63,572

As at 31 December 2010, an amount of EUR 1,768 million (2009: EUR 1,648 million) was expected to be settled after more than one year from the balance sheet date.

As at 31 December 2010, Other liabilities includes an amount of EUR 7.91 (2009: EUR 7.91) for seven preference shares with a par value of EUR 1.13 each.

15 GENERAL PROVISIONS

General provisions		
	2010	2009
Deferred tax payable	**26**	14
Pension liabilities and other staff-related liabilities	**419**	490
Reorganisations and relocations	**220**	308
Other	**364**	563
	1,029	1,375

As at 31 December 2010, an amount of EUR 446 million (2009: EUR 648 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

	2010	2009
Group companies	8,438	8,057
Third parties	12,975	13,783
	21,413	21,840

Subordinated loans by type

	2010	2009
Capital debentures	12,592	13,628
Private loans	8,821	8,212
	21,413	21,840

The subordinated loans rank subordinated to the other liabilities in a winding-up of ING.

17 EQUITY

Capital and reserves

	2010	2009
Share capital	525	525
Share premium	16,542	16,542
Share of associates reserve	26	
Currency translation reserve	500	–241
Revaluation reserve	1,489	2,488
Other reserves	11,075	10,224
Unappropriated result	4,295	684
	34,452	30,222

Other reserves includes Retained earnings of EUR 10,334 million (2009: EUR 9,579 million) and EUR 741 million (2009: EUR 645 million) related to the former Stichting Regio Bank that cannot be freely distributed.

Share capital

			Ordinary shares (par value EUR 1.13)	
	Number x1,000	Amount	Number x1,000	Amount
		2010		2009
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 2010 and 2009.

Changes in revaluation reserve

2010	Available-for-sale reserve	Cash flow hedge reserve	Property in own use reserve	Real estate investments reserve	Total
Opening balance	2,414	–472	387	159	2,488
Unrealised revaluations after taxation	–375		–37	–127	–539
Realised transferred to profit and loss	–293				–293
Changes in cash flow hedge reserve		–167			–167
Closing balance	1,746	–639	350	32	1,489

Notes to the parent company annual accounts of ING Bank continued

Changes in revaluation reserve

2009	Available-for-sale reserve	Cash flow hedge reserve	Property in own use reserve	Real estate investments reserve	Total
Opening balance	–4,165	–128	436	179	–3,678
Unrealised revaluations after taxation	5,702		–49	–20	5,633
Realised transferred to profit and loss	877				877
Changes in cash flow hedge reserve		–344			–344
Closing balance	2,414	–472	387	159	2,488

Retained earnings and Unappropriated result

	Retained earnings		Unappropriated result		Total	
	2010	2009	**2010**	2009	**2010**	2009
Opening balance	**9,579**	8,659	**684**	772	**10,263**	9,431
Transfer to retained earnings	**684**	772	**–684**	–772		
Employee stock options and share plans	**53**	58			**53**	58
Other changes	**18**	90			**18**	90
Result for the period			**4,495**	684	**4,495**	684
Dividend			**–200**		**–200**	
Closing balance	**10,334**	9,579	**4,295**	684	**14,629**	10,263

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 2,756 million (2009: EUR 3,374 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

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**

Analysis of certain assets and liabilities by maturity

2009	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	26,214	3,165	7,459	14,200	24,383	15,984	91,405
Loans and advances to customers	42,189	16,764	14,926	54,500	144,770	9,675	282,824
Liabilities							
Amounts due to banks	23,573	10,282	11,452	15,769	24,494	15,600	101,170
Customer deposits and other funds on deposit	144,037	25,380	6,971	4,201	1,874	7,649	190,112
Debt securities in issue	13,220	27,434	17,054	17,425	5,510	5,557	86,200
Subordinated loans	16		1,029	4,408	15,799	588	21,840

19 ASSETS NOT FREELY DISPOSABLE

Assets not freely disposable

	2010	2009
Investments	**312**	347
Lending	**5,974**	4,216
Banks	**8,016**	4,525
Other assets	**443**	390
	14,745	9,478

20 CONTINGENT LIABILITIES

Contingent liabilities by type

	2010	2009
Discounted bills	**1**	
Guarantees	**33,122**	29,743
Irrevocable letters of credit	**6,764**	5,268
Other	**271**	65
Contingent debts	**40,158**	35,076
Irrevocable facilities	**39,601**	39,358
	79,759	74,434

Contingent debts

	2010	2009
Group companies	**19,794**	16,630
Third parties	**20,364**	18,446
	40,158	35,076

Notes to the parent company annual accounts of ING Bank continued

Irrevocable facilities	2010	2009
Group companies	**40**	44
Third parties	**39,561**	39,314
	39,601	39,358

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 30 ‘Related parties’ to the Consolidated annual accounts.

