ING Bank

Annual Report 2008

ING

In this report

Management

COMPOSITION OF THE BOARDS

on 31 December 2008

ING Bank has a two tier board system, consisting of a Supervisory Board and an Executive Board. The Supervisory Board consists of all but one independent non-executives. Its task is to supervise the policy of the Executive Board and the general course of events in the company and to assist the Executive Board by providing advice. The Executive Board is responsible for the daily management of the company. The composition of the Executive Board and the Supervisory Board of ING Bank N.V. was as follows:

EXECUTIVE BOARD

Michel J. Tilmant [1] (56), chairman
Eric F. Boyer de la Giroday [2] (56)
Dick H. Harryvan (55)
John C.R. Hele [3] (50), CFO
Eli P. Leenaars (47)
Tom J. McInerney (52)
Hans van der Noordaa (47)
Koos (J.)V. Timmermans (48), CRO
Jacques M. de Vaucleroy (47)

[1] Chairman until 26 January 2009.
[2] Acting chairman from 26 January until 27 April 2009.
[3] Leaving ING on 31 March 2009.

SUPERVISORY BOARD

Jan H.M. Hommen [1] (65), chairman
Eric Bourdais de Charbonnière [2] (69), vice-chairman
Henk W. Breukink (58)
Peter A.F.W. Elverding [3] (60)
Claus Dieter Hoffmann (66)
Piet Hoogendoorn (63)
Piet C. Klaver (63)
Wim Kok [2] (70)
Godfried J.A. van der Lugt (68)
Harish Manwani (55)
Aman Mehta (62)
Joan E. Spero (64)
Jackson P. Tai (58)
Karel Vuursteen (67)

[1] Nominated chairman of the Executive Board as of 27 April 2009.
[2] Retirement as of 27 April 2009.
[3] Designated chairman of the Supervisory Board as of 27 April 2009.

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 offering banking, investments, life insurance and retirement services. We serve more than 85 million private, corporate and institutional customers in Europe, North and Latin America, Asia and Australia. We draw on our experience and expertise, our commitment to excellent service and our global scale to meet the needs of a broad customer base, comprising individuals, families, small businesses, large corporations, institutions and governments.

Our strategy
ING's overall mission is to help customers manage their financial future. Capitalising on changing customer preferences and building on our solid business capabilities, ING's strategic focus is on banking, investments, life insurance and retirement services. We want to provide retail customers with the products they need during their lives to grow savings, manage investments and prepare for retirement with confidence. With our wide range of products, innovative distribution models and strong footprints in both mature and developing markets, we have the long-run economic, technological and demographic trends on our side. We align our business strategy around a universal customer ideal: saving and investing for the future should be easier. While steering the business through turbulent times, we will execute efforts across all our business lines to strengthen customer confidence and meet their needs, preserve a strong capital position, further mitigate risks and bring our costs in line with revenue expectations.

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, communities and shareholders. ING strives to be a good corporate citizen.

Our corporate responsibility
ING wants to pursue profit on the basis of sound business ethics and respect for its stakeholders. Corporate responsibility is therefore a fundamental part of ING's strategy: ethical, social and environmental factors play an integral role in our business decisions.

ING BANK

ING Bank has three business lines.

Wholesale Banking
Conducts operations for corporations and other institutions. The primary focus of ING's wholesale banking business is on the Netherlands, Belgium, Poland and Romania, where it offers a full range of products, from cash management to corporate finance. Elsewhere, it takes a more selective approach to clients and products. Wholesale Banking also manages ING Real Estate, the world's largest real estate investment manager.

Retail Banking
Offers retail banking services in the Netherlands, Belgium, Poland, Romania, Turkey, Ukraine, India, Thailand and China. Private Banking is offered in the Netherlands, Belgium, Luxembourg, Switzerland and various countries in Asia and Central Europe. Mid Corporate Clients in the home markets (the Netherlands, Belgium, Poland and Romania), which were formerly part of Wholesale Banking, are now also part of Retail Banking.

ING Direct
Operates direct retail banking activities in Australia, Canada, France, Germany and Austria, Italy, Spain, the United Kingdom and the United States. The main products offered are savings accounts and mortgages, and, increasingly, also mutual funds and payment accounts.

Overview and Wholesale Banking

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 Wholesale Banking, Retail Banking and ING Direct.

ING manages its banking activities on an underlying result basis. Underlying result before taxation is defined as result before taxation excluding the impact of divestments and special items. A reconciliation of net result to underlying result can be found in Note 41 ‘Primary reporting format – Business segments’.

Financial results

Despite the unprecedented impact of the financial crisis and challenging commercial environment, ING’s banking businesses reported commercial growth across all three business lines. Total result before tax declined 88.0% to EUR 533 million, driven by impairments and fair value changes due to the extreme market volatility and sharp decline in asset prices combined with higher risk costs. Underlying result before tax (excluding the impact of divestments and special items) declined by 83.0% to EUR 834 million. Retail Banking and Wholesale Banking remained profitable, while ING Direct reported a loss of EUR 1,891 million due to impairments on pressurised assets. Risk costs increased significantly due to worsening economic conditions.

Underlying income decreased 16.6% to EUR 11,286 million. The interest result, however, rose 24.6%, driven by higher margins at ING Direct and Wholesale Banking, the inclusion of ING Bank Turkey (formerly Oyak Bank) and an increase in volumes. Loans and advances to customers increased by EUR 72.0 billion, or 13.7%, to EUR 598.3 billion. Customer deposits and other funds on deposits increased by EUR 9.5 billion, or 1.8%, to EUR 537.7 billion. The total interest margin rose to 1.09% from 0.94% in 2007. Commission income decreased 1.1% driven by lower asset management fees and lower income from the securities business. Underlying Investment income (including net gains/losses on disposals of group companies) fell from EUR 891 million in 2007 to EUR –2,224 million in 2008, mainly due to impairments on bonds and equities, and negative revaluations on real estate. Underlying other income dropped 87.3% as a result of negative trading income and losses from associates.

Underlying operating expenses increased 5.2% to EUR 10,063 million mainly at Retail Banking due to the inclusion of ING Bank Turkey, and at ING Direct. The underlying cost/income ratio increased to 82,6% from 65.5% in 2007 driven by the sharp decline in income. The underlying net addition to the provision for loan losses increased to EUR 1,280 million from EUR 125 million in 2007. Risk costs in 2008 were 48 basis points of average credit-risk weighted assets, as gross additions to loan loss provisions of 62 basis points were offset by 14 basis points in releases.

The underlying risk-adjusted return on capital (RAROC) after tax fell to 2.6% from 22.3% in 2007, reflecting the impact of the market turmoil and a 31.6% increase in Economic Capital.

WHOLESALE BANKING

Wholesale Banking achieved a solid commercial performance in what was an extremely challenging year for the industry. Income remained fairly resilient, with good income growth in many businesses. However, overall results were negatively affected by the global financial crisis, especially in the second half of 2008 due to the unprecedented market turmoil.

Wholesale Banking’s underlying result before tax declined 70.4% to EUR 609 million, driven by impairments, negative fair value changes and higher risk costs. Underlying result before tax from Financial Markets increased 18.3% to EUR 355 million thanks to the strong performance in the first half of the year. The results of General Lending & PCM and Structured Finance declined by 39.9% and 18.2% respectively, entirely because of higher risk costs. Leasing & Factoring profit declined 22.2% to EUR 119 million. ING Real Estate recorded a loss before tax of EUR 297 million due mainly to negative revaluations caused by declining property values. Total underlying income fell 14.5% to EUR 4,107 million driven by ING Real Estate and Other Wholesale Products, while income from General Lending & PCM and Structured Finance increased by 24.5% and 30.2% respectively. Underlying operating expenses remained under control, rising 0.6% to EUR 2,902 million. The underlying cost/income ratio increased to 70.7% from 60.1% in 2007. Risk costs increased significantly to EUR 596 million compared with a net release of EUR 142 million in 2007. The underlying risk-adjusted return on capital (RAROC) after tax declined to 4.9% from 19.8% in 2007.

Important role within ING Group

Wholesale Banking plays a fundamentally important role within ING Group. The essence of the Group’s business is to collect customer deposits and redeploy them as investments. Wholesale Banking complements the Group’s business model in three ways: as a contributor of capital, as an important generator of assets, and as a source of skills and expertise. The business line generates capital that can be redeployed efficiently to high-growth businesses. It also generates high-quality assets into which ING can invest retail deposits, and provides the Group with many relevant skills in financial markets, risk and specialist finance, as well as access to the financial markets

Focused strategy

Wholesale Banking in 2008 launched a `Fitter, Focused, Further’ strategy for 2008-2010, with the aim of becoming a leader in several key markets and products. The strategy includes becoming the market leader in the Benelux, a top-5 wholesale bank in Central Europe, and a global or regional leader in a number of key product areas, including Structured Finance, Financial Markets, PCM and Leasing.

Wholesale Banking and Retail Banking

Volume growth in General Lending & PCM
General Lending is used as an entry product across all regions to attract customers and to cross-sell other high-value products. Volumes increased in General Lending over the course of the year as the turbulent market circumstances offered the possibility to pursue selective asset growth, at higher margins and fee levels. General Lending results were particularly strong in the Netherlands and in Central Europe.

Strong demand for Structured Finance
In 2008, Structured Finance held up well due to strong demand from customers in a market where credit was reduced significantly. Both margins and the relative market position of Structured Finance continue to improve. ING continued to support clients' funding needs during 2008. The scarcity of available financing further increased margins, especially benefiting Structured Finance in the US, but also in Western Europe and Asia.

Growth in Leasing & Factoring
Leasing & Factoring saw increases in portfolio size and income levels throughout 2008. ING also continued to seek out opportunities to cross-sell services to corporate clients. Leasing growth was driven by higher volumes in Belgium, Italy, the Netherlands, Poland, Hungary and Russia. Volumes in Factoring grew in all markets, with ING strengthening its leadership position in the Netherlands and Poland.

Strong Financial Markets operational performance
Financial Markets had an exceptionally strong first half and continued to show robust operational performance during the rest of 2008. Nevertheless, credit related markdowns and impairments in the second half negatively impacted 2008's overall performance. The client and product businesses held up well, in line with the aim to diversify away from proprietary risk businesses, including proprietary trading. Financial Markets continues to seek cross-selling opportunities across product areas and client groups, including a new strategy to target emerging markets, home markets, strategic clients and global clients.

ING Real Estate
As a result of the financial market crisis, 2008 was a tough year for ING Real Estate. While maintaining the size of its total portfolio (including assets under management) at EUR 106 billion, it incurred a loss before tax of EUR 297 million. This was largely a result of the impact of EUR 712 million of unrealised fair value losses on its investment portfolio, from a total exposure of approximately EUR 5 billion. The fair value losses were somewhat compensated by EUR 49 million of positive revaluations in ING Real Estate's development activities. Excluding the revaluation changes, profit before tax was slightly lower than the previous year at EUR 366 million.

Looking forward
ING continues to secure important mandates and transactions. It is managing expenses carefully, in part to compensate for higher risk costs and impairments, and has adjusted its strategic focus to key markets and product areas where it already has a competitive advantage. Wholesale Banking is an essential part of the Group, and has a clearly defined focus and ambition to be a full-service Benelux bank and a specialist products provider globally.

RETAIL BANKING

The retail banking market became increasingly challenging in 2008. Against this backdrop, Retail Banking remained a steady performer with a high return on capital. Further progress was made in improving the customer experience, efficiency and reducing costs in the Benelux and the preparing of new service models. In Central Europe and Asia, ING continued to grow its activities.

Underlying result before tax declined 29.6% to EUR 1,691 million in 2008, mainly due to an increase in underlying expenses and risk costs, while income declined slightly. Total result before tax declined 31.7% to EUR 1,420 million, as 2008 included EUR 271 million of charges recognised as special items related to the implementation of the Retail Netherlands Strategy. Total underlying income declined slightly, by 0.8%, to EUR 7,399 million. Underlying operating expenses increased 9.3% to EUR 5,307 million, predominantly in Central Europe due to the inclusion of ING Bank Turkey and investments in distribution channels and advertising campaigns. The underlying risk-adjusted return on capital (RAROC) after tax from Retail Banking decreased to 21.7% in 2008 from 37.0% in 2007.

New service models in the Benelux
In this increasingly competitive environment, ING is consolidating its branch networks in the Benelux and moving them towards the 'internet-first model' with its focus on low-cost, easy transactions and strong branding.

In 2007, ING announced a substantial investment in its retail banking direct channels and branch network in the Netherlands by combining the successful direct banking model of Postbank with the professional advice capabilities of ING Bank. Preparations were finalised to combine ING Bank and Postbank in the first quarter of 2009. All post offices, Postbank service shops, ATMs and branch interiors have been rebranded. As of January 2009, all branches started working according to ING's new 'bankshop' formula. The new bank will improve services and maintain a strong focus on cost-effective execution. It serves more than 8 million retail clients and 600,000 business customers. Improvements in operating efficiencies and an expected reduction of 2,500 full-time equivalents following the integration of Postbank and ING Bank will significantly reduce operating costs.

Retail Banking and ING Direct

ING Belgium continued the roll-out of a new service and distribution model in which traditional branches are being transformed into outlets with self-service cash functions and online banking access. In Belgium, ING attracted substantial inflows and new clients by introducing a range of online savings products for different target groups.

Mortgage production in the Netherlands fell significantly, as demand for mortgage financing dropped sharply. ING's focus is to keep volumes and market share stable without sacrificing margins.

Continued volume growth in Central Europe and Asia
Retail Banking is well positioned in Poland, Romania, Turkey and the important Asian markets of India and China. In 2008, ING invested in its distribution network with a focus on Poland, Romania, Turkey and India. Towards the end of the year, Retail Banking adapted its growth plans given the overall economic climate. ING remains committed to growth in emerging markets but will slow down the expansion. Given the current environment, ING will put more emphasis on cost reduction and de-risking in all markets.

ING started retail banking operations in Ukraine in 2008 and had 20 branches by the end of the year.

In addition to full-service branches, ING Bank Turkey opened 15 express branches, which are cost-efficient with fewer staff and efficient operations.

In India, ING Bank has a 43.8% stake in ING Vysya Bank, which opened new branches and ATMs.

In Thailand, ING Bank has a 25.2% stake in TMB Bank, a universal banking platform with a nationwide network.

In China, ING Bank holds a 16.1% stake in the Bank of Beijing. Bank of Beijing continued its expansion within and outside its home city.

Expansion of mid corporate clients
Mid Corporate Clients expanded in its home markets of the Netherlands and Belgium, as well as in Poland, Romania and Turkey.

Private Banking
ING Private Banking suffered from the ongoing market turmoil. Assets under management remained stable during the first nine months but due to market events assets under management decreased by 9%. The crisis motivated many investors to move their assets into more conservative products, like deposits and savings. Provisioning in Asia was quite high given the exceptional market circumstances in 2008.

Looking forward
Given the current market upheaval ING's priorities are more than ever to be customer-oriented and to exceed customer expectations. Next to that, maintaining liquidity, increasing margins, controlling costs and managing risk are key. Across all regions steps have been taken to respond to the challenging conditions while remaining open to new opportunities.

ING DIRECT

ING Direct continued to show positive commercial results, despite an increasingly competitive marketplace and against the backdrop of the continuing crisis in the financial sector. Results were heavily impacted by fair value impairments on its investment portfolio due to the financial crisis. Client retail balances production was up EUR 24.4 billion to EUR 322.7 billion at year-end.

Although commercial performance remained positive, ING Direct posted an underlying loss before tax of EUR 1,125 million compared with a profit of EUR 530 million in 2007. Rising delinquencies, falls in house prices and a revision to the ultimate loss outlook led to an estimated credit loss of EUR 384 million, primarily on ING Direct's Alt-A RMBS portfolio. This triggered a EUR 1,891 million impairment through the profit and loss account as IFRS requires a write-down to market value at reporting date. The Illiquid Assets Back-up Facility arrangement in early 2009 with the Dutch State has reduced the uncertainty of the impact of any future losses on 80% of the Alt-A RMBS portfolio. Total underlying income declined by 60% in 2008 to EUR 878 million as a result of impairments, primarily on the Alt-A RMBS portfolio in the US. The total interest margin widened to 0.94% in 2008 from 0.75% in 2007 following rate reductions by central banks across the globe. Underlying operating expenses increased 7.6% to EUR 1,719 million due to higher expenses related in part to retention and win-back campaigns, as well as the inclusion of Interhyp from August 2008. The underlying risk-adjusted return on capital (RAROC) after tax fell to –18.2% from 14.3% in 2007 due to the impairments of the investment portfolio.

Leading direct bank
ING Direct is the world's leading direct bank. It sells a limited number of simple banking products at very low cost to retail customers in nine major developed countries. ING Direct's vision is to become the world's most preferred consumer bank by being our customers' primary bank. ING Direct will therefore continue to put customers first and gradually expand its product offering while maintaining outstanding customer satisfaction levels.

Growth strategy
ING Direct is focusing on different sources of future growth. First, it aims at continued growth in customer numbers and savings deposits in countries where it is already present. Another source of growth is via an expansion of the product range. ING Direct aims to address the five major consumer needs: savings, mortgages, payment accounts, investment products and consumer lending. These products will only be introduced in a country if it is economically viable.

ING Direct

In 2008, ING Direct continued to invest in building the business and expanding its product offering, with investment costs amounting to EUR 331 million.

Developing the major product categories
Savings: ING Direct refined its savings products in all countries to win new customers and new funds from existing customers in a more competitive market. Overall, production of funds entrusted was EUR 6.7 billion, mainly driven by strong growth in the United States. Including the impact of negative currency effects, total funds entrusted balances declined by EUR 0.5 billion tot EUR 191.0 billion at year-end.

Mortgages: The own-originated mortgages portfolio grew by EUR 17.2 billion (up 18.6% from 2007), bringing the total residential mortgages portfolio to EUR 113.7 billion at year-end. ING Direct sharply monitors the quality of the new mortgage portfolio and has tightened its underwriting criteria accordingly.

Payment accounts: The performance of payment accounts was encouraging in 2008: 431,000 new accounts were opened in Spain, the United States Germany and Italy, bringing the total to 1.3 million accounts over 2008. Payment accounts were launched in Italy in October and 8,000 accounts had been opened by year-end.

Investment products: Despite the ongoing financial crisis, ING Direct reported substantial net inflows of customers and funds in investment products, primarily in the US and Germany. Total balances of off-balance funds, however, declined by EUR 3.6 billion to EUR 15.1 billion as a result of lower asset prices.

Looking forward
Given the current priorities of preserving ING's capital position and the worsening economy, ING Direct will reduce expenses by about EUR 150 million in 2009, through lower operating and marketing expenses, and a head count reduction of around 600 FTEs.

In 2009, ING Direct will continue to gradually expand the product range.

THE EXECUTIVE BOARD
Amsterdam, 16 March 2009

Report of the Supervisory Board

TO SHAREHOLDERS

The Supervisory Board hereby presents you the 2008 Annual Report of ING Bank N.V. This Annual Report includes the report of the Executive Board, the Annual Accounts and Other Information.

Annual Accounts and dividend

The Annual Accounts have been prepared by the Executive Board and have been discussed by the Supervisory Board. They are presented to you for adoption. Subject to adoption of the Annual Accounts a dividend is proposed of EUR 4,250 million. This amount has already been paid as interim dividend.

Meetings

The Supervisory Board met thirteen times in 2008 of which six meetings west scheduled. Most of the ad-hoc meetings focused on the development of the financial markets crisis and the implications for ING. The Audit Committee held six meetings. While the execution of the strategy was an important subject in the first half of 2008, the implications of the financial crisis for ING were the main topic on the agenda in the second half of 2008.