AUTHORISATION OF PARENT COMPANY ANNUAL ACCOUNTS

Amsterdam, 14 March 2011

THE SUPERVISORY BOARD
Peter A.F.W. Elverding, *chairman*
Jeroen van der Veer, *vice-chairman*
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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 2010 of ING Bank N.V., Amsterdam (as set out on pages 14 to 149). 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 2010, 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 2010, 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 2010 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 2010 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, 14 March 2011

For 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 be at the disposal of the General Meeting of Shareholders.

Proposed appropriation of result	
Net result at the disposal of the General Meeting of Shareholders	4,495
Interim dividend paid in December 2010	–200
Addition to reserves pursuant to Article 24 of the Articles of Association	–4,295
At the disposal of the General Meeting of Shareholders pursuant to Article 24 of the Articles of Association	0

In December 2010 an interim dividend was paid of EUR 200 million which was deducted from Unappropriated result. For 2010, the Management Board, with the approval of the Supervisory Board, has determined to appropriate the remaining result to reserves, so that no final dividend will be paid.

Additional Pillar 3 information

amounts in millions of 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 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 2010 ING raised its SA Portfolio by 14% in terms of credit risk exposures. ING continues to work towards reducing the portion of its portfolio which falls under the Standardised Approach.

ING 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	2010	2009
Credit risk		
Portfolios subject to standardised approach	**2,812**	2,540
Portfolios subject to advanced IRB approach		
– Central governments and central banks	**107**	245
– Institutions	**1,412**	1,235
– Corporate	**8,823**	9,629
– Residential mortgages	**4,799**	4,360
– Other retail	**1,235**	1,129
Total portfolios subject to advanced IRB approach	**16,376**	16,598
Securitisation exposures	**1,227**	1,156
Equity portfolios in the banking book under the simple risk weight approach	**310**	364
Other Non-Credit Obligation Assets (ONCOA)	**1,727**	2,132
Total credit risk	**22,452**	22,790
Market risk		
Standardised approach	**137**	150
Internal models approach - trading book	**227**	341
Total market risk	**364**	491
Operational risk		
Advanced measurement approach	**2,872**	3,309
Total Basel II required Regulatory Capital	**25,688**	26,590
Basel II floor*	**29,870**	28,709
Additional capital requirement (due to floor)	**4,182**	2,119

* 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 2009 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 4,182 million for 2010 (EUR 2,119 million in 2009).

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'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

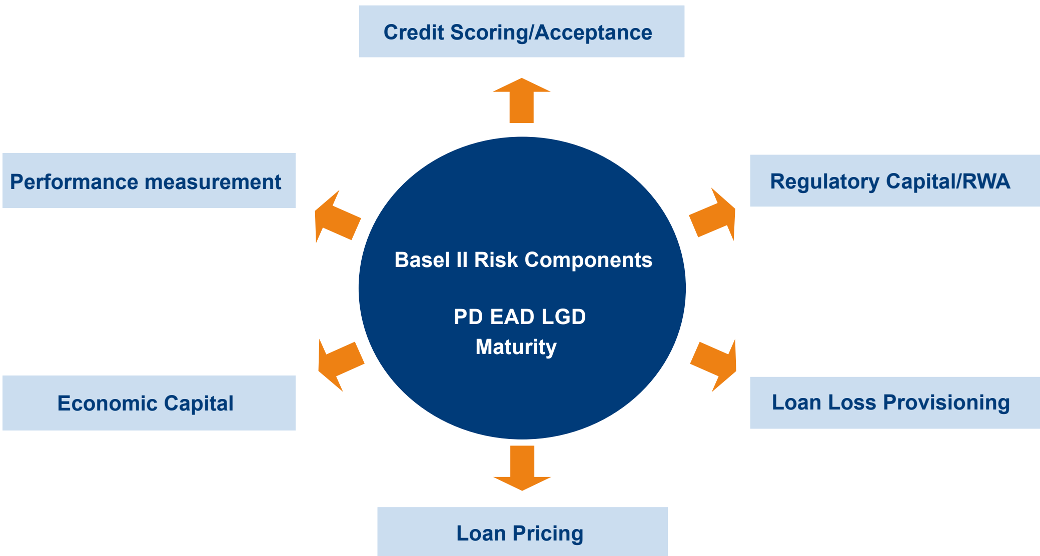
Figures associated with Money Market and Lending activities are generally the nominal amounts, while amounts associated with Investment activities are based on the original amount invested less repayments. Off-Balance Sheet exposures include the letters of credits and guarantees, which are associated 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 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 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. It has no effect on ING Insurance or Asset Management operations.