The Audit Committee discussed the annual results, whereas the effects of the financial crisis on ING were reviewed in an additional meeting.

Composition of the Executive Board

Chief financial officer John Hele announced his resignation as of 31 March 2009. Patrick Flynn is proposed to take his place as a member of the Executive Board and CFO. On 26 January 2009, Michel Tilmant stepped down from the Executive Board to take effect at once. The Supervisory Board proposes to appoint Jan Hommen as chairman of the Executive Board, subject to his appointment as a member of the Executive Board of ING Groep N.V. Eric Boyer will be acting chairman until Jan Hommen’s appointment.

Composition of the Supervisory Board

Cor Herkströter retired as member and chairman of the Supervisory Board per 1 January 2008. Jan Hommen succeeded Cor Herkströter as chairman of the Supervisory Board and Wim Kok succeeded Jan Hommen as chairman of the Audit Committee, both as of 1 January 2008. For this reason Wim Kok did not retire in 2008. Luella Gross Goldberg retired after the 2008 annual General Meeting having stayed on one year longer.

Harish Manwani, Aman Mehta, Joan Spero and Jackson Tai were appointed as new members of the Supervisory Board at the 2008 annual General Meeting.

Following the agreement between ING Groep N.V. and the Dutch government to strengthen the capital position of ING Groep N.V. with EUR 10 billion at the end of October, the Dutch government announced that it recommended Lodewijk de Waal for appointment to the Supervisory Board of ING Groep N.V. The Supervisory Board proposes Lodewijk de Waal for appointment as a Supervisory Board member in the annual General Meeting in April 2009, subject to his appointment to the Supervisory Board of ING Groep N.V. Until his appointment, Mr. de Waal participates as an observer in the Supervisory Board meetings.

Following the envisaged appointment of Jan Hommen as chairman of the Executive Board of ING Group, the Supervisory Board decided to appoint Peter Elverding as successor to Jan Hommen as chairman of the Supervisory Board effective after the 2009 General Meeting. Eric Bourdais de Charbonnière and Wim Kok will retire from the Supervisory Board after the 2009 General Meeting.

The Supervisory Board has nominated three candidates for appointment: Tineke Bahlmann (1950, Dutch nationality, female), Jeroen van der Veer (1947, Dutch nationality, male) and Lodewijk de Waal (1950, Dutch nationality, male). Mrs. Bahlmann and Mr. de Waal were recommended for appointment by the Dutch State. The proposed appointments were approved by the Dutch central bank.

Appreciation for the Executive Board and the ING Bank employees

The Supervisory Board would like to thank Eric Bourdais de Charbonnière and Wim Kok for their commitment to ING and their valuable contribution through the years. Finally, the Supervisory Board would like to thank the Executive Board members for the very hard work done in the extremely challenging circumstances on the financial markets. The Supervisory Board would also like to express its appreciation to all employees of ING Bank who each serve the interests of the customers, the shareholders and other stakeholders of ING.

THE SUPERVISORY BOARD
Amsterdam, 16 March 2009

Conformity statement

The Executive 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 those International Financial Reporting Standards (IFRS) that were endorsed by the European Union.

Conformity statement pursuant to section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act *(Wet op het financieel toezicht)*

The Executive 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 judgements and estimates that are prudent and reasonable. It is also responsible for establishing and maintaining internal procedures which ensure that all major financial information is known to the Executive Board, so that the timeliness, completeness and correctness of the external financial reporting are assured.

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

- the ING Bank N.V. 2008 Annual Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of ING Bank N.V. and the enterprises included in the consolidation taken as a whole;

- the ING Bank N.V. 2008 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 2008 of ING Bank N.V. and the enterprises included in the consolidation taken as a whole, together with a description of the principal risks ING Bank N.V. is being confronted with.

Amsterdam, 16 March 2009

Eric Boyer de la Giroday
Acting chairman, member of the Executive Board

Dick Harryvan
Member of the Executive Board

John Hele
CFO, member of the Executive Board

Eli Leenaars
Member of the Executive Board

Tom McInerney
Member of the Executive Board

Hans van der Noordaa
Member of the Executive Board

Koos Timmermans
CRO, member of the Executive Board

Jacques de Vaucleroy
Member of the Executive Board

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Consolidated balance sheet of ING Bank

as at 31 December

amounts in millions of euros	2008	2007
ASSETS		
Cash and balances with central banks 1	**18,169**	9,829
Amounts due from banks 2	**48,447**	48,875
Financial assets at fair value through profit and loss 3		
– trading assets	**159,843**	192,215
– non-trading derivatives	**10,631**	6,784
– designated as at fair value through profit and loss	**4,548**	9,146
Investments 4		
– available-for-sale	**133,365**	143,632
– held-to-maturity	**15,440**	16,753
Loans and advances to customers 5	**598,328**	526,323
Investments in associates 6	**1,813**	2,010
Real estate investments 7	**2,884**	3,527
Property and equipment 8	**5,686**	5,330
Intangible assets 9	**2,415**	1,883
Other assets 10	**33,120**	27,806
Total assets	**1,034,689**	994,113
EQUITY		
Shareholders' equity (parent) 11	**22,889**	25,511
Minority interests	**1,232**	1,684
Total equity	**24,121**	27,195
LIABILITIES		
Subordinated loans 12	**21,657**	18,786
Debt securities in issue 13	**84,272**	55,990
Amounts due to banks 14	**152,265**	166,972
Customer deposits and other funds on deposit 15	**537,683**	528,197
Financial liabilities at fair value through profit and loss 16		
– trading liabilities	**152,611**	148,887
– non-trading derivatives	**17,050**	5,569
– designated as at fair value through profit and loss	**14,009**	13,882
Other liabilities 17	**31,021**	28,635
Total liabilities	**1,010,568**	966,918
Total equity and liabilities	**1,034,689**	994,113

References relate to the notes starting on page 32. 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	2008	2008	2007	2007	2006	2006
Interest income	**97,578**		76,765		59,159	
Interest expense	**–86,292**		–67,730		–49,826	
Interest result 30		**11,286**		9,035		9,333
Investment income 31		**–2,386**		809		528
Net gains/losses on disposals of group companies		**162**		138		–45
Gross commission income	**3,994**		4,166		3,794	
Commission expense	**–1,099**		–1,240		–1,113	
Commission income 32		**2,895**		2,926		2,681
Valuation results on non-trading derivatives 33		**343**		126		136
Net trading income 34		**–405**		740		901
Share of profit from associates 6		**–210**		238		180
Other income 35		**492**		580		476
Total income		**12,177**		14,592		14,190
Addition to loan loss provisions 5		**1,280**		125		103
Intangible amortisation and other impairments 36		**154**		–5		16
Staff expenses 37		**5,988**		5,421		5,091
Other operating expenses 38		**4,222**		4,597		3,956
Total expenses		**11,644**		10,138		9,166
Result before tax		**533**		4,454		5,024
Taxation 39		**–170**		753		1,211
Net result (before minority interests)		**703**		3,701		3,813
Attributable to:						
Shareholders of the parent		**772**		3,589		3,753
Minority interests		**–69**		112		60
		703		3,701		3,813

	2008	2007	2006
Dividend per ordinary share (in euros)	**9.14**	2.80	3.87
Total amount of dividend paid (in millions of euros)	**4,250**	1,300	1,800

References relate to the notes starting on page 75. These form an integral part of the consolidated annual accounts.

Consolidated statement of cash flows of ING Bank

for the years ended 31 December

amounts in millions of euros		2008	2007	2006
Result before tax		**533**	4,454	5,024
Adjusted for	– depreciation	**1,224**	1,169	1,088
	– addition to loan loss provisions	**1,280**	125	103
	– other	**4,510**	90	313
Taxation paid		**–227**	–579	–1,005
Changes in	– amounts due from banks, not available on demand	**7,162**	–8,690	3,117
	– trading assets	**33,335**	1,757	–47,106
	– non-trading derivatives	**7,977**	94	–157
	– other financial assets at fair value through profit and loss	**3,321**	–4,107	3,980
	– loans and advances to customers	**–76,154**	–73,866	–59,188
	– other assets	**–9,308**	–5,107	2,588
	– amounts due to banks, not payable on demand	**13,210**	15,414	1,925
	– customer deposits and other funds on deposit	**18,750**	32,748	47,339
	– trading liabilities	**3,501**	20,916	38,780
	– other financial liabilities at fair value through profit and loss	**99**	85	2,140
	– other liabilities	**3,042**	6,290	–1,395
Net cash flow from operating activities		**12,255**	–9,207	–2,454
Investments and advances	– group companies	**–592**	–2,026	–2,829
	– associates	**–383**	–660	–274
	– available-for-sale investments	**–95,036**	–95,546	–106,902
	– held-to-maturity investments	**–314**		
	– real estate investments	**–295**	–253	–288
	– property and equipment	**–547**	–385	–359
	– assets subject to operating leases	**–1,401**	–1,393	–1,164
	– loan portfolio	**–2,526**		
	– other investments	**–614**	–210	–142
Disposals and redemptions	– group companies	**201**	25	271
	– associates	**140**	223	369
	– available-for-sale investments	**94,976**	100,297	89,904
	– held-to-maturity investments	**1,640**	822	1,343
	– real estate investments	**190**	139	311
	– property and equipment	**24**	69	210
	– assets subject to operating leases	**428**	417	402
	– other investments	**8**	7	16
Net cash flow from investing activities 43		**–4,101**	1,526	–19,132
Proceeds from issuance of subordinated loans		**3,643**	2,622	7,226
Repayments of subordinated loans		**–1,432**	–1,028	–5,075
Proceeds from borrowed funds and debt securities		**355,942**	407,289	236,902
Repayments of borrowed funds and debt securities		**–322,055**	–417,186	–220,881
Issuance of ordinary shares/capital injection		**7,200**	2,200	
Dividends paid		**–4,250**	–1,300	–1,800
Net cash flow from financing activities		**39,048**	–7,403	16,372
Net cash flow 44		**47,202**	–15,084	–5,214
Cash and cash equivalents at beginning of year		**–19,389**	–4,352	969
Effect of exchange rate changes on cash and cash equivalents		**–418**	47	–107
Cash and cash equivalents at end of year 45		**27,395**	–19,389	–4,352

Cash and cash equivalents as at 31 December 2008 of EUR 27,395 million (2007: EUR –19,389 million) includes Cash and balances with central banks of EUR 18,169 million (2007: EUR 9,829 million). Reference is made to Note 45 ‘Cash and cash equivalents’.

In 2008, an amount of EUR 7,200 million (2007: EUR 2,200 million) additional share premium was received from ING Group to strengthen solvency.

References relate to the notes starting on page 87. 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 share-holders' equity (parent)	Minority interests	Total equity
Balance as at 1 January 2006	525	6,992	13,814	21,331	482	21,813
Unrealised revaluations after taxation			–1,131	–1,131		–1,131
Realised gains/losses transferred to profit and loss			–184	–184		–184
Changes in cash flow hedge reserve			–423	–423		–423
Employee stock options and share plans			52	52		52
Exchange rate differences			–260	–260		–260
Other revaluations			–40	–40	662	622
Total amount recognised directly in equity			–1,986	–1,986	662	–1,324
Net result			3,753	3,753	60	3,813
			1,767	1,767	722	2,489
Dividends [1]			–1,800	–1,800		–1,800
Balance as at 31 December 2006	525	6,992	13,781	21,298	1,204	22,502
Unrealised revaluations after taxation			675	675		675
Realised gains/losses transferred to profit and loss			–338	–338		–338
Changes in cash flow hedge reserve			–227	–227		–227
Employee stock options and share plans			61	61		61
Exchange rate differences			–360	–360		–360
Other revaluations			–87	–87	368	281
Total amount recognised directly in equity			–276	–276	368	92
Net result			3,589	3,589	112	3,701
			3,313	3,313	480	3,793
Dividends [2]			–1,300	–1,300		–1,300
Capital injection		2,200		2,200		2,200
Balance as at 31 December 2007	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**
Employee stock options and share plans			**67**	**67**		**67**
Exchange rate differences			**–630**	**–630**		**–630**
Other revaluations			**9**	**9**	**–383**	**–374**
Total amount recognised directly in equity			**–6,344**	**–6,344**	**–383**	**–6,727**
Net result			**772**	**772**	**–69**	**703**
			–5,572	**–5,572**	**–452**	**–6,024**
Dividends [3]			**–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**

[1] 2006 interim dividend of EUR 3.87 per ordinary share.
[2] 2007 interim dividend of EUR 2.80 per ordinary share.
[3] 2008 interim dividend of EUR 9.14 per ordinary share.

Consolidated statement of changes in equity of ING Bank (continued)

In 2008, deferred taxes for the year with regard to unrealised revaluations amounted to EUR 2,594 million (2007: EUR 810 million). For details on deferred tax see Note 17 ‘Other liabilities’.

In 2008, an amount of EUR 7,200 million (2007: EUR 2,200 million) additional share premium was received from ING Group to strengthen solvency.

Reserves include Revaluation reserve of EUR –3,857 million (2007: EUR 2,105 million; 2006: EUR 2,295 million), Currency translation reserve of EUR –475 million (2007: EUR –18 million; 2006: EUR 42 million) and Other reserves of EUR 10,304 million (2007: EUR 13,707 million; 2006: EUR 11,444 million). Changes in individual components are presented in Note 11 ‘Shareholders’ equity (parent)’.

In 2007, the amount included for Minority interests in Other revaluations relates mainly to the acquisition of Lastman BV.

In 2006, the amount included for Minority interests in Other revaluations relates mainly to the acquisition of Summit REIT. For details refer to Note 25 ‘Companies acquired and companies disposed’.

Accounting policies for the consolidated balance sheet and profit and loss account of ING Bank

AUTHORISATION OF ANNUAL ACCOUNTS

The consolidated annual accounts of ING Bank N.V. ('ING Bank') for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the Executive Board on 16 March 2009. 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 standards and interpretations became effective in 2008: International Financial Reporting Interpretation Committee (IFRIC) 12 'Service Concession Arrangements', IFRIC 14 'IAS 19-The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' and 'Reclassification of Financial Assets: Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures'. None of these recently issued standards and interpretations has had a material effect on equity or result for the year. The following new or revised standards and interpretations were issued by the IASB, which become effective for ING Bank as of 2009 (unless otherwise indicated):

- Amendment to IFRS 1 'First-time adoption of IFRS' (effective as of 2010)
- Amendment to IFRS 2 'Share-based Payments' – 'Vesting Conditions and Cancellations'
- IFRS 3 'Business Combinations' (revised) and IAS 27 'Consolidated and Separate Financial Statements' (amended) (effective as of 2010).
- IFRS 8 'Operating Segments'
- IAS 1 'Presentation of Financial Statements'
- IAS 23 'Borrowing Costs'
- Amendments to IAS 32 'Financial Instruments: Presentation' and IAS 1 'Presentation of Financial Statements' – 'Puttable Financial Instruments and Obligations Arising on Liquidation'
- Amendments to IFRS 1 'First-time Adoption of IFRS' and IAS 27 'Consolidated and Separate Financial Statements' – Determining the cost of an Investment in the Separate Financial Statements'
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' – 'Eligible Hedged Items' (effective as of 2010)
- IFRIC 13 'Customer Loyalty Programmes'
- IFRIC 15 'Agreements for the Construction of Real Estate'
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'
- 2008 Annual Improvements to IFRS
- IFRIC 17 'Distributions of Non-cash Assets to Owners' (effective as of 2010)
- IFRIC 18 'Transfers of Assets from Customers' (effective as of 2010)
- Amendment to IFRS 7 'Improving Disclosures about Financial Instruments'
- Amendments to IFRIC 9 and IAS 39 – 'Embedded Derivatives'.

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.

International Financial Reporting Standards as adopted by the EU provide several options in accounting policies. ING Bank's accounting policies under International Financial Reporting Standards, as adopted by the EU 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 19 '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.

Accounting policies for the consolidated balance sheet and profit and loss account 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, 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 and geographical 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 process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

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 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 revaluations.

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair values of financial assets and liabilities are determined using quoted market prices, where available. Market prices are 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 materially different estimates of fair value.

For certain financial assets and liabilities, quoted market prices are not available. For these financial assets and liabilities fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations, 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 materially 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.

Certain asset backed securities in the Unites States are valued using external price sources that are obtained from third party pricing services and brokers. During 2008 the markets for these assets have become inactive and as a result, the dispersion between different prices for the same security is significant. In such cases, management applies additional processes to select the most appropriate external price, including an internally developed price validation matrix and a process to challenge the price source. The valuation of these portfolios would have been significantly different had different prices been selected.

See Note 29 '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 material impact on the 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 or 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 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 or 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 may not 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 an impairment may have occurred. Goodwill is tested for impairment by comparing the book value (including goodwill) to the best estimate of the fair value of the reporting unit to which the goodwill has been allocated. A reporting unit is the lowest level at which goodwill is monitored. Intangible assets are tested for impairment by comparing its book value with the best estimate of its 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.

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 and the excess is then amortised over the employees' expected average remaining working lives. See Note 17 '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 24 'Principal subsidiaries'.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the 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 condition is regarded as met only 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 have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the 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 an independent 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.

SEGMENTAL REPORTING

A business segment is a distinguishable component of the Bank engaged in providing products or services that is subject to risks and returns that are different from those of other business segments. A geographical segment 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. The business lines of the Bank are the primary segment reporting format. The geographical segments are considered the secondary.

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 rates prevailing at the dates 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. Refer to Note 34 '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 differences deferred in equity are recognised in the profit and loss account in Net gains and losses on disposals of group companies. Refer also to Note 11 'Shareholders' equity (parent)', which discloses the amounts included in the profit and loss account.

Group companies

The results and financial position 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);
- 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, these exchange rate differences are recognised in the profit and loss account as part of the gain or loss on sale.

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

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

See Note 29 '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 balance sheet and profit and loss account 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 measured at fair value. Interest income from debt securities classified as available-for-sale is recognised in Interest income in the profit and loss account using the effective interest method. Dividend income from equity instruments classified as available-for-sale is generally recognised in Investment income in the profit and loss account when the dividend has been declared. Unrealised gains and losses arising from changes in the fair value are recognised in equity. When the securities are disposed of, the related accumulated fair value adjustments are included in the profit and loss account as investment income. For impairments of available-for-sale financial assets reference is made to the section 'Impairment of other financial assets'. Investments in prepayment sensitive securities such as Interest-Only and Principal-Only strips are generally classified as available-for-sale.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity which the Bank has the positive intent and ability to hold to maturity and which are designated 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 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 credit commitments in respect of off balance sheet items e.g. financial guarantees.
- Investment risk comprises the credit default and migration risk that is associated with ING's investment portfolio and mainly relates to the balance sheet classification Investments (available-for-sale and held-to-maturity).
- Money market risk arises when ING 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 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).
- 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. Settlement risk mainly relates to the balance sheet classification 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 remeasured 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.

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.

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.

Accounting policies for the consolidated balance sheet and profit and loss account ING Bank (continued)

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).

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 subsequent reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

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 of.

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 the 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 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.

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 or Customer deposits and other funds on deposit 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)

The 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 or delays 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 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 balance sheet and profit and loss account 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, 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 or 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.

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 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. 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 under construction
Land and buildings under construction (including real estate investments) are stated at the directly attributable purchase and construction costs incurred up to the balance sheet date plus borrowing costs incurred during construction and the Bank's own development and supervision expenses, where necessary, less impairment losses.

Property held for sale
Property held for sale comprises properties obtained from foreclosures and property developed for sale for which there is no specifically negotiated contract. These properties are stated at the lower of cost and net realisable value. Cost includes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Where the net realisable value is lower than the carrying amount, the impairment is recognised in the profit and loss account.

Property under development for third parties
Property under development 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 the 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).

Property under development where there is a specifically negotiated contract is valued using the percentage of completion method (pro rata profit recognition).

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 the 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.

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.

LEASES
The Bank as the lessee
The leases entered into by the 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.

PURCHASE ACCOUNTING, GOODWILL AND OTHER INTANGIBLE ASSETS
Goodwill
The Bank's acquisitions are accounted for under the purchase method of accounting, whereby the cost of the acquisitions is allocated to the fair value of the assets, liabilities and contingent liabilities acquired. Goodwill, being the difference between the cost of the acquisition (including assumed debt) and the Bank's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. The results of the operations of the acquired companies are included in the profit and loss account from the date control is obtained.

Accounting policies for the consolidated balance sheet and profit and loss account ING Bank (continued)

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. However, recognition of deferred tax assets after the acquisition date is recognised as an adjustment to goodwill, even after the first year. 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.

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 the 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 has designated an insignificant part of the issued debt, relating to market-making activities, at fair value through profit and loss. This issued debt consists mainly of own bonds. The designation as fair value through profit and loss eliminates the inconsistency in the timing of the recognition of gains and losses. All other financial liabilities are measured at amortised cost.

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

OTHER LIABILITIES
Employee benefits – pension obligations
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.

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.

Accounting policies for the consolidated balance sheet and profit and loss account ING Bank (continued)

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 an 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 Valuation results on non-trading derivatives.

Fees and commissions

Fees and commissions are generally recognised as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as income when the syndication has been completed and 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 the 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 reliable.

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. A liability is recognised if the services are acquired in a cash-settled share-based payment transaction. The cost of acquiring the services is expensed as a staff expense. Prior to 2007, ING Bank generally provided equity-settled share-based payment transactions. However, since 2007 ING Bank has generally provided cash-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions is measured at the grant date and the fair value of cash-settled share-based payment transactions is measured at each balance sheet date.

FIDUCIARY ACTIVITIES

The 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.

Accounting policies for the consolidated statement of cash flows of ING Bank

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 balance sheet 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

	2008	2007
Amounts held at central banks	**16,432**	8,374
Cash and bank balances	**1,737**	1,455
	18,169	9,829

2 AMOUNTS DUE FROM BANKS

Amounts due from banks

		Netherlands		International		Total
	2008	2007	2008	2007	2008	2007
Loans and advances to banks	**15,234**	14,451	**25,556**	31,339	**40,790**	45,790
Cash advances, overdrafts and other balances	**4,800**	1,065	**2,942**	2,033	**7,742**	3,098
	20,034	15,516	**28,498**	33,372	**48,532**	48,888
Loan loss provision		–11	**–85**	–2	**–85**	–13
	20,034	15,505	**28,413**	33,370	**48,447**	48,875

As at 31 December 2008 Amounts due from banks included receivables with regard to securities, which have been acquired in reverse repurchase transactions amounting to EUR 3,005 million (2007: EUR 2,472 million), and receivables related to finance lease contracts amounted to EUR 100 million (2007: EUR 232 million).

As at 31 December 2008, the non-subordinated receivables amounted to EUR 48,443 million (2007: EUR 48,705 million) and the subordinated receivables amounted to EUR 4 million (2007: EUR 170 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

	2008	2007
Trading assets	**159,843**	192,215
Non-trading derivatives	**10,631**	6,784
Designated as at fair value through profit and loss	**4,548**	9,146
	175,022	208,145

Trading assets by type

	2008	2007
Equity securities	**1,851**	9,699
Debt securities	**26,625**	37,330
Derivatives	**71,918**	29,021
Loans and receivables	**59,449**	116,165
	159,843	192,215

As at 31 December 2008, the balance sheet value included equity securities which were lent or sold in repurchase transactions amounting to EUR 1 million (2007: EUR 4 million) and nil (2007: nil), respectively. As at 31 December 2008, the balance sheet value included debt securities which were lent or sold in repurchase transactions amounting to EUR 28 million (2007: EUR 386 million) and EUR 1,904 million (2007: EUR 629 million) respectively.

As at 31 December 2008, Trading assets included receivables of EUR 57,968 million (2007: EUR 114,897 million) with regard to reverse repurchase transactions.

The large increase in Trading assets-derivatives in 2008 is substantially offset by a similar increase in Trading liabilities-derivatives.

The fair value of credit derivatives held to mitigate exposure to credit risk on debt securities was EUR –17 million (2007: EUR –10 million), and the change in their fair value in the period was EUR –7 million (2007: nil).

Non-trading derivatives by type

	2008	2007
Derivatives used in		
– fair value hedges	**3,771**	1,907
– cash flow hedges	**3,539**	3,145
– hedges of net investments in foreign operations	**339**	25
Other non-trading derivatives	**2,982**	1,707
	10,631	6,784

Other non-trading derivatives include mainly interest rate swaps for which no hedge accounting is applied. The increase is mainly due to changes in fair value resulting from changes in market interest rates.

The increase is substantially mitigated by a similar increase in Other non-trading derivatives (liabilities) as disclosed in Note 16 'Financial liabilities at fair value through profit and loss'.

Designated as at fair value through profit and loss by type

	2008	2007
Equity securities	**315**	1,796
Debt securities	**3,596**	6,922
Loans and receivables	**637**	428
	4,548	9,146

In 2008 and 2007 there was no significant change in the fair value of loans and receivables designated as at fair value through profit and loss attributable to changes in the credit risk of the financial assets.

Other includes investments in private equity funds, hedge funds, other non-traditional investment vehicles and limited partnerships.

4 INVESTMENTS

Investments by type

	2008	2007
Available-for-sale		
– equity securities	**1,863**	3,627
– debt securities	**131,502**	140,005
	133,365	143,632
Held-to-maturity		
– debt securities	**15,440**	16,753
	15,440	16,753
	148,805	160,385

The fair value of the securities classified as held-to-maturity amounts to EUR 15,566 million as at 31 December 2008 (2007: EUR 16,354 million).

Notes to the consolidated balance sheet 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	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Opening balance	**3,627**	1,898	**140,005**	151,533	**16,753**	17,660	**160,385**	171,091
Additions	**374**	546	**96,577**	94,278	**315**		**97,266**	94,824
Amortisation			**–166**	–281	**–33**	–59	**–199**	–340
Transfers and reclassifications	**115**	–6	**–1,594**	–9			**–1,479**	–15
Changes in the composition of the group and other	**2**	1		1,281			**2**	1,282
Changes in unrealised revaluations	**–1,603**	1,968	**–5,278**	–2,444			**–6,881**	–476
Impairments	**–258**	–17	**–2,127**	–57			**–2,385**	–74
Disposals and redemptions	**–454**	–657	**–94,549**	–99,640	**–1,640**	–822	**–96,643**	–101,119
Exchange rate differences	**60**	–106	**–1,366**	–4,656	**45**	–26	**–1,261**	–4,788
Closing balance	**1,863**	3,627	**131,502**	140,005	**15,440**	16,753	**148,805**	160,385

Included in transfers and reclassifications of available-for-sale investments

	Available-for-sale equity securities		Available-for-sale debt securities		Total	
	2008	2007	**2008**	2007	**2008**	2007
To/from available-for-sale		3		–3		
To/from loans and advances			**–1,594**	–6	**–1,594**	–6
To/from Investment in associates	**115**	–8			**115**	–8
To/from Other assets/Other liabilities		–1				–1
	115	–6	**–1,594**	–9	**–1,479**	–15

Following the amendments to IAS 39 and IFRS 7, ‘Reclassification of Financial Assets’ the ING Bank reclassified certain financial assets from Available-for-sale investments to Loans and advances. During the fourth quarter of 2008 ING Bank identified assets, eligible under the amendments, for which, it now has an intent to hold for the foreseeable future. At the reclassifications dates the fair value of the reclassified assets amounted to EUR 1,594 million. As a result of the reclassification, the presentation is better aligned with the nature of the portfolios.

As of the reclassification date, the (weighted average) effective interest rates on reclassified assets were in the range from 4.10% to 20.95% and expected recoverable cash flows were EUR 1,646 million. Unrealised fair value losses recognised in shareholders’ equity amounted to EUR 69 million. This amount will be released from equity and amortised to the profit and loss account over the remaining life of the assets on an effective interest rate basis. From 1 January 2008 until the reclassification date EUR 79 million of unrealised fair value losses were recognised in shareholders’ equity, no impairment was recognised.

As at 31 December 2008, the carrying value in the balance sheet and the fair value of the reclassified financial assets amounted to EUR 1,565 million and EUR 1,592 million respectively.

If the reclassification had not been made, profit before tax would have been unchanged and shareholders’ equity would have been EUR 28 million lower due to unrealised fair value losses.

After the reclassification, the reclassified financial assets contributed EUR 9.2 million to income before tax for the period ended 31 December 2008, which fully consisted of Interest income. No provision for credit losses was recognised.

In the year ended 31 December 2007, no impairment on reclassified financial assets available-for-sale was recognised. Unrealised fair value losses of EUR 20 million were recognised directly in shareholders’ equity.

On 12 January 2009 ING Bank reclassified certain European RMBS, ABS, CMBS and covered bonds for which it has an intention to hold for foreseeable future from Available-for-sale investments to Loans and advances. The fair value of the assets as of the reclassification date amounted to EUR 22.8 billion. The negative revaluation reserve in equity as of the reclassification date amounted to approximately EUR 0.9 billion (after tax). This reclassification is recognised in 2009.

In 2008, ING Bank's participation in several associates, including the participation in Equens N.V. of EUR 90 million has decreased below 20%. Consequently these investments have been reclassified from Investments in associates to Investments available-for-sale.

Available-for-sale equity securities – listed and unlisted		
	2008	2007
Listed	**1,418**	3,310
Unlisted	**445**	317
	1,863	3,627

As at 31 December 2008, the balance sheet value included equity securities which were lent in repurchase transactions amounting to nil (2007: nil). As at 31 December 2008, the balance sheet value included debt securities which were lent or sold in repurchase transactions amounting to EUR 7,624 million and EUR 33,938 million respectively (2007: EUR 3,635 million and EUR 36,015 million).

Borrowed equity securities and convertible bonds are not recognised in the balance sheet and amounted to nil as at 31 December 2008 (2007: nil).

Borrowed debt securities are not recognised in the balance sheet and amounted to EUR 166 million as at 31 December 2008 (2007: EUR 170 million).

5 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers analysed by type	Netherlands		International		Total	
	2008	2007	**2008**	2007	**2008**	2007
Loans to, or guaranteed by, public authorities	**16,288**	14,679	**10,099**	8,961	**26,387**	23,640
Loans secured by mortgages	**158,861**	141,314	**145,090**	132,614	**303,951**	273,928
Loans guaranteed by credit institutions	**295**	1,951	**253**	590	**548**	2,541
Personal lending	**7,158**	6,975	**20,389**	17,784	**27,547**	24,759
Corporate loans	**123,462**	102,821	**118,959**	100,622	**242,421**	203,443
	306,064	267,740	**294,790**	260,571	**600,854**	528,311
Loan loss provisions	**–761**	–654	**–1,765**	–1,334	**–2,526**	–1,988
	305,303	267,086	**293,025**	259,237	**598,328**	526,323

Loans and advances to customers analysed by subordination		
	2008	2007
Non-subordinated	**598,124**	525,072
Subordinated	**204**	1,251
	598,328	526,323

As at 31 December 2008, 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 964 million (2007: EUR 4,569 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 detail 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

	2008	2007
Maturities of gross investment in finance lease receivables		
– within 1 year	**6,363**	6,473
– more than 1 year but less than 5 years	**9,766**	8,448
– more than 5 years	**4,836**	3,753
	20,965	18,674
Unearned future finance income on finance leases	**–3,614**	–3,109
Net investment in finance leases	**17,351**	15,565
Maturities of net investment in finance lease receivables		
– within 1 year	**5,157**	5,337
– more than 1 year but less than 5 years	**7,955**	7,060
– more than 5 years	**4,239**	3,168
	17,351	15,565
Included in		
– Amounts due from banks	**100**	232
– Loans and advances to customers	**17,251**	15,333
	17,351	15,565

The allowance for uncollectible finance lease receivables included in the loan loss provisions amounted to EUR 88 million as at 31 December 2008 (2007: EUR 33 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.

Loan loss provisions analysed by type

	Netherlands		International		Total	
	2008	2007	2008	2007	2008	2007
Loans secured by public authorities			**2**	1	**2**	1
Loans secured by mortgages	**167**	96	**425**	203	**592**	299
Loans guaranteed by credit institutions		11	**85**	3	**85**	14
Other personal lending	**120**	181	**533**	374	**653**	555
Other corporate loans	**474**	377	**805**	755	**1,279**	1,132
	761	665	**1,850**	1,336	**2,611**	2,001
Included in						
– Amounts due from banks		11	**85**	2	**85**	13
– Loans and advances to customers	**761**	654	**1,765**	1,334	**2,526**	1,988
	761	665	**1,850**	1,336	**2,611**	2,001

Changes in the loan loss provisions

	2008	2007
Opening balance	**2,001**	2,642
Changes in the composition of the group	**2**	98
Write-offs	**–728**	–952
Recoveries	**91**	59
Increase in loan loss provisions	**1,280**	125
Exchange rate differences	**–50**	–19
Other changes	**15**	48
Closing balance	**2,611**	2,001

6 INVESTMENTS IN ASSOCIATES

Investments in associates

2008	Interest held (%)	Fair value of listed asso-ciates	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	25	144	372	12,247	11,246	812	589
ING Industrial Fund Australia	18	14	164	2,377	1,033	166	147
Lion Industrial Trust	10		133	2,898	1,528	98	207
Lion Properties Fund	5		125	4,135	1,757	313	771
ING Real Estate Asia Retail Fund	28		121	850	412	57	72
ING Retail Property Fund Australia	29		109	790	412	13	7
ING REI Investment DOF B.V.	4		71	2,679	383	197	212
ING European Infrastructure Fund	25		70	662	409		2
Lion Value Fund	22		68	442	139	7	56
Steadfast Capital Fund II LP	67		47	99		6	3
ING Office Fund Australia	4	25	43	1,750	607	191	70
Lion Gables Apartment Fund LP	6		41	1,735	1,003	36	136
ING REI Investment REOFN B.V.	32		41	768	611	43	95
ING Korea Property Investments	15		37	386	187	28	39
ING RE Asia Value Fund LP	30		33	191	84	4	15
China Opportunity Fund LP	8		27	403	50	15	9
RE Italian Retail Fund	33		26	352	273	36	73
ING Nationale-Nederlanden PTE	20		26	143	8	121	50
Other investments in associates			259				
			1,813				

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 46 million (2007: EUR 24 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.

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'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 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

2007	Interest held (%)	Fair value of listed associates	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	25	402	402	16,028	15,002	180	436
ING Industrial Fund Australia	18	303	303	3,124	1,338	411	168
ING Real Estate Asia Retail Fund	46		189	791	399	29	2
ING Retail Property Fund Australia	29		150	958	399	179	100
Lion Properties Fund	5		147	4,502	1,666	660	155
Lion Industrial Trust	9		142	3,001	1,157	387	106
Lion Value Fund	33		92	423	143	76	14
ING Office Fund Australia	6	69	83	2,134	763	443	152
Lion Gables Apartment Fund LP	6		44	1,673	861	186	120
Steadfast Capital Fund II LP	68		44	83		19	1
Equens N.V.	30		39	118	63	90	87
ING Korea Property Investments	15		34	382	221	89	47
ING Nationale-Nederlanden PTE	20		27	146	8	119	47
Other investments in associates			314				
			2,010				

Changes in investments in associates

	2008	2007
Opening balance	**2,010**	1,223
Additions	**383**	660
Changes in the composition of the group	**10**	210
Transfers to and from Investments	**–115**	8
Revaluations	**83**	–3
Share of results	**–182**	238
Dividends received	**–102**	–60
Disposals	**–140**	–223
Impairments	**–28**	
Exchange rate differences	**–99**	–44
Other changes	**–7**	1
Closing balance	**1,813**	2,010

In 2008, share of results of EUR –182 million (2007: EUR 259 million) less impairment of EUR –28 million (2007: EUR –21 million) are presented in the profit and loss account in Share of profit from associates for EUR –210 million (2007: EUR 238 million).

7 REAL ESTATE INVESTMENTS

Changes in real estate investments

	2008	2007
Opening balance	**3,527**	3,665
Additions	**295**	253
Changes in the composition of the group		–450
Transfers to and from Other assets	**–2**	–1
Transfers to and from Property in own use	**8**	
Fair value gains/(losses)	**–350**	93
Disposals	**–190**	–139
Exchange rate differences	**–404**	106
Closing balance	**2,884**	3,527

The total amount of rental income recognised in profit or loss for the year ended 31 December 2008 was EUR 282 million (2007: EUR 307 million). The total amount of contingent rent recognised in the profit and loss account for the year ended 31 December 2008 was nil (2007: nil).

The total amount of direct operating expenses (including repairs and maintenance) arising from real estate investments that generated rental income for the year ended 31 December 2008 was EUR 57 million (2007: EUR 49 million). The total amount of direct operating expenses (including repairs and maintenance) arising from real estate investments that did not generate rental income for the year ended 31 December 2008 was EUR 29 million (2007: EUR 6 million).

Real estate investments by year of most recent appraisal by independently qualified valuers (in percentages)

	2008
Most recent appraisal in 2008	99
Most recent appraisal in 2007	0
Most recent appraisal in 2006	1
Most recent appraisal in 2005	0
Most recent appraisal in 2004	0
	100

8 PROPERTY AND EQUIPMENT

Property and equipment by type

	2008	2007
Property in own use	1,447	1,470
Equipment	1,091	966
Assets subject to operating leases	3,148	2,894
	5,686	5,330

Changes in property in own use

	2008	2007
Opening balance	1,470	1,341
Additions	68	33
Changes in the composition of the group		96
Transfers to and from Other assets	–1	–5
Transfers to and from Real estate investments	–8	
Depreciation	–36	–31
Revaluations	–5	39
Reversal of impairments		14
Disposals	–7	–23
Exchange rate differences	–34	6
Closing balance	1,447	1,470
Gross carrying amount as at 31 December	2,277	2,234
Accumulated depreciation as at 31 December	–727	–652
Accumulated impairment as at 31 December	–103	–112
Net book value	1,447	1,470
Revaluation surplus		
Opening balance	583	560
Revaluation in year	–20	23
Closing balance	563	583

The cost or the purchase price amounted to EUR 1,714 million (2007: EUR 1,651 million). Cost less accumulated depreciation and impairments would have been EUR 884 million (2007: EUR 887 million).