One of the key elements of the Basel II Accord is the 'Use Test', which requires ING to use Basel concepts in its day-to-day activities. The diagram below illustrates where ING has incorporated the Basel II concepts into its daily activities, both globally and locally:



RISK MEASUREMENT AND REPORTING
ING 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 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;

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 governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Standardized Approach	10,497	3,196	17,548	8,345	12,643	52,229	45,739
Advanced IRB Approach	82,582	109,848	267,796	321,149	34,033	815,408	768,798
Total	93,079	113,044	285,344	329,494	46,676	867,637	814,537

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

Gross credit risk exposures (EAD) by geographic area

	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Netherlands	25,232	2,236	73,833	143,284	18,116	262,701	260,790
Belgium	10,405	4,934	30,623	25,754	9,580	81,296	77,969
Other Europe	45,516	71,279	107,919	75,022	17,196	316,932	296,851
Americas	6,671	11,700	45,706	51,305	873	116,255	105,356
Asia / Pacific	4,904	22,317	26,477	33,223	779	87,700	70,826
ROW	351	578	786	906	132	2,753	2,745
Total	93,079	113,044	285,344	329,494	46,676	867,637	814,537

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

The figures presented in this table 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's transfer risk positions and economic country risk exposure can be found in risk management section, including their corresponding definitions.

Additional Pillar 3 information continued

Gross credit risk exposures (EAD) by economic sector

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Private Individuals			189	329,493	18,719	348,401	321,174
Commercial Banks	1,856	86,071	1,470		37	89,434	88,494
Central Governments	62,716					62,716	64,675
Non-Bank Financial Institutions		12,231	52,763		867	65,861	50,645
Real Estate			55,852		2,955	58,807	56,706
Natural Resources			36,650		465	37,115	31,603
Services			17,130		5,420	22,550	21,366
Lower Public Administration	8,932	13,807			89	22,828	20,642
Transportation & Logistics			21,472		1,603	23,075	22,497
General Industries			15,863		3,008	18,871	16,870
Food, Beverages & Personal Care			16,741		2,963	19,704	19,517
Central Banks	19,558					19,558	22,022
Builders & Contractors			13,434		3,062	16,496	16,087
Other	15	934	53,781		7,488	62,218	62,239
Total	93,077	113,043	285,345	329,493	46,676	867,634	814,537

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

The figures presented above 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 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 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.

Outstandings by Tenor Bucket (based on credit risk outstandings)

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Current Outstandings	86,904	114,653	240,053	316,658	34,962	793,230	752,371
1 month	81,428	113,002	234,230	316,237	34,220	779,117	736,401
3 month	70,628	90,217	216,677	315,776	33,583	726,881	679,992
6 month	68,690	84,852	203,256	314,923	32,534	704,255	659,523
1 year	65,032	79,977	166,394	311,453	23,121	645,977	597,945
2 years	54,783	70,091	133,714	306,815	20,337	585,740	551,220
3 years	49,528	61,934	108,262	299,705	17,716	537,145	504,325
5 years	38,176	45,512	69,611	276,369	12,626	442,294	423,278
7 years	30,240	34,723	47,338	264,795	10,052	387,148	365,098
10 years	9,288	15,860	33,833	239,128	7,548	305,657	291,183

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

Basel II does not include a cash flow methodology that would look at future portfolio runoff. This table, 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.