Notes to the consolidated balance sheet of ING Bank (continued)

Property in own use by year of most recent appraisal by independently qualified valuers (in percentages)

	2008
Most recent appraisal in 2008	52
Most recent appraisal in 2007	21
Most recent appraisal in 2006	10
Most recent appraisal in 2005	9
Most recent appraisal in 2004	8
	100

Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2008	2007	2008	2007	2008	2007
Opening balance	216	231	750	723	966	954
Additions	190	126	289	226	479	352
Changes in the composition of the group	4	7	28	13	32	20
Disposals	–2	–18	–15	–28	–17	–46
Depreciation	–113	–133	–205	–158	–318	–291
Impairments	–7	–1	–5	–1	–12	–2
Exchange rate differences	–10		–18	–6	–28	–6
Other changes	–14	4	3	–19	–11	–15
Closing balance	264	216	827	750	1,091	966
Gross carrying amount as at 31 December	1,323	1,236	2,477	2,223	3,800	3,459
Accumulated depreciation as at 31 December	–1,051	–1,020	–1,645	–1,473	–2,696	–2,493
Accumulated impairment as at 31 December	–8		–5		–13	
Net book value	264	216	827	750	1,091	966

Changes in assets under operating leases

	Cars		Other leased-out assets		Total	
	2008	2007	2008	2007	2008	2007
Opening balance	2,884	2,671	10	14	2,894	2,685
Additions	1,401	1,393			1,401	1,393
Changes in the composition of the group	174				174	
Disposals	–428	–417			–428	–417
Depreciation	–765	–720	–2	–4	–767	–724
Impairments	–2				–2	
Exchange rate differences	–116	–37			–116	–37
Other changes	–8	–6			–8	–6
Closing balance	3,140	2,884	8	10	3,148	2,894
Gross carrying amount as at 31 December	4,464	4,165	28	32	4,492	4,197
Accumulated depreciation as at 31 December	–1,324	–1,281	–20	–22	–1,344	–1,303
Net book value	3,140	2,884	8	10	3,148	2,894

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

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

	2008	2007
Within 1 year	**1,072**	1,046
More than 1 year but less than 5 years	**2,072**	1,842
More than 5 years	**4**	6
	3,148	2,894

9 INTANGIBLE ASSETS

Changes in intangible assets

	Goodwill		Software		Other		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Opening balance	**1,254**	136	**294**	214	**335**	35	**1,883**	385
Capitalised expenses			**398**	100			**398**	100
Additions bought	**409**	1,133	**114**	108	**73**	78	**596**	1,319
Disposals	**–6**	–2	**–1**	–5			**–7**	–7
Amortisation			**–103**	–117	**–53**	–6	**–156**	–123
Impairments			**–27**	–14			**–27**	–14
Changes in the composition of the group	**2**	–1	**–2**	5	**–2**	233	**–2**	237
Exchange rate differences	**–216**	–12	**–5**		**–57**	–5	**–278**	–17
Other changes	**–11**		**13**	3	**6**		**8**	3
Closing balance	**1,432**	1,254	**681**	294	**302**	335	**2,415**	1,883
Gross carrying amount as at 31 December	**1,432**	1,254	**1,289**	772	**362**	342	**3,083**	2,368
Accumulated amortisation as at 31 December			**–567**	–464	**–60**	–7	**–627**	–471
Accumulated impairments as at 31 December			**–41**	–14			**–41**	–14
Net book value	**1,432**	1,254	**681**	294	**302**	335	**2,415**	1,883

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.

Additions to Goodwill in 2008 include mainly EUR 371 million related to the acquisition of Interhyp AG and EUR 9 million related to the acquisition of Universal Lease Iberia. Reference is made to Note 25 ‘Companies acquired and companies disposed’. The additions in Other in 2008 includes EUR 50 million related to Interhyp AG.

Goodwill is tested for impairment at the lowest level at which it is monitored for internal management purposes (so called ‘reporting units’). Goodwill is allocated to reporting units as follows:

Goodwill allocation to reporting units

	2008	2007
ING Direct	**456**	94
Wholesale Banking - Leasing & Factoring	**61**	65
Wholesale Banking - Real Estate	**11**	16
Wholesale Banking - Other	**15**	15
Retail Banking - Central Europe	**839**	1,015
Retail Banking - South West Europe	**49**	49
Retail Banking - Netherlands	**1**	
	1,432	1,254

Goodwill is tested for impairment by comparing the book value of the reporting unit (including goodwill) to the best estimate of the fair value of the reporting unit. As a first step the best estimate of the fair value is determined based on a Sum of the Parts valuation (SOP). If the outcome of the SOP indicates that there is not a significant margin between fair value and book value, a more thorough analysis of the fair value is determined. The main assumptions in the SOP valuation include forecast results, business growth, discount rates, value of new business, market value surplus, etc. For listed companies the relevant market price is used. The more detailed analysis uses valuation models similar to those of the original valuation of an acquisition, European embedded value, peer reviews, etc. The valuation models are validated and include development of the business following the acquisition, the latest management forecasts of income and expenditure and updates of future projections, review of discount rates and terminal growth rates, etc. Peer reviews include analysis of Price/Earnings and Price/Book multiples of comparable listed companies. Assumptions are generally based on past experience, management's best estimate of future developments and, where available, relevant external information. Market developments during 2008 have significantly impacted estimated fair values of the reporting units. However, the goodwill impairment test as at 31 December 2008, using best estimate assumptions and reasonable likely changes therein, have not resulted in impairment (2007: nil).

Management believes that it may be reasonably possible that if ongoing market volatility adversely impacts the performance of the reporting unit Retail Banking - Central Europe, compared with what was assumed in the year-end 2008 goodwill impairment test, the book value (including goodwill) of this reporting unit may exceed the fair values resulting in impairments.

10 OTHER ASSETS

Other assets by type

	2008	2007
Deferred tax assets	**6,070**	2,251
Property held for sale	**3,131**	2,980
Income tax receivable	**328**	499
Accrued interest and rents	**16,580**	14,492
Other accrued assets	**729**	585
Pension assets	**1,112**	439
Other receivables	**5,170**	6,560
	33,120	27,806

Disclosures in respect of deferred tax assets and pension assets are provided in Note 17 ‘Other liabilities’.

Accrued interest and rents includes EUR 5,912 million (2007: EUR 6,087 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 under development for third parties, capitalised in 2008 is nil (2007: nil).

Property held for sale

	2008	2007
Property held for sale	**630**	530
Other		
– property obtained from foreclosures	**91**	37
– property developed for sale	**2,410**	2,413
	3,131	2,980
Gross carrying amount as at 31 December	**3,263**	3,091
Accumulated impairments as at 31 December	**–132**	–111
Net book value	**3,131**	2,980

EQUITY

11 SHAREHOLDERS' EQUITY (PARENT)

Shareholders' equity (parent)

	2008	2007	2006
Share capital	**525**	525	525
Share premium	**16,392**	9,192	6,992
Revaluation reserve	**–3,857**	2,105	2,295
Currency translation reserve	**–475**	–18	42
Other reserves	**10,304**	13,707	11,444
Shareholders' equity (parent)	**22,889**	25,511	21,298

The Revaluation reserve, Share of associates reserve (included in Other reserves) and Currency translation reserve cannot be freely distributed.

As at 31 December 2008 Other reserves included an amount of EUR 566 million (2007: EUR 566 million; 2006: EUR 566 million) related to Regio Bank N.V. (formerly Stichting Regio Bank) that cannot be freely distributed.

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	
	2008	2007	2008	2007	2008	2007	2008	2007
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 2008, 2007 or 2006.

Preference shares are presented in the balance sheet under liabilities. Reference is made to Note 17 '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 Executive 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 2008 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.

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

Notes to the consolidated balance sheet of ING Bank (continued)

Changes in revaluation reserve

2007	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	385	1,255	655	2,295
Unrealised revaluations after taxation	30	345		375
Realised gains/losses transferred to profit and loss		–338		–338
Changes in cash flow hedge reserve			–227	–227
Closing balance	415	1,262	428	2,105

Changes in revaluation reserve

2006	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	362	2,713	1,077	4,152
Unrealised revaluations after taxation	24	–1,274		–1,250
Realised gains/losses transferred to profit and loss		–184		–184
Changes in cash flow hedge reserve			–423	–423
Other revaluations	–1		1	
Closing balance	385	1,255	655	2,295

Changes in currency translation reserve

	2008	2007	2006
Opening balance	**–18**	42	183
Unrealised revaluations after taxation	**173**	300	119
Exchange rate differences	**–630**	–360	–260
Closing balance	**–475**	–18	42

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

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**

Changes in other reserves

2007	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	10,833	45		566	11,444
Result for the year	3,589				3,589
Dividend	–1,300				–1,300
Employee stock options and share plans	61				61
Other	–111	24			–87
Closing balance	13,072	69		566	13,707

Changes in other reserves

2006	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	8,849	47		583	9,479
Result for the year	3,770			–17	3,753
Dividend	–1,800				–1,800
Employee stock options and share plans	52				52
Other	–38	–2			–40
Closing balance	10,833	45		566	11,444

LIABILITIES

12 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 7,085 million (2007: EUR 6,397 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% (2007: 6.3%). The interest expense during the year 2008 was EUR 1,088 million (2007: EUR 1,055 million).

13 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

	2008	2007
Fixed rate debt securities		
Within 1 year	**49,344**	35,104
More than 1 year but less than 2 years	**2,159**	2,512
More than 2 years but less than 3 years	**999**	1,425
More than 3 years but less than 4 years	**1,615**	699
More than 4 years but less than 5 years	**1,261**	1,608
More than 5 years	**3,053**	776
Total fixed rate debt securities	**58,431**	42,124
Floating rate debt securities		
Within 1 year	**11,859**	7,205
More than 1 year but less than 2 years	**5,325**	487
More than 2 years but less than 3 years	**4,440**	989
More than 3 years but less than 4 years	**1,423**	1,847
More than 4 years but less than 5 years	**28**	396
More than 5 years	**2,766**	2,942
Total floating rate debt securities	**25,841**	13,866
Total debt securities	**84,272**	55,990

As of 31 December 2008, ING Bank had unused lines of credit available including the payment of commercial paper borrowings relating to debt securities in issue, totalling EUR 5,601 million (2007: EUR 6,937 million).

In January 2009, ING Bank issued 3 year USD 6 billion government guaranteed senior unsecured bonds. In February 2009, ING Bank issued a 5 year EUR 4 billion fixed rate government guaranteed senior unsecured bond and in March 2009 ING Bank issued a 5 year USD 2 billion fixed rate government guaranteed senior unsecured bond. All were issued under the Credit Guarantee Scheme of the State of the Netherlands and are part of ING's regular medium-term funding operations.

14 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 2008, liabilities concerning securities sold in repurchase transactions amounted to EUR 41,336 million (2007: EUR 29,604 million).

Amounts due to banks by type

		Netherlands		International		Total
	2008	2007	**2008**	2007	**2008**	2007
Non-interest bearing	**1,108**	3,527	**2,482**	3,580	**3,590**	7,107
Interest bearing	**74,580**	72,257	**74,095**	87,608	**148,675**	159,865
	75,688	75,784	**76,577**	91,188	**152,265**	166,972

15 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

Customer deposits and other funds on deposit

	2008	2007
Savings accounts	**275,079**	275,127
Credit balances on customer accounts	**175,233**	161,819
Corporate time deposits	**80,229**	86,151
Other	**7,142**	5,100
	537,683	528,197

Customer deposits and other funds on deposit by type

		Netherlands		International		Total
	2008	2007	**2008**	2007	**2008**	2007
Non-interest bearing	**14,220**	15,100	**5,330**	3,905	**19,550**	19,005
Interest bearing	**210,627**	195,789	**307,506**	313,403	**518,133**	509,192
	224,847	210,889	**312,836**	317,308	**537,683**	528,197

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 2008, Customer deposits and other funds on deposit included liabilities with regard to securities sold in repurchase transactions amounting to EUR 5,759 million (2007: EUR 3,725 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.

16 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial liabilities at fair value through profit and loss

	2008	2007
Trading liabilities	**152,611**	148,887
Non-trading derivatives	**17,050**	5,569
Designated as at fair value through profit and loss	**14,009**	13,882
	183,670	168,338

Trading liabilities by type

	2008	2007
Equity securities	**3,338**	12,228
Debt securities	**12,448**	10,301
Funds on deposit	**64,463**	97,857
Derivatives	**72,362**	28,501
	152,611	148,887

As at 31 December 2008, the Funds on deposit include amounts payable of EUR 63,107 million (2007: EUR 93,781 million) with regard to mainly repurchase transactions.

Non-trading derivatives by type

	2008	2007
Derivatives used in		
– fair value hedges	8,381	718
– cash flow hedges	5,467	2,787
– hedges of net investments in foreign operations	264	85
Other non-trading derivatives	2,938	1,979
	17,050	5,569

Designated as at fair value through profit and loss by type

	2008	2007
Debt securities	9,963	10,902
Funds entrusted	1,972	756
Subordinated liabilities	1,733	1,876
Other	341	348
	14,009	13,882

In 2008, 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 approximately EUR 230 million (2007: EUR 20 million). 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 14,336 million (2007: EUR 13,845 million).

17 OTHER LIABILITIES

Other liabilities by type

	2008	2007
Deferred tax liabilities	2,297	1,836
Income tax payable	458	446
Pension benefits	374	489
Post-employment benefits	98	97
Other staff-related liabilities	214	196
Other taxation and social security contributions	992	939
Accrued interest	15,479	12,102
Costs payable	2,541	1,835
Reorganisation provision	551	583
Other provisions	551	481
Property under development for third parties	175	284
Share-based payment plan liabilities		13
Amounts to be settled	3,751	4,156
Other	3,540	5,178
	31,021	28,635

Other staff-related liabilities include vacation leave 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 to the jurisdictions in which the Bank is liable to taxation.

As at 31 December 2008 Other liabilities includes an amount of EUR 7.91 (2007: EUR 7.91) for seven preference shares with a par value of EUR 1.13 each.

Changes in deferred tax

	Net liability 2007	Change through equity	Change through net result	Changes in composition of group	Exchange rate difference	Other	Net liability 2008
Investments	–343	**–2,310**	**–661**	**39**	**–183**	**146**	**–3,312**
Financial assets and liabilities at fair value through profit and loss	125	**2**	**–301**		**–6**	**163**	**–17**
Depreciation	15				**–3**	**4**	**16**
Other provisions	–129		**147**		**9**	**–13**	**14**
Receivables	–38		**–24**		**–2**	**–39**	**–103**
Loans and advances to customers	86		**505**		**–4**	**–27**	**560**
Cash flow hedges	176	**–283**	**–10**		**5**	**–14**	**–126**
Pensions	40		**173**				**213**
Unused tax losses carried forward	–482	**–1**	**–379**	**–8**	**30**	**–92**	**–932**
Other	135	**12**	**–191**		**–10**	**–32**	**–86**
	–415	**–2,580**	**–741**	**31**	**–164**	**96**	**–3,773**
Comprising							
– deferred tax liabilities	1,836	**–50**	**377**	**39**	**–53**	**148**	**2,297**
– deferred tax assets	–2,251	**–2,530**	**–1,118**	**–8**	**–111**	**–52**	**–6,070**
	–415	**–2,580**	**–741**	**31**	**–164**	**96**	**–3,773**

Changes in deferred tax

	Net liability 2006	Change through equity	Change through net result	Changes in composition of group	Exchange rate difference	Other	Net liability 2007
Investments	187	–554	15		44	–35	–343
Financial assets and liabilities at fair value through profit and loss	86	–35	72		–3	5	125
Depreciation	34		–4	–6		–9	15
Other provisions	–182	29	15	–18	1	26	–129
Receivables	74		–107	1	1	–7	–38
Loans and advances to customers	100	5	–14			–5	86
Cash flow hedges	491	–309				–6	176
Pensions	5					35	40
Unused tax losses carried forward	–489	–12	7	–1	28	–15	–482
Other	179	–154	60	28	4	18	135
	485	–1,030	44	4	75	7	–415
Comprising							
– deferred tax liabilities	2,238	–570	177	44	10	–63	1,836
– deferred tax assets	–1,753	–460	–133	–40	65	70	–2,251
	485	–1,030	44	4	75	7	–415

Other in Net liability 2006 and Change through equity in 2007 mainly relates to the cash flow hedge reserve in equity.

Deferred tax in connection with unused tax losses carried forward

	2008	2007
Total unused tax losses carried forward	**3,698**	1,906
Unused tax losses carried forward not recognised as a deferred tax asset	**241**	201
Unused tax losses carried forward recognised as a deferred tax asset	**3,457**	1,705
Average tax rate	**26.9%**	28.3%
Deferred tax asset	**932**	482

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 item

	No deferred tax asset recognised		Deferred tax asset recognised	
	2008	2007	**2008**	2007
Within 1 year		43	**25**	24
More than 1 year but less than 5 years	**17**	82	**385**	198
More than 5 years but less than 10 years	**17**	25	**1,943**	59
More than 10 years but less than 20 years	**168**	5	**446**	302
Unlimited	**39**	46	**658**	1,122
	241	201	**3,457**	1,705

Deferred income tax assets are recognised for tax loss carry forwards and unused tax credits only to the extent that realisation of the related tax benefit is probable. Changes in circumstances in future periods may adversely impact the assessment of recoverability. The uncertainty of the recoverability of the tax losses and tax credits is taken into account in establishing the deferred tax assets.

Changes in reorganisation provision

	2008	2007
Opening balance	**583**	288
Changes in the composition of the group	**–19**	
Additions	**148**	481
Interest	**15**	9
Releases	**–12**	–46
Charges	**–163**	–155
Exchange rate differences	**–6**	–3
Other changes	**5**	9
Closing balance	**551**	583

The provision for reorganisation as at 31 December 2008 includes EUR 360 million for the restructuring of the retail business of Postbank and ING Bank.

The provision for reorganisations as at 31 December 2007 includes EUR 252 million for the restructuring of the retail business of Postbank and ING Bank and EUR 100 million for the global wholesale restructuring. The remaining term of the provision for reorganisations is generally not more than five years.

Changes in other provisions						
		Litigation		Other		Total
	2008	2007	**2008**	2007	**2008**	2007
Opening balance	**229**	189	**252**	216	**481**	405
Changes in the composition of the group	**–1**	13		16	**–1**	29
Additions	**136**	34	**56**	137	**192**	171
Charges	**–21**	–24	**–96**	–116	**–117**	–140
Exchange rate differences	**–5**	1	**–7**	–2	**–12**	–1
Other changes	**15**	16	**–7**	1	**8**	17
Closing balance	**353**	229	**198**	252	**551**	481

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

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

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

Pension and post-employment benefits

Summary of pension benefits				
	2008	2007	2006	2005
Defined benefit obligation	**9,049**	9,253	10,061	9,872
Fair value of plan assets	**8,670**	9,463	9,298	8,253
	379	–210	763	1,619
Unrecognised actuarial gains/(losses)	**–1,117**	260	–262	–998
	–738	50	501	621
Presented as				
– Other liabilities	**374**	489	752	621
– Other assets	**1,112**	439	251	
	–738	50	501	621

Summary of post-employment benefits				
	2008	2007	2006	2005
Defined benefit obligation	**97**	94	63	194
	97	94	63	194
Unrecognised past service costs	**1**	2	2	
Unrecognised actuarial gains/(losses)		1		–13
	98	97	65	181
Presented as				
– Other liabilities	**98**	97	65	181
	98	97	65	181

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.

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 2008 includes EUR 1,678 million (2007: EUR 481 million) experience loss adjustments for assets and EUR 73 million (2007: EUR 11 million) experience loss adjustments for liabilities.

Changes in defined benefit obligation

	Pension benefits		Post-employment benefits other than pensions	
	2008	2007	**2008**	2007
Opening balance	**9,253**	10,061	**94**	63
Current service cost	**212**	253	**–3**	10
Interest cost	**502**	466	**5**	3
Participants contributions	**3**	3		
Benefits paid	**–369**	–342	**–1**	–2
Actuarial gains and losses	**–303**	–1,074	**2**	–1
Past service cost	**77**	–59		
Changes in the composition of the group and other changes	**–3**	79		22
Effect of curtailment or settlement	**–134**	–40		
Exchange rate differences	**–189**	–94		–1
Closing balance	**9,049**	9,253	**97**	94
Relating to				
– funded plans	**8,999**	9,241		
– unfunded plans	**50**	12	**97**	94
	9,049	9,253	**97**	94

The estimated unrecognised past service cost and unrecognised actuarial gains/losses for the defined benefit plans to be amortised to pension and other staff-related liability costs during 2009 are nil and EUR 17 million respectively.

Changes in fair value of plan assets

	Pension benefits	
	2008	2007
Opening balance	**9,463**	9,298
Expected return on plan assets	**565**	542
Employer's contribution	**906**	568
Participants contributions	**3**	3
Benefits paid	**–359**	–332
Actuarial gains and losses	**–1,677**	–481
Changes in the composition of the group and other changes	**8**	–21
Exchange rate differences	**–239**	–114
Closing balance	**8,670**	9,463

The actual return on the plan assets amounted to EUR –1,112 million (2007: EUR 61 million).

No plan assets are expected to be returned to ING Bank during 2009.

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	
	2009	**2008**	2007	**2008**	2007
Equity securities	**33**	**32**	33	**8.0**	8.0
Debt securities	**54**	**53**	52	**4.6**	4.6
Other	**13**	**15**	15	**6.5**	6.5
	100	**100**	100	**5.9**	6.0

Equity securities include ING Groep N.V. ordinary shares of EUR 4 million (0.1% of total plan assets) at 31 December 2008 (2007: EUR 3 million, 0.1% 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	
	2008	2007	**2008**	2007
Discount rates	**5.70**	5.60	**5.10**	5.30
Mortality rates	**1.60**	1.60	**1.60**	1.60
Expected rates of salary increases (excluding promotion increases)	**2.70**	2.70	**2.70**	2.90
Medical cost trend rates			**6.60**	7.00
Consumer price inflation	**2.10**	2.10	**2.00**	2.10

The assumptions above are weighted by defined benefit obligations. The rates used for salary developments, interest discount factors and other adjustments reflect specific country 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 3 million as at 31 December 2008 (2007: EUR 2 million) and an increase in the charge for the year of EUR 0.3 million (2007: EUR 0.3 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 2 million as at 31 December 2008 (2007: EUR 2 million) and a decrease in the charge for the year of EUR 0.2 million (2007: EUR 0.2 million).

Expected cash flows

During 2009 the expected contributions to pension plans are EUR 663 million (2008: EUR 371 million). Additionally ING Bank has committed to make an additional contribution of EUR 521 million. This contribution is payable in the first quarter of 2009.

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

Benefit payments

	Pension benefits
2009	**199**
2010	**212**
2011	**230**
2012	**228**
2013	**224**
Years 2014-2018	**985**

Additional information to the consolidated balance sheet of ING Bank amounts in millions of euros, unless stated otherwise

18 ASSETS AND LIABILITIES BY CONTRACTUAL MATURITY

Assets and liabilities by contractual maturity

2008	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
ASSETS							
Cash and balances with central banks	18,169						18,169
Amounts due from banks	32,620	3,086	5,019	6,299	1,423		48,447
Financial assets at fair value through profit and loss							
– trading assets	52,761	13,871	22,059	36,369	34,783		159,843
– non-trading derivatives	2,177	432	1,208	3,136	3,678		10,631
– designated as at fair value through profit and loss	608	218	603	1,416	1,703		4,548
Investments							
– available-for-sale	4,051	7,314	7,941	56,516	55,680	1,863	133,365
– held-to-maturity	74	139	1,109	10,758	3,360		15,440
Loans and advances to customers	145,332	16,249	29,179	108,509	299,059		598,328
Intangible assets			227	453		1,735	2,415
Other assets	14,581	2,818	4,704	4,743	6,274		33,120
Remaining assets (where maturities are not applicable) [(1)]						10,383	10,383
Total assets	270,373	44,127	72,049	228,199	405,960	13,981	1,034,689
LIABILITIES							
Amounts due to banks	83,456	38,600	17,625	9,454	3,130		152,265
Customer deposits and other funds on deposit	439,543	32,609	49,951	12,843	2,737		537,683
Financial liabilities at fair value through profit and loss							
– trading liabilities	62,251	13,121	16,632	31,009	29,598		152,611
– non-trading derivatives	1,018	526	960	5,898	8,648		17,050
– designated as at fair value through profit and loss	573	833	2,430	5,935	4,238		14,009
Debt securities in issue	25,555	23,787	11,860	17,251	5,819		84,272
Other liabilities	16,278	3,397	5,329	4,153	1,864		31,021
Subordinated loans	13	479	61	4,918	16,186		21,657
Total liabilities	628,687	113,352	104,848	91,461	72,220		1,010,568

[(1)] Included in remaining assets where maturities are not applicable are: Property and equipment, Real estate investments and Investments in associates.
Note: Due to their nature, Remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Amounts presented in this table by contractual maturity are on an undiscounted basis, excluding interest receivable/payable.

Additional information to the consolidated balance sheet of ING Bank (continued)

Assets and liabilities by contractual maturity

2007	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
ASSETS							
Cash and balances with central banks	9,829						9,829
Amounts due from banks	25,938	5,736	8,705	6,591	1,905		48,875
Financial assets at fair value through profit and loss							
– trading assets	111,768	11,503	15,000	24,052	29,892		192,215
– non-trading derivatives	313	133	591	2,423	3,324		6,784
– designated as at fair value through profit and loss	1,504	610	1,712	1,258	4,062		9,146
Investments:							
– available-for-sale	3,345	6,620	10,126	48,924	70,990	3,627	143,632
– held-to-maturity	232	287	1,093	8,504	6,637		16,753
Loans and advances to customers	131,426	17,097	25,778	87,142	264,880		526,323
Intangible assets			98	196		1,589	1,883
Other assets	14,331	2,570	4,375	3,843	2,687		27,806
Remaining assets (where maturities are not applicable) [1]						10,867	10,867
Total assets	298,686	44,556	67,478	182,933	384,377	16,083	994,113
LIABILITIES							
Amounts due to banks	117,179	28,758	12,935	6,862	1,238		166,972
Customer deposits and other funds on deposit	466,126	23,999	26,939	8,451	2,682		528,197
Financial liabilities at fair value through profit and loss							
– trading liabilities	94,962	8,082	12,959	12,398	20,486		148,887
– non-trading derivatives	236	290	425	2,206	2,412		5,569
– designated as at fair value through profit and loss	873	771	2,395	5,912	3,931		13,882
Debt securities in issue	22,263	13,899	6,148	9,962	3,718		55,990
Other liabilities	13,298	3,654	6,309	4,039	1,335		28,635
Subordinated loans	66	290	100	4,871	13,459		18,786
Total liabilities	715,003	79,743	68,210	54,701	49,261		966,918

[1] Included in remaining assets where maturities are not applicable are: Property and equipment, Real estate investments and Investments in associates.
Note: Due to their nature, Remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Amounts presented in this table by contractual maturity are on an undiscounted basis, excluding interest receivable/payable.

19 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.

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 2008, ING Bank recognised EUR –5,441 million (2007: EUR 888 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 –5,676 million (2007: EUR 842 million) fair value changes recognised on hedged items. This resulted in EUR 235 million net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2008, the fair values of outstanding derivatives designated under fair value hedge accounting was EUR 4,610 million negative (2007: EUR 1,189 million positive), presented in the balance sheet as EUR 3,771 million (2007: EUR 1,907 million) positive fair values under assets and EUR 8,381 million (2007: EUR 718 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 2008, ING Bank recognised EUR –556 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 2008 was EUR –254 million (2007: EUR 604 million) gross and EUR –128 million (2007: EUR 428 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 30 years, with the largest concentration in the range of 1 year to 15 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting of nil (2007: EUR 4 million) was recognised in the profit and loss account.

As at 31 December 2008, the fair values of outstanding derivatives designated under cash flow hedge accounting was EUR 1,928 million negative (2007: EUR 358 million positive), presented in the balance sheet as EUR 3,539 million (2007: EUR 3,145 million) positive fair values under assets and EUR 5,467 million (2007: EUR 2,787 million) negative fair values under liabilities.

As at 31 December 2008 and 31 December 2007, 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 2,726 million (2007: EUR 1,341 million) and EUR 2,477 million (2007: EUR 1,083 million), respectively, relating to derivatives used in cash flow hedges.

Hedges of net investments in foreign operations
ING Bank's net investment hedges principally consist of derivatives (including currency forwards and swaps) and non-derivative financial instruments such as foreign currency denominated funding that are used to protect against foreign currency exposures on foreign subsidiaries.

Gains and losses on the effective portions of derivatives designated under net investment hedge accounting are recognised in Shareholders' equity. The balance in equity is recognised in the profit and loss account when the related foreign subsidiary is disposed. The gains and losses on ineffective portions are recognised immediately in the profit and loss account.

As at 31 December 2008, the fair values of outstanding derivatives designated under net investment hedge accounting was EUR 75 million positive (2007: EUR 60 million negative), presented in the balance sheet as EUR 339 million (2007: EUR 25 million) positive fair values under assets and EUR 264 million negative (2007: EUR 85 million negative) fair values under liabilities.

As at 31 December 2008 and 31 December 2007, there were no 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 2008 on derivatives and non-derivatives designated under net investment hedge accounting was nil (2007: nil).

20 MAXIMUM CREDIT EXPOSURE

ING's maximum credit exposure as at 31 December 2008 and 2007 is represented as follows:

Maximum credit exposure

	2008	2007
Cash and balances with central banks	**18,169**	9,829
Amounts due from banks		
– loans and advances to banks	**40,705**	45,777
– cash advances, overdrafts and other balances	**7,742**	3,098
Trading assets		
– debt securities	**26,625**	37,330
– loans and receivables	**59,449**	116,165
– derivatives	**71,918**	29,021
Non-trading derivatives	**10,631**	6,784
Designated as at fair value through profit and loss	**4,548**	9,146
Available-for-sale debt securities	**131,502**	140,005
Held-to-maturity debt securities	**15,440**	16,753
Loans and advances to customers		
– public authorities	**26,385**	23,639
– secured by mortgages	**303,359**	273,629
– guaranteed by credit institutions	**463**	2,540
– other personal lending	**26,894**	24,204
– other corporate lending	**241,142**	202,311
Other receivables	**5,170**	6,561
Maximum credit exposure on balance sheet	**990,142**	946,792
Off-balance sheet credit commitments		
– discounted bills - bank	**1**	1
– guarantees - bank	**22,391**	19,018
– irrevocable letters of credit - bank	**10,458**	11,551
– other - bank	**453**	350
– irrevocable facilities	**89,081**	100,707
Maximum credit exposure off balance sheet	**122,384**	131,627
Maximum credit exposure	**1,112,526**	1,078,419

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.

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

21 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 and the items for which they are held are as follows:

Assets not freely disposable

	2008	2007
Investments	**6,237**	5,404
Loans and advances to customers	**3,136**	911
Banks	**6,890**	1,602
Other assets	**6,437**	4,609
	22,700	12,526

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 2008 the required monthly average was EUR 5,810 million (2007: EUR 5,676 million). As at 31 December 2008 the balance on this reserve was EUR 3,529 million (2007: EUR 1,375 million).

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

22 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

	2008	2007
Discounted bills	**1**	1
Guarantees	**22,391**	19,018
Irrevocable letters of credit	**10,458**	11,551
Other	**453**	350
	33,303	30,920
Irrevocable facilities	**89,081**	100,707
	122,384	131,627

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. The guarantees are generally of a short-term nature. 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. Most of the unused portion of irrevocable credit facilities is 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

2009	**162**
2010	**143**
2011	**133**
2012	**121**
2013	**102**
Years after 2013	**64**

23 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

	2008	2007
Loans to small and medium-sized enterprises	**8,603**	8,946
Corporate loans		430
Mortgages	**6,101**	6,488
Total	**14,704**	15,864

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. This transaction is therefore not an off-balance sheet arrangement.

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 often has different roles in these transactions:

- the arranger of the transaction; ING structures the SPE, acquires the assets for the SPE and sells the CDOs to investors;
- collateral manager of the assets in the SPE; ING 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 from securitisation SPEs. For certain own asset securitisation programmes ING Bank acts as a market maker and holds limited positions in this capacity.

Non-cash investments are made by ING Bank by selling credit protection in the market using credit default swaps.

Other entities

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

Additional information to the consolidated balance sheet of ING Bank (continued)

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 the Bank.

24 PRINCIPAL SUBSIDIARIES
The principal subsidiaries of ING Bank N.V. are as follows:

ING Bank Nederland N.V.	The Netherlands
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
InterAdvies N.V.	The Netherlands
Nationale-Nederlanden Financiële Diensten B.V.	The Netherlands
ING Commercial Finance B.V.	The Netherlands
Postbank N.V.	The Netherlands
Postbank Groen N.V.	The Netherlands
Westland Utrecht Hypotheekbank 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

25 COMPANIES ACQUIRED AND COMPANIES DISPOSED

The initial accounting for the fair value of the net assets of the companies acquired during the year has been determined only provisionally. The initial accounting shall be completed within a year of acquisition.

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'.

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.

Additional information to the consolidated balance sheet of ING Bank (continued)

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
Goodwill at date of 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.

Most significant companies acquired in 2007

	Oyak Bank	Sharebuilder Corporation	Nationale Nederlanden Hypotheek Bedrijf	Total
General				
Date of acquisition	31 December 2007	15 November 2007	25 May 2007	
Percentage of voting shares acquired	100%	100%	100%	
Purchase price				
Purchase price	1,903	152	55	2,110
Costs directly attributable to the acquisition	2	1		3
Cash purchase price	1,905	153	55	2,113
Cash in company acquired	75	12		87
Cash outflow / inflow on acquisition	1,830	141	55	2,026
Assets				
Cash assets	75	12		87
Investments	1,332		90	1,422
Loans and advances to customers	4,824	15	11,388	16,227
Amounts due from banks	508			508
Financial assets at fair value through profit and loss	41	2		43
Intangible assets	236			236
Miscellaneous other assets	474	80	28	582
Liabilities				
Amounts due to banks	632		11,441	12,073
Customer deposits and other funds on deposit	5,369			5,369
Miscellaneous other liabilities	601	51	10	662
Total net assets acquired	888	58	55	1,001
Goodwill recognised [1]	1,015	94		1,109
Profit since date of acquisition		–1	27	26
Income if acquisition effected at start of year		38	78	116
Profit if acquisition effected at start of year [2]	80	–2	46	124

[1] Goodwill recognised in 2007 on immaterial acquisitions was EUR 24 million, resulting in total goodwill recognised in 2007 of EUR 1,133 million as disclosed in Note 9 'Intangible assets'.
[2] Estimate of full year profit of acquired company based on local accounting principles.

Acquisitions effective in 2007
In May 2007, ING Bank Netherlands N.V. acquired 100% of Nationale Nederlanden Hypotheek Bedrijf, a Dutch-based mortgage company for an amount of EUR 55 million.

In November 2007, ING acquired 100% of Sharebuilder Corporation, a Seattle-based brokerage company for EUR 152 million, to extend its retail investment products range and geographical spread in the United States. Goodwill of approximately EUR 94 million was recognised on acquisition and is mainly attributable to the operational synergies and to the future business potential resulting from the acquisition. There was no significant difference in the carrying values of the net assets acquired immediately before the acquisition and their fair values. All significant intangibles were recognised separately from goodwill and are included in Intangible assets. No significant adjustments were made in 2008 to amounts recognised provisionally in 2007.

In December 2007, ING announced the completion of the acquisition of 100% of the shares in Oyak Bank for an amount of EUR 1,903 million. Oyak Bank is a leading bank in the Turkish market, offering a full range of banking services with a focus on retail banking. Goodwill of EUR 1,015 million was recognised on acquisition and is mainly attributable to the future business potential resulting from the acquisition, as Oyak is a major bank, also offering a platform to distribute insurance, asset management and retirement products, in one of Europe's fastest growing economies. There was no significant difference in the carrying values of the net assets acquired immediately before the acquisition and their fair values. All significant intangibles were recognised separately from goodwill and are included in Intangible assets. The profit for the year (before amortisation of the intangibles recognised on purchase accounting) was approximately EUR 80 million, but no profit or loss was included in the ING Group net result over 2007.

Most significant companies disposed in 2007

	ING Trust	ING Regio B.V.	Total
Sales proceeds			
Sales proceeds	25	51	76
Cash proceeds	25	51	76
Cash outflow / inflow on disposal	25	51	76
Assets			
Loans and advances to customers	4	1,156	1,160
Miscellaneous other assets	10	110	120
Liabilities			
Customer deposits and other funds on deposit		2,052	2,052
Miscellaneous other liabilities	–4	–811	–815
Net assets	18	25	43
% disposed	100%	100%	
Net assets disposed	18	25	43

Disposals effective in 2007

In July 2007, ING sold ING Trust to management and Foreman Capital, an independent investment company based in the Netherlands. The sale is part of ING's strategy to focus on its core banking, insurance and asset management businesses.

In July 2007, ING sold its entire shareholding in ING Regio B.V., a subsidiary of Regio Bank N.V. to SNS REAAL for EUR 50.5 million, resulting in a gain of EUR 26 million. This entity conducts most of the business of Regio Bank. The legal entity Regio Bank N.V. itself was not part of the transaction.

Most significant companies acquired in 2006

	ING Bank Holding	Appleyard	Summit REIT	Total
General				
Date of acquisition	1 January 2006	1 July 2006	5 October 2006	
Percentage of voting shares acquired	100%	100%	56%	
Purchase price				
Purchase price	587	110	2,132	2,829
Cash purchase price	587	110	2,132	2,829
Cash in company acquired / disposed	93			93
Cash outflow / inflow on acquisition / disposal	494	110	2,132	2,736
Assets				
Cash assets	93			93
Investments			2,132	2,132
Loans and advances to customers	550			550
Financial assets at fair value through profit and loss			793	793
Miscellaneous other assets		332	34	366
Liabilities				
Amounts due to banks		238		238
Miscellaneous other liabilities	56	52	73	181
Net assets	587	42	2,886	3,515
Minority interests			754	754
Net assets acquired	587	42	2,132	2,761
Goodwill recognised [1]		54		54
Profit since date of acquisition	11	1	8	20
Income if acquisition effected at start of year	16	33	131	180

[1] Goodwill recognised in 2006 on immaterial acquisitions was EUR 11 million, resulting in total goodwill recognised in 2006 of EUR 65 million as disclosed in Note 9 'Intangible assets'.

In January 2006, the economic ownership of assets and liabilities of ING Bank N.V. relating to banking operations in the Netherlands were transferred into a company acquired from ING Group. ING Bank N.V purchased the entire share capital of ING Bank Holding N.V. for EUR 587 million. (Note: ING Bank Holding N.V was subsequently renamed ING Bank Nederland N.V.).

In July 2006, ING acquired 100% of Appleyard Vehicles Contracts, a UK based car leasing company. The purchase price paid for Appleyard was EUR 110 million.

In October 2006, ING acquired 56% of Summit Real Estate Investment Trust (Summit REIT) for an amount of EUR 2,132 million. Summit REIT owns a portfolio of high-quality light industrial properties in major markets across Canada.