Additional Pillar 3 information continued

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'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 or impairments. The portfolio runoff is implied by the difference in the figures between two periods.

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, individualized provisions are still required. These are generally loans that exceed the threshold amount. The threshold amount varies per business unit, but generally is EUR 0 million 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 Recognized (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 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.

Cumulative Provisions by geographic area

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Netherlands		**1**	**803**	**151**	**369**	**1,324**	1,039
Belgium			**283**	**42**	**154**	**479**	429
Other Europe	**2**	**23**	**1,293**	**367**	**378**	**2,063**	1,700
Americas		**1**	**390**	**566**	**4**	**961**	986
Asia / Pacific	**1**	**10**	**251**	**33**	**67**	**362**	239
Rest of World	**1**	**1**	**2**	**2**		**6**	6
Total	**4**	**36**	**3,022**	**1,161**	**972**	**5,195**	4,399

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

Above presentation of the cumulative provisions is based on the country of residence of the obligor.

Additional Pillar 3 information continued

Cumulative Provisions by economic sector

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2010	2009
Private Individuals			**4**	**1,161**	**384**	**1,549**	1,379
Real Estate			**539**		**32**	**571**	379
General Industries			**403**		**61**	**464**	407
Food, Beverages & Personal Care			**322**		**75**	**397**	295
Builders & Contractors			**306**		**88**	**394**	355
Services			**250**		**90**	**340**	265
Transportation & Logistics			**275**		**41**	**316**	173
Non-Bank Financial Institutions		**4**	**260**		**19**	**283**	196
Retail			**121**		**64**	**185**	133
Natural Resources			**158**		**9**	**167**	135
Media			**101**		**24**	**125**	101
Automotive			**102**		**21**	**123**	136
Chemicals, Health & Pharmaceuticals			**90**		**14**	**104**	84
Other	**4**	**32**	**91**		**50**	**177**	361
Total	**4**	**36**	**3,022**	**1,161**	**972**	**5,195**	4,399

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

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 above table have cumulative provisions of less than EUR 50 million, and are grouped under Other.

Past due loans by geographic area (based on outstandings)

	Residential mortgages	Other Retail	Total	Total
			2010	2009
Netherlands	**1,793**	**2**	**1,795**	2,397
Belgium	**1,012**	**215**	**1,227**	2,525
Other Europe	**432**	**253**	**685**	350
Americas	**509**	**1**	**510**	634
Asia / Pacific	**1,386**	**21**	**1,407**	1,032
Rest of World	**14**		**14**	466
Total	**5,146**	**492**	**5,638**	7,404

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

Above presentation of the past due loans is based on the country of residence of the obligor.

Past due loans by economic sector (based on outstandings)

	Residential mortgages	Other Retail	Total	Total
			2010	2009
Private Individuals	**5,146**	**225**	**5,371**	7,056
Other		**267**	**267**	348
Total	**5,146**	**492**	**5,638**	7,404

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

Economic sectors not shown in above table have past due loans of less than EUR 150 million, and are grouped under Other.

The tables above should be read in conjunction with the corresponding tables below related to cumulative provisions by geographic area and cumulative provisions by economic sector as well as information and statements in the annual accounts.

Additional Pillar 3 information continued

ING 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 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 2010, the loan loss provision shortfall (before tax) was: EUR 1,553 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.

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.

Past due loans by economic sector (based on outstandings)

	Exposure before risk mitigation	Exposure after risk mitigation	Exposure before risk mitigation	Exposure after risk mitigation
		2010		2009
Risk buckets used:				
0%	**6,281**	**6,281**	4,722	5,055
10%				
20%	**7,628**	**7,628**	9,012	9,029
35%	**7,565**	**7,565**	5,639	5,639
50%	**9,312**	**9,312**	6,802	7,217
75%	**17,961**	**17,357**	16,263	15,636
100%	**33,930**	**33,686**	30,808	29,852
150%	**704**	**704**	799	745
200%				
1250%				

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

Under the standardized 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 has developed a series of statistical, expert and hybrid models based on ING's historical experience and other market observations.