Additional information to the consolidated balance sheet of ING Bank (continued)

Most significant companies disposed in 2006

	Williams de Broë	Deutsche Hypotheken-bank A.G.	Degussa Bank	Total
Sales proceeds				
Sales proceeds	19	275	–23	271
Cash proceeds	19	275	–23	271
Cash in company disposed		11	27	38
Cash outflow / inflow on disposal	19	264	–50	233
Assets				
Cash assets		11	27	38
Investments		9,556		9,556
Loans and advances to customers	228	16,884	2,334	19,446
Amounts due from banks	14	5,928	187	6,129
Financial assets at fair value through profit and loss	5	3,280	162	3,447
Miscellaneous other assets	27	747	163	937
Liabilities				
Amounts due to banks	64	2,439	198	2,701
Customer deposits and other funds on deposit		8,984	2,184	11,168
Miscellaneous other liabilities	198	24,541	286	25,025
Net assets	12	442	205	659
% disposed	100%	84%	100%	
Net assets disposed	12	370	205	587

In June 2006, ING sold its UK brokerage unit Williams de Broë Plc. for EUR 22 million. The sale is part of ING Group's strategy to focus on core businesses. The result on the sale is subject to closing adjustments.

In September 2006, ING sold its 87.5% stake in Deutsche Hypothekenbank A.G., a publicly listed mortgage bank in Germany, as part of ING's strategy to focus on its core business. The sale resulted in a loss of EUR 83 million.

In December 2006, ING sold its stake in Degussa Bank, a unit of ING-DiBa specialising in worksite banking for private customers. The sale resulted in a loss of EUR 23 million.

26 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, management does not believe that their outcome will have a material adverse effect on the Group's financial position or results of operations.

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.

27 JOINT VENTURES

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

Most significant joint ventures

2008	Interest held (%)	Assets	Liabilities	Income	Expenses
Postkantoren B.V.	50	161	169	226	266
		161	169	226	266

Most significant joint ventures

2007	Interest held (%)	Assets	Liabilities	Income	Expenses
Postkantoren B.V.	50	159	126	205	203
		159	126	205	203

28 RELATED PARTIES

In the normal course of business, the 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	
	2008	2007	2008	2007
Receivables	106	216	315	778
Liabilities	122	85	76	77
Guarantees issued in favour of				20
Income received	9	5	170	213
Expenses paid	82	58		1

There are no significant provisions for doubtful debts or individually significant bad debt expenses.

In addition to the transactions with joint ventures and associates, the 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.	
	2008	2007	2008	2007
Receivables	1,252	201	625	243
Liabilities	8,764	8,137	13,616	1,675
Income received	226	228	253	259
Expenses paid	675	619	238	163

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 2008 EUR 4.4 billion (2007: EUR 11.8 billion) mortgages were transferred from ING Insurance to ING Bank on market consistent terms.

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 (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 17 'Other liabilities'.

Additional information to the consolidated balance sheet of ING Bank (continued)

Key management personnel compensation

amounts in thousands of euros	Executive Board 2008	2007	Supervisory Board 2008	2007	Total 2008	2007
Base salary and short-term bonus	**7,052**	16,898	**986**	673	**8,038**	17,571
Pension costs	**3,580**	3,334			**3,580**	3,334
Retirement benefit		1,222				1,222
Fair market value of options and shares granted		9,072				9,072
Total compensation	**10,632**	30,526	**986**	673	**11,618**	31,199

Loans and advances to key management personnel

amounts in thousands of euros	Amount outstanding 31 December 2008	2007	Average interest rate 2008	2007	Repayments 2008	2007
Executive Board members	**2,341**	2,376	**4.6%**	4.8%	**35**	216
Total	**2,341**	2,376			**35**	216

The disclosures relating to key management personnel reflect the amounts relating to ING Group as a whole.

The remuneration of the members and former members of the Executive Board and Supervisory Board, who are also members and former members of the Executive Board and Supervisory Board of ING Group, including pension contributions, is paid by ING Group. These and other expenses of ING Group are charged in full by ING Group to its subsidiaries, on the basis of a general allocation formula.

The remuneration costs of ING Group amounted to EUR 10.6 million (2007: EUR 30.5 million) for members and former members of the Executive Board and EUR 1.0 million (2007: EUR 0.7 million) for members and former members of the Supervisory Board. The remuneration costs allocated to ING Bank amount to EUR 5.3 million (2007: EUR 10.7 million) for members and former members of the Executive Board and EUR 0.5 million (2007: EUR 0.3 million) for members and former members of the Supervisory Board.

29 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	
	2008	2007	**2008**	2007
Financial assets				
Cash and balances with central banks	**18,169**	9,829	**18,169**	9,829
Amounts due from banks	**48,308**	48,461	**48,447**	48,875
Financial assets at fair value through profit and loss				
– trading assets	**159,843**	192,215	**159,843**	192,215
– non-trading derivatives	**10,631**	6,784	**10,631**	6,784
– designated as at fair value through profit and loss	**4,548**	9,146	**4,548**	9,146
Investments				
– available-for-sale	**133,365**	143,632	**133,365**	143,632
– held-to-maturity	**15,566**	16,354	**15,440**	16,753
Loans and advances to customers	**599,973**	519,837	**598,328**	526,323
Other assets [1]	**22,479**	21,637	**22,479**	21,637
	1,012,882	967,895	**1,011,250**	975,194
Financial liabilities				
Amounts due to banks	**153,375**	167,365	**152,265**	166,972
Customer deposits and other funds on deposit	**537,594**	525,840	**537,683**	528,197
Debt securities in issue	**81,949**	55,732	**84,272**	55,990
Financial liabilities at fair value through profit and loss				
– trading liabilities	**152,611**	148,887	**152,611**	148,887
– non-trading derivatives	**17,050**	5,569	**17,050**	5,569
– designated as at fair value through profit and loss	**14,009**	13,882	**14,009**	13,882
Other liabilities [2]	**25,311**	23,272	**25,311**	23,272
Subordinated loans	**18,378**	18,860	**21,657**	18,786
	1,000,277	959,407	**1,004,858**	961,555

[1] Other assets do not include (deferred) tax assets, property held for sale, property under development for third parties and pension assets.
[2] Other liabilities do not include (deferred) tax liabilities, pension liabilities, property under development for third parties, share-based payment plans, other provisions and other taxation and social security contributions.

The estimated fair values correspond with 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. Because substantial trading markets do not exist for all of these financial instruments various techniques have been developed to estimate their approximate fair values. These techniques are subjective in nature and involve various assumptions about the relevant pricing factors. 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.

Non-trading derivatives
The fair values of derivatives held for non-trading purposes are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated based on internal valuation techniques.

Financial assets at fair value through profit and loss
The fair values of securities in the trading portfolio and other assets 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 valuation techniques.

Investments
The fair values of equity securities are based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities as determined by management. Fair values for fixed interest securities are based on quoted market prices, where available. For those securities not actively traded, fair values are determined by management based on an analysis of available market inputs which may include values obtained from one or more pricing services or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment. Reference is made to the comments on investments in asset backed securities in the United States in Sensitivities of fair values 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 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 unquoted, on estimates based on discounting future cash flows using available market interest rates 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 valuation techniques.

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 unquoted, on estimated prices by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity.

Other liabilities
The carrying amount of other liabilities are stated at their book value which is not materially different than fair value.

ING Bank has categorised its financial instruments 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 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 values of the financial instruments carried at fair value were determined as follows:

Methods applied in determining fair values of financial assets and liabilities

2008	Reference to published price quotations in active markets	Valuation technique supported by market inputs	Valuation technique not supported by market inputs	Total
Assets				
Trading assets	**97,808**	**61,214**	**821**	**159,843**
Non-trading derivatives	**9,671**	**956**	**4**	**10,631**
Financial assets designated at fair value through profit and loss	**1,528**	**2,715**	**305**	**4,548**
Available-for-sale investments	**60,251**	**53,199**	**19,915**	**133,365**
	169,258	**118,084**	**21,045**	**308,387**
Liabilities				
Trading liabilities	**91,308**	**60,947**	**356**	**152,611**
Financial liabilities designated at fair value through profit and loss	**5,591**	**8,354**	**64**	**14,009**
Non-trading derivatives	**15,265**	**1,784**	**1**	**17,050**
	112,164	**71,085**	**421**	**183,670**

Methods applied in determining fair values of financial assets and liabilities

2007	Reference to published price quotations in active markets	Valuation technique supported by market inputs	Valuation technique not supported by market inputs	Total
Assets				
Trading assets	121,865	70,271	79	192,215
Non-trading derivatives	6,079	690	16	6,785
Financial assets designated at fair value through profit and loss	4,905	4,146	95	9,146
Available-for-sale investments	89,707	52,760	1,165	143,632
	222,556	127,867	1,355	351,778
Liabilities				
Trading liabilities	75,067	73,803	16	148,886
Financial liabilities designated at fair value through profit and loss	7,723	6,159		13,882
Non-trading derivatives	5,010	465	94	5,569
	87,800	80,427	110	168,337

Reference to published price quotations 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.

This category includes financial instruments for which it is market convention to price these based on a single published reference rate (e.g. a published yield curve in the case of plain vanilla interest rate swaps). The total amount of these types of financial instruments is EUR 26,773 million in assets and EUR 23,389 million in liabilities. Certain reverse repos with a very short tenor (i.e. a matter of days) for which the valuation is based on the actual prices on issuance and maturity, are included in this category on the basis that their valuation is highly objective and based on a third-party source.

Valuation technique supported by market inputs
This category includes financial instruments whose fair value is determined using a valuation technique (a model), where inputs in the model are taken from an active market or are market observable. If certain inputs in the model are not market observable, but all significant inputs are, the instrument is still classified in this category, provided that the impact of those elements 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 (more than insignificantly) modified based on other market observable external data.

Valuation technique not supported by market inputs
This category includes financial assets/liabilities whose fair value is determined using a valuation technique (model) for which more than an insignificant level of the input 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.

The total amount of changes in fair value estimated using a valuation technique not supported by market inputs recognised in net result in 2008 was EUR –35 million (2007: EUR 16 million).

Sensitivities of fair values
Reasonably likely changes in the assumptions used in the valuation techniques not supported by recent market transactions 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.

Assets classified in Valuation technique not supported by market inputs consist mainly (approximately 89.1%) of 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. As at 31 December 2007, these assets were classified in Reference to published price quotations in active markets as valuation was based on independent quotes and trading in the relevant markets was active at that time. During 2008, the trading volumes in the relevant markets reduced significantly and these have now become inactive. The dispersion between prices for the same security from different price sources increased significantly. As a result, an amount of EUR 20 billion of asset backed securities in the United States was reclassified from Reference to published price quotations in active markets to Valuation technique not supported by market inputs in the third quarter of 2008. 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 more 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 price source.

As a result of the low trading volumes in the market and the widened disparity between prices for the same security from different price sources, 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 significantly different had different prices been selected. The sensitivity of the valuation in this respect is illustrated as follows:

- had the valuation been based on the highest available market price for each and every security in these portfolios, the overall valuation would have been approximately 10% higher than the valuation applied by ING Bank;
- had the valuation been based on the lowest available market price for each and every security in these portfolios, the overall valuation would have been approximately 15% lower than the valuation applied by ING Bank;
- had the valuation been based on the weighted average available market price for these portfolios, the overall valuation would have been approximately 5% lower than the valuation applied by ING Bank.

These are indicators of sensitivity and not alternatives for fair value under IFRS-EU.

Reference is made to the ‘Risk management’ section with regard to the exposure of these asset backed securities as at 31 December 2008 and the impact from these asset backed securities on net result in 2008.

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

amounts in millions of euros, unless stated otherwise

30 INTEREST RESULT

Interest result

	2008	2007	2006
Interest income on loans	**31,088**	26,185	21,742
Interest income on impaired loans	**–24**	–26	13
Total interest income on loans	**31,064**	26,159	21,755
Interest income on available-for-sale securities	**7,448**	7,397	6,989
Interest income on held-to-maturity securities	**669**	736	755
Interest income on trading portfolio	**45,510**	32,442	21,414
Interest income on non-trading derivatives	**7,076**	6,190	5,231
Other interest income	**5,811**	3,841	3,015
Total interest income	**97,578**	76,765	59,159
Interest expense on deposits by banks	**4,856**	5,131	3,559
Interest expense on customer deposits and other funds on deposit	**19,594**	18,563	15,107
Interest expense on debt securities	**3,760**	3,556	3,173
Interest expense on subordinated loans	**1,088**	1,055	1,011
Interest on trading liabilities	**44,092**	29,383	18,823
Interest on non-trading derivatives	**7,391**	6,115	5,159
Other interest expense	**5,511**	3,927	2,994
Total interest expense	**86,292**	67,730	49,826
Interest result	**11,286**	9,035	9,333

Interest margin

in percentages	**2008**	2007	2006
Interest margin	**1.09**	0.94	1.06

In 2008, the growth in average total assets led to an increase of the interest result amounting to EUR 811 million (2007: EUR 753 million; 2006: EUR 1,040 million). The increase of the interest margin by 15 basis points led to a increase of the interest result with EUR 1,440 million (in 2007 the decrease of the interest margin by 12 basis points led to a decrease of the interest result with EUR 1,051 million; in 2006 the decrease of the interest margin by 10 basis points led to a decrease of the interest result with EUR 852 million).

31 INVESTMENT INCOME

Investment income

	2008	2007	2006
Income from real estate investments	**196**	252	134
Dividend income	**84**	70	84
	280	322	218
Realised gains/losses on disposal of equity securities	**29**	330	149
Impairments of available-for-sale equity securities	**–258**	–17	–17
Realised gains/losses and impairment on equity securities	**–229**	313	132
Income from investments in debt securities			18
Impairments of available-for-sale debt securities	**–2,127**	–57	
Realised gains/losses on debt securities	**40**	138	93
Realised gains/losses and impairment on debt securities	**–2,087**	81	93
Change in fair value of real estate investments	**–350**	93	67
Investment income	**–2,386**	809	528

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

32 COMMISSION INCOME

Gross fee and commission income

	2008	2007	2006
Funds transfer	**888**	746	704
Securities business	**891**	1,049	1,064
Asset management fees	**934**	1,140	944
Brokerage and advisory fees	**256**	233	207
Insurance broking	**175**	180	171
Other	**850**	818	704
	3,994	4,166	3,794

Other include commission fees of EUR 21 million (2007: EUR 26 million; 2006: EUR 42 million) in respect of underwriting syndication loans.

Fee and commission expenses

	2008	2007	2006
Funds transfer	**185**	144	140
Securities business	**268**	370	347
Management fees	**169**	230	204
Brokerage and advisory fees	**5**	5	2
Insurance broking	**–4**		
Other	**476**	491	420
	1,099	1,240	1,113

33 VALUATION RESULTS ON NON-TRADING DERIVATIVES

Valuation results on non-trading derivatives

	2008	2007	2006
Change in fair value of derivatives relating to			
– fair value hedges	–5,441	887	203
– cash-flow hedges (ineffective portion)		–4	–7
– other non-trading derivatives	–19	28	387
Net result on non-trading derivatives	–5,460	911	583
Change in fair value of assets and liabilities (hedged items)	5,676	–841	–234
Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading)	127	56	–213
Net valuation results	343	126	136

34 NET TRADING INCOME

Net trading income

	2008	2007	2006
Securities trading results	130	–2,147	–804
Foreign exchange transactions results	274	401	282
Derivatives trading results	–766	2,460	1,270
Other	–43	26	153
	–405	740	901

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 2008 relating to trading securities still held as at 31 December amounted to EUR 245 million losses (2007: EUR 140 million losses; 2006: EUR 147 million losses).

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.

35 OTHER INCOME

Other income

	2008	2007	2006
Net operating lease income	196	79	65
Income post offices	144	148	156
Income from real estate development projects	124	95	220
Other income	28	258	35
	492	580	476

Net operating lease income comprises income of EUR 962 million (2007: EUR 803 million; 2006: EUR 691 million), depreciation of EUR 766 million (2007: EUR 724 million; 2006: EUR 626 million) and other operating expenses of nil (2007: nil; 2006: nil).

36 INTANGIBLE AMORTISATION AND OTHER IMPAIRMENTS

Intangible amortisation and (reversals of) impairments

	Impairment losses			Reversals of impairments					Total
	2008	2007	2006	**2008**	2007	2006	**2008**	2007	2006
Property and equipment	**12**	2	3		–14	–7	**12**	–12	–4
Property under development for third parties	**92**	36	17	**–30**	–43		**62**	–7	17
Software and other intangible assets	**27**	14					**27**	14	
Other			3						3
(Reversals of) other impairments	**131**	52	23	**–30**	–57	–7	**101**	–5	16
Amortisation of intangible assets							**53**		
							154	–5	16

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.

Amortisation of intangible assets relates to intangible assets recognised as part of companies acquired. Until 2007, these were classified in Other operating expenses. The comparatives for 2007 and 2006 have been amended to reflect the revised presentation. There is no impact on Total expenses.

No individual principal event or circumstance has led to a material recognition or reversal of the impairment losses.

37 STAFF EXPENSES

Staff expenses

	2008	2007	2006
Salaries	**3,815**	3,646	3,480
Pension and other staff-related benefit costs	**105**	159	184
Social security costs	**516**	466	444
Share-based compensation arrangements	**75**	71	59
External employees	**1,056**	668	595
Education	**105**	81	69
Other staff costs	**316**	330	260
	5,988	5,421	5,091

Share-based compensation arrangements includes EUR 55 million (2007: EUR 62 million; 2006: EUR 57 million) relating to equity-settled share-based payment arrangements and EUR 20 million (2007: EUR 9 million; 2006: EUR 2 million) relating to cash-settled share-based payment arrangements.

Pension and other staff-related benefit costs												
		Pension benefits			Post-employment benefits other than pensions			Other			Total	
	2008	2007	2006	**2008**	2007	2006	**2008**	2007	2006	**2008**	2007	2006
Current service cost	**212**	253	257	**–3**	10	1	**9**	–20	21	**218**	243	279
Past service cost	**77**	–62	18			–1		–1		**77**	–63	17
Interest cost	**502**	466	452	**5**	3	3	**7**	7	6	**514**	476	461
Expected return on assets	**–565**	–542	–530				**4**			**–561**	–542	–530
Amortisation of unrecognised past service costs		3									3	
Amortisation of unrecognised actuarial (gains)/losses	**–28**	22	13				**2**	3		**–26**	25	13
Effect of curtailment or other settlement	**–140**	–25	–6			–87				**–140**	–25	–93
Other							**–21**			**–21**		
Defined benefit plans	**58**	115	204	**2**	13	–84	**1**	–11	27	**61**	117	147
Defined contribution plans										**44**	42	37
										105	159	184

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 Executive Board, general managers and other officers nominated by the Executive Board), to ING Bank staff in the Netherlands and to a considerable number of employees outside the Netherlands. 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 2008 32,367,870 own shares (2007: 36,028,881) were held in connection with the option plan compared to 87,263,381 options outstanding (2007: 76,888,553). 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 is rebalanced regularly at predetermined points in time.

Exposure arising out of the share plan is not hedged. The obligations with regard to these plans will in the future be funded by either by cash or shares from the delta hedge portfolio at the discretion of the holder. On 31 March 2008, 1,786,762 own shares were issued in relation to the vesting of share plans.

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 shares is granted conditionally. If the participant remains in the employment for an uninterrupted period of three years from the grant date, the entitlement becomes unconditional. In 2008, 3,591,755 shares (2007: 2,415,649) have been granted to senior management and other employees remaining in the service of ING Group.

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.

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

	Options outstanding (in numbers)			Weighted average exercise price (in euros)		
	2008	2007	2006	**2008**	2007	2006
Opening balance	**43,505,026**	42,380,873	49,385,301	**27.24**	26.03	24.65
Granted	**8,867,259**	6,589,163	7,515,107	**21.98**	32.12	32.77
Exercised and transferred	**2,314,913**	–3,563,679	–10,210,565	**24.65**	19.71	19.73
Forfeited	**–1,781,042**	–1,901,331	–668,094	**29.08**	25.82	26.75
Expired			–3,640,876			26.03
Closing balance	**52,906,156**	43,505,026	42,380,873	**26.36**	27.24	26.03

The weighted average share price at the date of exercise for options exercised in 2008 is EUR 24.07 (2007: EUR 32.48).