Additional Pillar 3 information continued

- **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 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 will lose when liquidating collateral pledged in association with a given loan or financial obligation, or alternatively, liquidating the company as a whole, as part of a workout process. LGD models are based on cover types, estimated recovery rates given orderly liquidation, and (in)direct cost of liquidation.

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

- **Expected Loss (EL):** The expected loss provides a measure of the value of the credit losses that ING may reasonably expect to incur on its portfolio. ING 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 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 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 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 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 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's compliance with the Basel II 'use test'.

Additional Pillar 3 information continued

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 the CRD, the DNB Supervisory Rules and CEBS guidelines. This concerns all Obligor Types and Segments, including Countries.

ING'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 rating of 1 would correspond to an S&P/Fitch rating of AAA; an ING 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 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 has invested are leading.

Risk ratings assigned to customers are regularly reviewed, and the performance of the underlying models regularly monitored.

Exposures (EAD) by PD grade under the advanced IRB approach

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2010	2009
AAA	**15,903**	**2,625**	**983**	**3,761**	**4**	**23,276**	19,715
AA	**52,462**	**24,801**	**13,406**	**3,603**	**747**	**95,019**	117,087
A	**10,474**	**52,556**	**36,839**	**34,293**	**2,665**	**136,827**	120,747
BBB	**1,144**	**24,343**	**90,589**	**148,583**	**12,453**	**277,112**	233,652
BB	**2,161**	**3,736**	**80,201**	**97,327**	**11,699**	**195,124**	191,368
B	**419**	**558**	**30,647**	**23,313**	**3,238**	**58,175**	55,082
CCC & Problem Grade	**19**	**1,229**	**15,131**	**10,268**	**3,228**	**29,875**	31,147
Total	**82,582**	**109,848**	**267,796**	**321,148**	**34,034**	**815,408**	768,798

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

The figures presented above are based on EAD and as such differ from those presented in the annual accounts due to different measurement methodology.

Over 95% of ING'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 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 Corporate, 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 assets 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.

Additional Pillar 3 information continued

Average LGD by PD Grade under the advanced IRB approach

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2010	2009
AAA	**21%**	**20%**	**35%**	**21%**	**31%**	**22%**	21%
AA	**20%**	**22%**	**28%**	**20%**	**87%**	**22%**	22%
A	**20%**	**20%**	**33%**	**16%**	**57%**	**23%**	24%
BBB	**36%**	**18%**	**27%**	**15%**	**45%**	**21%**	22%
BB	**31%**	**38%**	**21%**	**15%**	**39%**	**19%**	20%
B	**25%**	**40%**	**18%**	**22%**	**46%**	**22%**	22%
CCC & Problem Grade	**14%**	**9%**	**24%**	**22%**	**43%**	**25%**	24%
Total	**21%**	**21%**	**25%**	**16%**	**45%**	**21%**	22%

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

The table above 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 35%, while the weighted average LGD for a BBB rated Corporate is 27%. 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.

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).

Undrawn Commitments

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2010	2009
Standardized Approach	**1**	**194**	**1,816**	**656**	**5,747**	**8,414**	8,826
Advanced IRB Approach	**195**	**1,442**	**53,825**	**11,207**	**11,488**	**78,157**	74,809
Total	**196**	**1,636**	**55,641**	**11,863**	**17,235**	**86,571**	83,635

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

These figures represent the potential exposure that may be drawn by ING'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 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's credit risks (in terms of outstandings) would increase by 11%. As part of its Exposure at Default (EAD) models, ING 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.

Exposures secured by third party guarantees received

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2010	2009
Standardized Approach			**1,475**	**4**	**9**	**1,488**	865
Advanced IRB Approach	**2,681**	**7,367**	**25,272**	**563**	**5,036**	**40,919**	70,762
Total	**2,681**	**7,367**	**26,747**	**567**	**5,045**	**42,407**	71,627

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

Additional Pillar 3 information continued

From time to time, ING extends loans for which it receives a specific financial guarantee from a non-related counterparty or obligor. The figures in this table 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 above. 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 above do include amounts that are guaranteed through an unfunded risk participation construction.