Changes in option rights non-vested

	Options non-vested (in numbers)			Weighted average grant date fair value (in euros)		
	2008	2007	2006	**2008**	2007	2006
Opening balance	**20,568,406**	20,539,578	23,991,106	**5.66**	4.60	3.72
Granted	**8,867,259**	6,589,163	7,515,107	**5.27**	6.57	6.49
Vested and transferred	**–5,832,798**	–5,007,617	–10,041,002	**3.84**	5.11	4.87
Forfeited	**–1,256,459**	–1,552,718	–925,633	**5.65**	5.72	3.73
Closing balance	**22,346,408**	20,568,406	20,539,578	**6.03**	5.66	4.60

Summary of stock options outstanding and exercisable

2008 **Range of exercise price in euros**	**Options outstanding as at 31 December 2008**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options exercisable as at 31 December 2008**	**Weighted average remaining contractual life**	**Weighted average exercise price**
0.00 – 15.00	**3,530,132**	**4.18**	**12.48**	**3,530,132**	**4.18**	**12.48**
15.00 – 20.00	**4,681,998**	**5.00**	**18.68**	**4,514,361**	**4.83**	**18.68**
20.00 – 25.00	**15,581,336**	**7.70**	**22.47**	**7,628,862**	**6.13**	**23.21**
25.00 – 30.00	**11,484,480**	**2.85**	**28.57**	**10,823,077**	**2.45**	**28.76**
30.00 – 35.00	**13,579,594**	**7.73**	**32.45**	**14,700**	**2.16**	**32.29**
35.00 – 40.00	**4,048,616**	**2.11**	**35.58**	**4,048,616**	**2.11**	**35.58**
	52,906,156			**30,559,748**		

Summary of stock options outstanding and exercisable

2007 Range of exercise price in euros	Options outstanding as at 31 December 2007	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2007	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 15.00	3,550,407	5.18	12.49	3,550,407	5.18	12.49
15.00 – 20.00	4,282,987	5.84	18.58	4,282,987	5.84	18.58
20.00 – 25.00	7,439,344	7.14	23.18	229,769	3.40	21.88
25.00 – 30.00	10,880,016	3.45	28.76	10,838,979	3.44	28.77
30.00 – 35.00	13,334,894	8.71	32.45	17,100	3.24	32.43
35.00 – 40.00	4,017,378	3.11	35.58	4,017,378	3.11	35.58
	43,505,026			22,936,620		

The aggregate intrinsic value of options outstanding and exercisable as at 31 December 2008 was nil and nil respectively.

As at 31 December 2008 total unrecognised compensation costs related to stock options amounted to EUR 56 million (2007: EUR 40 million; 2006: EUR 49 million). These costs are expected to be recognised over a weighted average period of 1.8 years (2007: 1.8 years; 2006: 1.9 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 3.55% to 4.04%), as well as the expected life of the options granted (from 0.5 year to 6.5 years), the exercise price, the current share price (EUR 32.77 - EUR 33.92), the expected volatility of the certificates of ING Group shares (23% - 41%) and the expected dividend yield (3.57% to 3.69%).

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.

38 OTHER OPERATING EXPENSES

Other operating expenses

	2008	2007	2006
Depreciation of property and equipment	**354**	322	361
Amortisation of software	**103**	123	101
Computer costs	**733**	661	604
Office expenses	**687**	627	635
Travel and accommodation expenses	**163**	153	139
Advertising and public relations	**833**	806	722
External advisory fees	**459**	490	449
Postal charges	**130**	113	117
Addition/(releases) of provision for reorganisations and relocations	**136**	435	63
Other	**624**	867	765
	4,222	4,597	3,956

Other operating expenses include lease and sublease payments in respect of operating leases of EUR 166 million (2007: EUR 151 million; 2006: EUR 226 million).

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

39 TAXATION

Taxation by type

		Netherlands			International			Total	
	2008	2007	2006	**2008**	2007	2006	**2008**	2007	2006
Current taxation	**–248**	36	389	**819**	673	652	**571**	709	1,041
Deferred taxation	**–183**	18	1	**–558**	26	169	**–741**	44	170
	–431	54	390	**261**	699	821	**–170**	753	1,211

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

	2008	2007	2006
Result before taxation	**533**	4,454	5,024
Weighted average statutory tax rate	**8.4%**	29.6%	30.8%
Weighted average statutory tax amount	**45**	1,318	1,547
Associates exemption	**46**	–14	22
Other income not subject to tax	**–161**	–326	–278
Expenses not deductible for tax purposes	**95**	73	109
Impact on deferred tax from change in tax rates		–6	–63
Deferred tax benefit from previously unrecognised amounts		–57	–30
Current tax benefit from previously unrecognised amounts		–205	–59
Write down/reversal of deferred tax assets	**44**	8	–6
Other adjustment to prior periods	**–239**	–38	–31
Effective tax amount	**–170**	753	1,211
Effective tax rate	**–31.9%**	16.9%	24.1%

The weighted average statutory tax rate decreased significantly in 2008 compared to 2007 caused by a small positive result in combination with losses in 2008 in high tax jurisdictions.

The effective tax rate of –31.9% is the result of a tax benefit of EUR 170 million on a profit before taxation of EUR 533 million. The main explanation for this is the releases of tax provisions.

40 NET INTEREST INCOME
Total interest income and total interest expense for items not valued at fair value through profit and loss in 2008 were EUR 44,659 million and EUR 34,169 million respectively (2007: EUR 37,885 million and EUR 31,676 million; 2006: EUR 32,258 million and EUR 25,255 million).

amounts in millions of euros, unless stated otherwise

41 PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS

ING Bank's business segments relate to the internal segmentation by business lines. These include the business lines: Wholesale Banking, Retail Banking and ING Direct. Other mainly includes items not directly attributable to the business lines. Each business line is headed by a member of the Executive Board. The Executive Board sets the performance targets and approves and monitors the budgets prepared by the business lines. Business lines formulate strategic, commercial and financial policies in conformity with the strategy and performance targets set by the Executive Board.

The accounting policies of the business segments are the same as those described under Accounting policies for the consolidated balance sheet and profit and loss account. 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 applies a system of capital charging that makes the results of the banking business units globally comparable, irrespective of the book equity they have and the currency they operate in. ING's policy for the banking business units is that equity may to be invested locally at the local risk free rate. Banking business units are charged by the Corporate Line for the income that they make on the invested equity and are given a benefit based on the risk free euro rate on the Economic Capital they employ. Consequently, the results of the businesses as disclosed are the local results after Group overhead charges while the investment returns on equity are based on the risk free euro rate on Economic Capital.

ING Bank evaluates the results of its business segments using financial performance measures called underlying result before taxation. Underlying result before taxation is defined as result before taxation excluding the impact of divestments and special items.

Business segments

2008	Wholesale Banking	Retail Banking	ING Direct	Other	Total segments	Eliminations	Total
Income							
– external	4,050	8,758	1,138	–1,769	12,177		12,177
– inter-segment	57	–1,359	–260	1,562			
Total income	4,107	7,399	878	–207	12,177		12,177
Segment result before taxation	609	1,420	–1,155	–341	533		533
Special items		271	30		301		301
Underlying result before taxation	609	1,691	–1,125	–341	834		834
Segment assets	1,173,150	581,538	275,829	193,258	2,223,775	–1,189,086	1,034,689
Segment liabilities	1,163,301	575,369	271,778	189,206	2,199,654	–1,189,086	1,010,568
Share in profit or loss of associates	–217	10		–3	–210		–210
Book value of associates	1,385	414		14	1,813		1,813
Cost incurred to acquire property, equipment and intangibles	256	767	516	2	1,541		1,541
Significant non-cash expenses							
– Depreciation and amortisation	154	224	97	35	510		510
– Other impairments	94	4	33		131		131
– Reversal of impairments	30				30		30
– Addition to loan loss provisions	596	401	283		1,280		1,280

Impairments on investments are presented within Investment income, which is part of Total income. In 2008, total impairments of EUR 2,385 million are included in the following segments: EUR 267 million in Wholesale Banking, EUR 4 million in Retail Banking, EUR 1,891 million in ING Direct and EUR 223 million in Other.

Segment reporting (continued)

Business segments

2007	Wholesale Banking	Retail Banking	ING Direct	Other	Total segments	Eliminations	Total
Income							
– external	6,091	8,015	2,346	–1,860	14,592		14,592
– inter-segment	–1,290	–532	–150	1,972			
Total income	4,801	7,483	2,196	112	14,592		14,592
Segment result before taxation	1,965	2,078	530	–119	4,454		4,454
Divestments		–32			–32		–32
Special items	94	356		40	490		490
Underlying result before taxation	2,059	2,402	530	–79	4,912		4,912
Segment assets	925,904	501,722	262,560	103,160	1,793,346	–799,233	994,113
Segment liabilities	918,964	496,965	259,792	90,430	1,766,151	–799,233	966,918
Share in profit or loss of associates	212	26			238		238
Book value of associates	1,502	461		47	2,010		2,010
Cost incurred to acquire property, equipment and intangibles	180	1,324	296	4	1,804		1,804
Significant non-cash expenses							
– Depreciation and amortisation	155	199	87	4	445		445
– Impairments	38		14		52		52
– Reversal of impairments	51	6			57		57
– Addition to loan loss provisions	–142	199	68		125		125

Business segments

2006	Wholesale Banking	Retail Banking	ING Direct	Other	Total segments	Elimi-nations	Total
Income							
– external	6,135	7,206	2,216	–1,367	14,190		14,190
– inter-segment	–1,397	–40	73	1,364			
Total income	4,738	7,166	2,289	–3	14,190		14,190
Segment result before taxation	2,052	2,364	691	–83	5,024		5,024
Divestments	44		3		47		47
Underlying result before taxation	2,096	2,364	694	–83	5,071		5,071
Segment assets	724,984	354,089	253,160	137,374	1,469,607	–574,622	894,985
Segment liabilities	717,915	348,808	249,792	130,591	1,447,106	–574,622	872,484
Share in profit or loss of associates	176	11		–7	180		180
Book value of associates	1,141	57		25	1,223		1,223
Cost incurred to acquire property, equipment and intangibles	226	182	144	3	555		555
Significant non-cash expenses							
– Depreciation and amortisation	171	216	74		461		461
– Impairments	19	4			23		23
– Reversal of impairments	3	4			7		7
– Addition to loan loss provisions	–133	176	60		103		103

Interest income (external) and interest expense (external) breakdown by business lines

2008	**Wholesale Banking**	**Retail Banking**	**ING Direct**	**Other**	**Total**
Interest income	**67,834**	**15,754**	**13,293**	**697**	**97,578**
Interest expense	**60,855**	**12,792**	**10,501**	**2,144**	**86,292**
	6,979	**2,962**	**2,792**	**–1,447**	**11,286**

Interest income (external) and interest expense (external) breakdown by business lines

2007	Wholesale Banking	Retail Banking	ING Direct	Other	Total
Interest income	49,753	15,068	12,040	–96	76,765
Interest expense	43,583	12,442	9,963	1,742	67,730
	6,170	2,626	2,077	–1,838	9,035

Interest income (external) and interest expense (external) breakdown by business lines

2006	Wholesale Banking	Retail Banking	ING Direct	Other	Total
Interest income	35,897	12,366	10,435	461	59,159
Interest expense	30,028	9,705	8,309	1,784	49,826
	5,869	2,661	2,126	–1,323	9,333

42 SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

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

Geographical segments

2008	**Nether-lands**	**Bel-gium**	**Rest of Europe**	**North Ame-rica**	**Latin Ame-rica**	**Asia**	**Aus-tralia**	**Other**	**Elimi-nations**	**Total**
Income										
– external	**2,787**	**2,604**	**4,455**	**1,163**	**122**	**852**	**196**		**–2**	**12,177**
– inter-segment	**1,409**	**–8**	**361**	**–1,495**	**–70**	**–169**	**–29**		**1**	
Total income	**4,196**	**2,596**	**4,816**	**–332**	**52**	**683**	**167**		**–1**	**12,177**
Segment result before taxation	**–411**	**883**	**1,365**	**–1,366**	**–52**	**90**	**24**			**533**
Segment assets	**664,225**	**164,249**	**417,118**	**154,124**	**20,060**	**50,277**	**28,692**	**108**	**–464,164**	**1,034,689**
Cost incurred to acquire property, equipment and intangibles	**714**	**102**	**643**	**41**	**2**	**19**	**20**			**1,541**

Geographical segments

2007	Nether-lands	Bel-gium	Rest of Europe	North Ame-rica	Latin Ame-rica	Asia	Aus-tralia	Other	Elimi-nations	Total
Income										
– external	5,073	3,400	3,362	1,760	101	492	406		–2	14,592
– inter-segment	370	–735	718	–578	177	94	–48		2	
Total income	5,443	2,665	4,080	1,182	278	586	358			14,592
Segment result before taxation	750	1,019	1,655	407	197	189	237			4,454
Segment assets	546,306	168,774	351,448	162,101	15,112	39,458	29,102	102	–318,290	994,113
Cost incurred to acquire property, equipment and intangibles	309	62	1,157	229		40	7			1,804

Geographical segments

2006	Nether-lands	Bel-gium	Rest of Europe	North Ame-rica	Latin Ame-rica	Asia	Aus-tralia	Other	Elimi-nations	Total
Income										
– external	4,780	3,015	3,384	2,471	–138	375	304		–1	14,190
– inter-segment	514	–470	584	–1,043	355	75	–15			
Total income	5,294	2,545	3,968	1,428	217	450	289		–1	14,190
Segment result before taxation	1,423	955	1,476	751	140	115	164			5,024
Segment assets	493,474	166,059	329,005	164,127	14,428	27,638	23,796	70	–323,612	894,985
Cost incurred to acquire property, equipment and intangibles	218	62	219	24	1	26	5			555

amounts in millions of euros, unless stated otherwise

43 NET CASH FLOW FROM INVESTING ACTIVITIES

Information on the impact of companies acquired or disposed of is presented in Note 25 'Companies acquired and companies disposed'.

44 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

Interest and dividend received and paid

	2008	2007	2006
Interest received	**95,489**	73,734	57,360
Interest paid	**–82,916**	–65,025	–51,145
	12,573	8,709	6,215
Dividend received	**181**	127	111
Dividend paid	**–4,250**	–1,300	–1,800

45 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

	2008	2007	2006
Treasury bills and other eligible bills	**7,009**	4,130	4,333
Amounts from/due to banks	**2,217**	–33,348	–20,454
Cash and balances with central banks	**18,169**	9,829	11,769
Cash and cash equivalents at end of year	**27,395**	–19,389	–4,352

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

	2008	2007	2006
Treasury bills and other eligible bills included in trading assets	**2,770**	1,806	1,286
Treasury bills and other eligible bills included in available-for-sale investments	**4,239**	2,324	3,047
	7,009	4,130	4,333

Amounts due to/from banks

	2008	2007	2006
Included in cash and cash equivalents			
– amounts due to banks	**–13,738**	–42,154	–26,498
– amounts due from banks	**15,955**	8,806	6,044
	2,217	–33,348	–20,454
Not included in cash and cash equivalents			
– amounts due to banks	**–138,527**	–124,818	–94,341
– amounts due from banks	**32,492**	40,069	33,824
	–106,035	–84,749	–60,517
Included in balance sheet			
– amounts due to banks	**–152,265**	–166,972	–120,839
– amounts due from banks	**48,447**	48,875	39,868
	–103,818	–118,097	–80,971

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

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

Risk management

amounts in millions of euros, unless stated otherwise

STRUCTURE OF RISK MANAGEMENT SECTION

- Risk Management in 2008
- Introduction
- Risk Governance
- Risk Profile
- Credit risks
- Market risks
- Liquidity risk
- Non Financial Risks
  - *Operational risks*
  - *Compliance risks*
- Model Disclosures

RISK MANAGEMENT IN 2008

Taking measured risks is part of ING Bank's business. As a financial services company active in banking and investments, 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 the 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, and foreign exchange risks), and liquidity 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.

Despite the fact that the ongoing crisis claims most of the management attention on a daily basis throughout risk management organisation, ING continued its long-term investments in risk management, including investments in people, governance, processes, measurement tools and systems. The Non-Financial Risk Dashboard, which was introduced internally and piloted in 2007 was implemented and presented to the Executive Board and the Audit Committee for the first time in November 2008.

MARKET DEVELOPMENTS 2008

Although the whole of 2008 was characterised by significant turmoil, it was in the second half of the year, after the default of Lehman Brothers, Washington Mutual and three Icelandic banks, that volatility in financial markets intensified. Throughout the world the prices of most major asset classes fell sharply. Equity markets came down significantly: year on year the S&P 500 declined 38% and the Dutch Amsterdam Exchange Index (AEX) declined 52%. Real estate prices were also under pressure. At December 31 2008 the most prominent real estate index in the United States, the S&P Case-Shiller Index, was 18.6% lower than at the end of 2007. Moreover, credit spreads in the financial and corporate sector widened materially, both in the US and in Europe. The second half of 2008 showed a steep increase in corporate credit spreads which was for a major part driven by the auto and industrial sectors. Both short and long term interest rates dropped in Europe and more profoundly in the United States.

In response to these movements governments all over the world stepped in with rescue plans to buy pressurised assets, deposit guarantee programmes, capital injections or full nationalisations. In October 2008 ING Group and the Dutch state announced that an agreement had been reached on a EUR 10 billion capital injection from the Dutch state.

Risk mitigation

To counter the implications of the financial crisis ING decided to take several measures over the course of the year to reduce risk:

- *Deleveraging*
  ING is working to reduce the bank balance sheet by 10% by decreasing the non-lending part by 25%. ING intends to reduce the available for sale portfolio over time as proceeds from maturing securities will be used to fund ING-originated loans. Reducing trading activities, deposits at other banks and reverse-repos are expected to make up most of the remaining reduction. At the same time, lending activities will be maintained with focus on the Corporate and Retail business.

- *Reduction of credit risk*
  In January 2009, ING Group entered into an illiquid Assets Back-up Facility term sheet with the Dutch State covering ING's Alt-A residential mortgage backed securities (RMBS) portfolio. Through this agreement, which is expected to close in the first quarter of 2009, subject to final documentation and regulatory approval, the Dutch State will become the economic owner of 80% of the Alt-A RMBS portfolio. This transaction was concluded at 90% of the par value with respect to the 80% portion of the portfolio of which the Dutch State will become the economic owner. Par value of the portfolio is approximately EUR 26 billion. Following the deteriorated economic outlook in the third and fourth quarter market prices for these securities had become depressed as liquidity dried up, which had an impact on ING's results and equity far in excess of estimated credit losses. The transaction with the Dutch State is expected to significantly reduce the uncertainty regarding the impact on ING of any future losses in the portfolio. As condition to the Facility ING will commit to support the growth of the Dutch lending business for an amount of EUR 25 billion at market-conforming conditions. The Dutch State will also acquire certain consent rights with respect to the sale or transfer of the 20% proportion of the Alt-A RMBS portfolio that is retained by ING.
- *Reduction of equity exposure - (available-for-sale)*
  ING Bank's direct public equity exposure was reduced from EUR 3.6 billion at the end of 2007 to EUR 1.9 billion at year-end 2008. The reduction in exposure was due to negative revaluations, and sales.