Counterparty credit risk outstandings from derivatives (SA and AIRB)

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2010	2009
Credit Derivatives	**8**	**901**	**381**			**1,290**	2,427
Derivatives		**5**	**63**			**68**	119
Equity Derivatives		**753**	**1,699**		**11**	**2,463**	1,323
Foreign Exchange Derivatives	**401**	**2,048**	**1,687**		**4**	**4,140**	5,183
Interest Rate Derivatives	**1,036**	**12,112**	**8,218**		**63**	**21,429**	22,307
Commodity derivative		**43**	**49**			**92**	3
Exchange Traded Products			**9,338**			**9,338**	
Total	**1,445**	**15,862**	**21,435**		**78**	**38,820**	31,362

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

The figures in above table are calculated using the mark-to-market plus (regulatory) add-on methodology used for calculating Basel II RWA and are shown after adjustments for compensation and legal netting. This methodology allows ING to classify virtually all of its derivatives exposures under the AIRB approach.

Counterparty credit risk outstandings from derivatives (SA and AIRB)

	Central govern-ments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total	Total
						2010	2009
Gross positive MTM before netting and collateral	**3,688**	**55,191**	**42,197**		**80**	**101,156**	82,764
Mark to market (MTM) after netting	**1,445**	**15,862**	**21,435**		**78**	**38,820**	31,362
MTM after netting and collateral	**1,445**	**12,249**	**20,774**		**78**	**34,546**	27,767

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

As part of its normal securities financing and derivatives trading activities, ING 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 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 would be required to pledge under these agreements. However, the actual amount that ING may be required to pledge in the future may vary based on ING'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.

Additional Pillar 3 information continued

Counterparty credit risk outstandings from securities financing (SA and AIRB)	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Bond Financing Given	204	772	3,032			4,008	6,389
Equity Financing Given		1,398	3,355			4,753	2,784
Bond Financing Taken	31	641	1,398			2,070	3,432
Equity Financing Taken		1,091	1,221			2,312	1,181
Total	235	3,902	9,006			13,143	13,786

* 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 governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total 2010	Total 2009
Gross positive MTM before netting and collateral	325	8,297	24,153			32,775	15,654
Mark to market (MTM) after netting	235	3,902	9,006			13,143	13,786
MTM after netting and collateral	235	2,817	5,917			8,970	8,185

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

The previous 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. In order to determine the amount of credit risk applicable, ING first matches the trades with similar characteristics to determine their eligibility for offsetting. This offsetting effect is called ‘compensation’. Subsequently, ING 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 under CSAs or other similar agreements.

CREDIT RISK MITIGATION

Regulatory capital requirements	2010	2009
Credit derivatives used for hedging purposes		
– credit protection bought	849	982
– credit protection sold		
Credit derivatives used for trading activities		
– credit protection bought	29,389	35,235
– credit protection sold	27,944	30,276

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

ING actively participates in the credit risk derivative (CDS) trading market, as a net purchaser of credit risk protection from other counterparties. ING 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’s relationship banking activities. ING 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 has purchased CDS protection, ING does not currently make use of this provision in determining its Basel II capital base.

The figures above represent the notional amount of credit risk default swaps that ING 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 above. For credit default protection sold, ING incurs synthetic issuer risk, on which capital is calculated, depending on its purpose, either hedging or trading.

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 18 December 2008. 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's role as investor, originator, or sponsor the objectives, the involvement and the rules applied may be different. ING is primarily engaged in securitisation transactions in the role of investor (in securitisations arranged by others). To a lesser extent, ING is also an originator or sponsor of securitisations that are usually traded in the public markets.

Valuation and accounting policies

ING's activities regarding securitisations are described in Note 25 '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's own originated securitisation programmes are 'derecognition of financial assets' and 'consolidation'. Where ING acts as investor in securitisation positions, the most relevant accounting policy is 'classification of financial instruments'.

Regulatory capital method used and Rating Agencies

ING has implemented the AIRB approach for credit risk. As a consequence, ING 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 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.

ING 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 as Investor

ING Direct is the primary investor in securitisation transactions within ING Bank. ING Direct's core strategy is gathering customer deposits and reinvesting them in its investment portfolio and retail assets, mainly mortgages. The difference between retail liabilities (the savings product is typically the first product to be launched in a country) and retail assets (the mortgage product is typically the second product launched) is invested in high quality debt. 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.

Securitisation markets provide investment opportunities in highly rated (generally AAA), liquid and discountable bonds and are therefore an important asset class in ING Direct's investment portfolio. At ING Direct, the investment policies define eligible product types, minimum ratings, maximum tenors and exposure amounts both at issue and issuer levels as well as for the portfolio. The dominant product classes in the investment portfolio are RMBS, Agency RMBS, Covered Bonds, and Senior Unsecured Debt issued by Banks, Other Financial Institutions as well as Sovereigns or Quasi-sovereign entities. Prior to purchase, each investment proposal from a Treasury Centre is analysed by Credit Risk Management and decided upon at the appropriate level by a treasury officer and a credit risk manager under delegated approval authorities. In 2010, ING Direct did not purchase any new ABS or MBS, other than Agency MBS.

Purchased Securitisation Exposures

The following table gives the break down of purchased 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

Purchased exposures per risk weight band (ING as Investor)	2010	2009
Risk weight band 1 <= 10%	**19,607**	35,384
Risk weight band 2 >10% and <= 18%	**13,761**	10,397
Risk weight band 3 >18% and <= 35%	**1,029**	605
Risk weight band 4 >35% and <= 75%	**343**	162
Risk weight band 5 >75% and <1250%	**2,371**	2,652
Risk weight 1250%	**353**	212
Total	**37,464**	49,412

ING as Originator
ING 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 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's own securitisations have been called and are now retained by ING. Except for Memphis 2005, ING 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 2010, four transactions totalling approximately EUR 12 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 may still be used to obtain funding and improve liquidity. To be eligible as collateral for central banks securitised exposures must be sold to a Special Purpose Vehicle (SPV) which, in turn, issues securitisation notes ('traditional securitisations') in two tranches, one subordinated tranche and one senior tranche, rated AAA by a rating agency. The AAA tranche can then be used by ING as collateral in the money market for secured borrowings.

  ING Bank has created a number of these securitisations with a 31 December 2010 position of approximately EUR 88 billion of AAA rated notes and unrated subordinated notes. The underlying exposures are residential mortgages in the Netherlands, Canada, Germany, Belgium, Italy and Australia. ING Direct also created 'own originated RMBS' backed by Spanish mortgages.

  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
2010						
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**			

Additional Pillar 3 information continued

Exposures securitised

2009	Cut-off Date	Initial Pool	Outstan-dings	Credit Events	Past due Assets	Losses
Residential Mortgages						
Memphis 2005	31-Oct-09	3,000	2,954	2	40	<1
Memphis 2006	31-Oct-09	4,000	3,911	12	143	2
		7,000	6,865			
SME						
Mars 2006	30-Sep-09	4,500	4,351	29	34	3
BEL SME 2006	30-Nov-09	2,500	2,232	22	18	3
Total		7,000	6,583			

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's own assets include the most senior tranches and the equity piece (first loss) of Memphis 2005. Economically, on a total of about EUR 12 billion underlying exposures in the four transactions mentioned above, ING has retained approximately EUR 6 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 are treated for RWA purposes as if it was not securitised.

ING 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 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 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 3,535 million. The total drawn liquidity amount as of 31 December 2010 is EUR 597 million.

Additional Pillar 3 information continued

Securitisation in the trading book
The exposures involved are mainly synthetic Collateralised Debt Obligations (CDO's) in which the underlying credit exposures are taken on using a credit default swap rather than a vehicle buy physical assets.

The CDO's are a form of securitisation where payments from a portfolio of fixed-income assets are pooled together and passed on to different classes of owners in various tranches. The assets/loans are divided in different tranches according to their seniority: senior tranches (rated AAA), mezzanine tranches (AA to BB) and equity tranches (unrated). Losses are applied in reverse order of seniority. The CDO's in trading books are valued mark-to-market. The underlying assets are a pool of mostly Corporate Investment Grade names.

The total net Collaterised Debt Obligations position in the Trading portfolio as of 31 December 2010 is EUR –0.8 million (2009: EUR –28 million).

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 A-IRB calculations. Capital requirement for ONCOA as of 31 December 2010 is EUR 1,813 million (2009: EUR 2,275 million).

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