Impact of financial crisis
Impact on pressurised asset classes
As a result of the deteriorating market conditions throughout 2008 ING Bank incurred negative revaluations on its investment portfolio, which impacted shareholders' equity. Furthermore, ING Bank incurred impairments, fair value changes and trading losses, which impacted its profit and loss account (P&L).

The table below shows the exposures and negative revaluations and losses taken on US sub-prime and US Alt-A residential mortgage backed securities (RMBS), Collateralised Debt Obligations (CDOs) and Collateralised Loan Obligations (CLOs) during 2008.

US Subprime RMBS, US Alt-A RMBS, CDOs/CLOs exposures, revaluations and losses

	31 December 2008	Change in 2008			31 December 2007	
	Market Value	Revaluation through Equity (pre-tax)	Writedown through P&L (pretax)	Other changes	Market value	Revaluation through Equity (pre-tax)
US Subprime RMBS	104	–78	–81	3	260	–53
US Alt-A RMBS	16,726	–5,444	–1,823	290	23,703	–826
CDOs/CLOs	50	–26	–122	–1,126	1,324	–67
Total	16,880	–5,548	–2,026	–833	25,287	–946

- ING Bank's total EUR 104 million exposure to US sub-prime assets relates to non originated loans acquired as investments in RMBS and represents some 0.01% of total ING Bank assets. At 31 December 2008 approximately 45% of ING Bank's US sub-prime portfolio was rated AA or higher. ING Bank does not originate sub-prime mortgages. The vast majority of the total mortgage backed securities (MBS) are (residential) mortgages that are not classified as sub-prime.
- ING Bank's total US Alt-A RMBS exposure at 31 December 2008 was EUR 16.7 billion. About 62% of this portfolio was AAA rated. ING's available-for-sale Alt-A investments are measured at fair value in the balance sheet. The substantial amount of negative pre-tax revaluation and impairments on this portfolio are mainly caused by the illiquid market.
- Net investments in CDOs/CLOs at 31 December 2008 were approximately 0.005% of total ING Bank assets. The vast majority of the CDOs/CLOs has investment grade corporate credit as underlying assets, only EUR 0.6 million has US subprime mortgages underlying. Other changes includes purchases and sales of CDOs/CLOs, as well as foreign currency effects.

EUR 16.5 billion of the EUR 16.9 billion exposure on US Subprime RMBS, US Alt-A RMBS and CDOs/CLOs is booked at fair value. An analysis of the method applied in determining the fair values of financial assets and liabilities, is provided in Note 29 'Fair value of Financial Assets and Liabilities'. At 31 December 2008 the fair value of US Subprime RMBS, US Alt-A RMBS and CDOs/CLOs was as follows:

Fair value of US subprime RMBS, US Alt-A RMBS and CDOs/CLOs

2008	Reference to published price quotations in active markets	Valuation technique supported by market inputs	Valuation technique not supported by market inputs	Total
US Subprime RMBS		26	78	104
US Alt-A RMBS		234	16,133	16,367
CDOs/CLOs	–93	109	34	50
Total	**–93**	**369**	**16,245**	**16,521**

Fair value of US subprime RMBS, US Alt-A RMBS and CDOs/CLOs

2007	Reference to published price quotations in active markets	Valuation technique supported by market inputs	Valuation technique not supported by market inputs	Total
US Subprime RMBS	107	153		260
US Alt-A RMBS	19,547	4,156		23,703
CDOs/CLOs	28	1,279	17	1,324
Total	19,682	5,588	17	25,287

An amount of EUR 20 billion of mortgage backed securities in the United States was reclassified from Reference to published price quotations in active markets to Valuation technique not supported by market inputs in the third quarter of 2008. Reference is made to Note 29 'Fair value of financial assets and liabilities'.

Impact on Real Estate
By the end of 2008 ING Bank's total exposure to real estate was EUR 8.9 billion of which EUR 4.9 billion was subject to revaluation through the profit and loss account. In 2008, ING recorded EUR 732 million pre-tax negative revaluations and impairments. ING's real estate portfolio has high occupancy rates and is diversified over sectors and regions but is clearly affected by the negative real estate markets throughout the world.

Impact on Equity securities - (available-for-sale)
Direct equity exposure at 31 December 2008 in this caption was EUR 1.9 billion (public). During 2008 ING booked EUR 258 million of pre-tax impairments on this direct public equity exposure. ING generally decides to impair a listed equity security based on two broad guidelines: when the fair value of the security is below 75% of the cost price or when the market price of the security is below the cost price for longer than six months.

Impact on other asset classes
Negative impact on results 2008 (pre-tax) from debt securities other than mentioned above amounted to EUR 63 million.

Impact on counterparty risk
In the third quarter a number of financial institutions were no longer expected to fulfil their obligations. ING incurred EUR 192 million pre-tax losses (excluding loan losses) on Lehman Brothers, Washington Mutual and the Icelandic banks. The loss included impairments of debt securities, trading losses and derivative positions, including the costs to replace derivatives on which the banks were counterparty.

Impact on Liquidity profile
Due to the financial crisis liquidity became scarce and central banks around the world provided funding to prevent the interbank market from drying up. ING's liquidity position remained within internally set limits. ING Bank has a favourable funding profile as the majority of the funding stems from client deposits.

Ongoing volatility in the financial markets
The impacts have arisen primarily as a result of the deterioration of the US housing market which caused real estate prices to decline. This caused valuation issues in connection with ING Bank's exposure to US mortgage-related structured investment products, including sub-prime and Alt-A RMBS, CDOs and CLOs. In many cases, the markets for such instruments have become highly illiquid, and issues relating to counterparty credit ratings and other factors have exacerbated pricing and valuation uncertainties. Valuation of such instruments is a complex process involving the consideration of market transactions, pricing models, management judgement and other factors, and is also impacted by external factors such as underlying mortgage default rates, interest rates, rating agency actions and property valuations. While we continue to monitor our exposures in this area, in the light of the ongoing market environment and the resulting uncertainties concerning valuations, there can be no assurances that we will not experience further negative impacts on our shareholders' equity or profit and loss accounts from such assets in future periods.

The financial crisis has demonstrated the importance of having a robust risk management organisation in place. Although ING's risk management organisation and liquidity profile have helped it to limit the impact and manage the company through the turmoil, ING will continue to further strengthen its risk management organisation. The lessons learned in this crisis will contribute to this continuous process.

The following paragraphs provide a high level overview of the risk management governance and risk profile from an ING Bank perspective. This is followed by a more detailed overview, split into the different risk types (credit, market, liquidity, operational and compliance risk). The section concludes with disclosures on models for Earnings at Risk (EaR), Capital at Risk (CaR) and Economic Capital (EC).

INTRODUCTION
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 Bank's risk profile is transparent, 'no surprises', and consistent with delegated authorities;
- Delegated authorities are consistent with the overall strategy and risk appetite;
- Transparent communication to internal and external stakeholders on risk management and value creation.

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 Executive Board and is cascaded throughout ING Group (including ING Bank). 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 corporate 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 Corporate 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 Group organisation (including ING Bank).

Chief Risk Officer
The Chief Risk Officer (CRO), who is a member of the Executive Board, bears primary overall responsibility for the ING Bank risk management function. The CRO is responsible for the management and control of risk on a consolidated level to ensure that ING's bank risk profile is consistent with its financial resources and the risk appetite defined by the Executive Board. The CRO is also responsible for establishing and maintaining a robust organisational basis for the management of risk throughout the ING organisation.

ING Bank Risk Organisation

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

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 the credit risk management of ING Bank;
- Corporate Market Risk Management (CMRM) is responsible for the market risk management and liquidity risk management of ING Bank;
- Corporate Operational Risk Management (CORM) is responsible for the operational risk management of ING Bank;
- Group Compliance Risk Management (GCRM) supports and advises management in fulfilling its compliance responsibilities, advises employees on their (personal) compliance obligations and oversees and reports on the embedding of Compliance policies in ING Bank.

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

In addition, at an ING Group level, two staff departments report to the CRO:

- The Risk Integration and Analytics department is responsible for inter-risk aggregation processes and for providing group-wide risk information to the CRO and Executive Board.
- The Model Validation department reviews the performance of all material risk models applied within ING Bank. This department carries out periodic model validations of all material risk models used by ING. To ensure independence from the business and the other risk departments, the head of this department reports directly to the CRO.

The risk management function assists with the formulation of risk appetite, strategies, policies and limits. It also provides a review, oversight and support function throughout ING on risk related issues.

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 Executive 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 General Managers Corporate Risk are represented on each committee (except for the ORRC were the business is not represented).

- ING Group Credit Committee – Policy (GCCP): Discusses and approves policies, methodologies and procedures related to credit, country and reputation risks within ING Group. The GCCP meets on a monthly basis;
- ING Group Credit Committee – Transaction Approval (GCCTA): Discusses and approves transactions which entail taking credit risk (including issuer investment risk). The GCCTA meets two times a week;
- ING Group 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 the overall risk profile of all ING Bank's market risks that occur in its Wholesale Banking, Retail Banking and ING Direct activities. ALCO Bank defines the policy regarding funding, liquidity, interest rate mismatch and solvency for ING Bank. ALCO Bank meets on a monthly basis;
- Operational and Residual Risk Committee (ORRC): Discuss and approve issues related to Methods, Models and Parameters related to Operational risk, Business risk in Banking, inter-risk diversification and consistency across risk types and businesses. The committee meets at least twice a year.

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. F&RC meets every two weeks.

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
At the highest level of the organisation there are board committees which oversee risk taking, and have ultimate approval authority. ING Bank has a two-tier board structure consisting of the Executive Board and the Supervisory Board; both tiers play an important role in managing and monitoring the risk management framework.

- The Executive Board is responsible for managing risks associated with the activities of ING Bank. Its 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 Executive Board reports on these issues and discusses the internal risk management and control systems with the Supervisory Board. On a quarterly basis, the Executive Board reports on the Bank's risk profile versus its risk appetite to the Audit Committee, explaining changes in the risk profile.
- The Audit Committee is a sub-committee of the Supervisory Board. It assists the Supervisory Board in reviewing and assessing ING Bank's major risk exposures and the operation of internal risk management and control systems. Audit Committee membership is such that specific business know-how and expertise relating to the activities of ING is available. The CRO attends the Audit Committee meetings.

The CRO makes sure that the board committees 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 Bank'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 risk management into the annual strategic planning process. This process aligns strategic goals, business strategies and resources throughout ING Bank. The process is such that the Executive Board issues a Planning Letter which provides the organisation with the corporate strategic direction, and addresses key risk issues. Based on this Planning Letter the business lines and business units develop their business plans which align with the strategic direction. The process includes a qualitative and quantitative assessment of the risks involved in the plans. 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 unit and line of business plans, the Executive Board formulates the Strategic Plan which is submitted to the Supervisory Board for approval.

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

RISK PROFILE
ING Group (including ING Bank) uses an integrated risk management approach. The risk dashboard captures the risks in all Banking and Insurance business lines in terms of Earnings at Risk and Capital at Risk, and shows the impact of diversification across the Group. The Executive Board uses the risk dashboard to monitor and manage the actual risk profile in relation to the Group risk appetite. It enables the Executive Board to identify possible risk concentrations and to support strategic decision making. The risk dashboard is reported to the Executive Board on a quarterly basis and is subsequently presented to the Audit Committee.

ING's risk appetite is defined by the Executive Board as part of the strategic planning process. Strict boundaries are established with regard to acceptable risk types and levels. ING's 'three lines of defence' governance framework ensures that risk is managed in line with the risk appetite as defined by the EB. Risk appetite is cascaded throughout the Group, thereby safeguarding controlled risk taking. The role of the business lines is to maximise the value within established risk boundaries. Each quarter, the Executive 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 measurement
The overall ING Bank 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 BANK RISK PROFILE

General

ING Bank is engaged in selling a broad range of products. The financial risks that arise from selling these products are managed by the Corporate Credit and Market Risk departments. Operational risks are managed by the Corporate Operational Risk department.

Economic Capital ING Bank

One of the main risk management tools for ING Bank is Economic Capital which is used to determine the amount of capital that a transaction or business unit requires to support the economic risks it faces. ING Bank implemented Economic Capital for internal use in 1998. Since 1999 ING Bank has been disclosing Economic Capital information externally. The tables below provide ING Bank's Economic Capital by risk type and business line. Figures shown reflect all diversification effects within ING Bank, including risk reduction between the risk categories. Diversification effects that arise as a result of combining ING Bank and ING Insurance activities are not taken into account. Business risk is included in the other risks category to cover unexpected losses that may arise as a result of changes in volumes, margins and costs.

The ING Bank Economic Capital model is described in more detail in the Model Disclosure section.

The following table provides the Economic Capital break down by risk category including diversification benefits proportionally allocated to the risk types:

Economic Capital (Bank diversified only) by risk category [1]

	2008	2007
Credit risk (including Transfer risk)	**8,686**	7,503
Market risk	**10,349**	7,407
Other risks [1]	**3,372**	3,017
Total banking operations	**22,407**	17,927

[1] Other risks includes operational risk as well as business risk.

The overall increase in Economic Capital is mainly due to the inclusion of the core equity investments in market risk Economic Capital Bank, whereas previously it was taken as an add-on at Group level. Furthermore the increased Economic Capital can be explained by credit migrations, increased market volatility and model enhancements.

The following table provides the Economic Capital break down by business line including diversification benefits proportionally allocated to the risk types:

Economic Capital (Bank diversified only) by Line of Business

	2008	2007
Wholesale Banking	**9,849**	8,646
Retail Banking	**6,169**	5,360
ING Direct	**4,050**	2,831
Corporate Line Bank [1]	**2,339**	1,090
Total banking operations	**22,407**	17,927

[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 growth of the Economic Capital figure for the Wholesale Banking business line can be mainly explained by the credit migrations, market volatility and model enhancements. The Retail Banking Economic Capital figure increased predominantly due to the finalisation of the acquisition of Oyak Bank in the risk systems. The material increase in ING Direct is due to credit migration, model enhancements and increased market volatility.

The increase of the Economic Capital allocated to the Corporate Line can be explained by the inclusion of the core equity investments in Economic Capital Bank, previously taken as an add-on at Group level.

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 three business lines of ING Bank (e.g. Retail Banking, Wholesale Banking and ING Direct) and ING Insurance. The CCRM General Manager is functionally responsible for the global network of credit risk staff, while 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.

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 an historical 7 year time horizon and a 99% 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.

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), 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.

Determination of credit risk outstandings
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 'outstandings'.

Collateral policies
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. 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. Additionally, ING will sometimes enter into credit default swaps, and other similar instruments, in order to reduce the perceived credit risk on a given borrower or portfolio. 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.

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 (MBS) and Asset Backed Securities (ABS) are secured by the pro rata portion of the underlying diversified pool of assets (commercial or residential mortgages, car loans and other assets) held by the issuer of the security. The last major area of credit risk involves pre-settlement credit 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.

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 (15-19) 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 commercial 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)

	2008	2007
From restructuring (18-19) to regular (1-17) status	**1,183**	1,414
From recovery (20-22) to regular or restructuring status (1-19)	**3,556**	3,123
Total of renegotiated loans	**4,739**	4,537

This total is broken down by Business and Consumer clients as follows:

Renegotiated business loans that would otherwise be past due or impaired (outstandings)

	2008	2007
From restructuring (18-19) to regular (1-17) status	**1,183**	1,414
From recovery (20-22) to regular or restructuring status (1-19)	**978**	1,170
Total of renegotiated Business loans	**2,161**	2,584

For Business clients, ING has taken a proactive approach to restructuring loans that may have otherwise experienced financial difficulties, which has led to an increase in the level of restructuring loans returning to a regular status. Restructuring is generally a time consuming process that can take several years. Through early 2008, ING's inventory of problem loans and restructuring clients declined at a steady pace which is then reflected in the level of restructured Business Loans in 2008.

Renegotiated consumer and mortgage loans that would otherwise be past due or impaired (outstandings)

	2008	2007
From recovery (20-22) to regular or restructuring status (1-19)	**2,578**	1,953
Total of renegotiated consumer and mortgages loans ('Consumer')	**2,578**	1,953

The increase in the total amount of renegotiated consumer and mortgage loans is a reflection of the growth of the portfolio and of ING's proactive (portfolio) management approach involving the automation of reminder and warning letters to Consumer borrowers who may otherwise be facing financial difficulties. Consumer borrowers do not have a restructuring status.

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.

Credit quality: ING Bank portfolio, outstandings

	2008	2007
Neither past due nor impaired	817,069	750,049
Past due but not impaired (1-90 days) (1)	7,224	5,416
Impaired	8,592	5,219
	832,885	760,684

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

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

	2008	2007
Past due for 1-30 days	5,844	4,709
Past due for 31-60 days	1,223	633
Past due for 61-90 days	157	74
	7,224	5,416

(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.

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.

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.

Impaired Loans: ING Bank portfolio, outstandings by economic sector

	2008	2007
Private individuals	3,718	2,356
Construction, Infrastructure and Real Estate	1,770	635
General Industries	1,036	270
Food, Beverages and Personal Care	397	264
Financial Institutions	372	538
Automotive	322	200
Services	270	219
Retail	176	131
Other	531	606
Total	8,592	5,219

The table above 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. Against this portfolio, ING holds specific and collective provisions of EUR 1,067 million and EUR 799 million, respectively (2007 EUR 711 million and EUR 680 million respectively), representing the difference between the amortised cost of the portfolio and the estimated recoverable amount discounted at the effective rate of interest.

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 Executive 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.

Provisions: ING Bank portfolio

	Wholesale Banking		Retail Banking		ING Direct		Total ING Bank	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Opening balance	**921**	1,610	**771**	741	**309**	291	**2,001**	2,642
Changes in the composition of the group	**2**	2		95		1	**2**	98
Write-offs	**–260**	–593	**–399**	–302	**–69**	–57	**–728**	–952
Recoveries	**24**	30	**63**	26	**4**	3	**91**	59
Increase/(decrease) in loan loss provision	**596**	–115	**401**	172	**283**	68	**1,280**	125
Exchange differences	**–17**	–23	**–36**	5	**3**	–1	**–50**	–19
Other changes	**–242**	10	**270**	34	**–13**	4	**15**	48
Closing balance	**1,024**	921	**1,070**	771	**517**	309	**2,611**	2,001

After three years of declining annual risk costs, the trend turned in 2008 as a result of the global credit crisis. Other changes includes a provision reclassification of mid-sized corporates and wholesale SME from Wholesale Banking to Retail Banking.

Collateral

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 82.1 billion at 31 December 2008 and EUR 120.2 billion at 31 December 2007. The reduction is commensurate with the overall decline in open securities financing trades at year end 2008 compared to year end 2007. 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.

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 by business line, as % of total outstandings [(1)]

	Wholesale Banking		Retail Banking		ING Direct [(2)]		Total ING Bank	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
1 (AAA)	**9.3%**	5.6%	**1.3%**	0.2%	**27.6%**	31.5%	**12.6%**	12.8%
2-4 (AA)	**19.3%**	26.2%	**5.7%**	4.8%	**17.1%**	19.3%	**14.5%**	18.6%
5-7 (A)	**16.7%**	14.5%	**4.0%**	3.4%	**15.6%**	14.4%	**12.5%**	11.8%
8-10 (BBB)	**23.2%**	21.4%	**34.3%**	35.3%	**22.2%**	21.0%	**26.2%**	24.7%
11-13 (BB)	**23.3%**	24.5%	**42.9%**	46.0%	**14.8%**	12.3%	**26.6%**	25.8%
14-16 (B)	**5.8%**	5.9%	**6.9%**	6.3%	**1.5%**	0.8%	**4.8%**	4.3%
17-22 (CCC & Problem Grade)	**2.4%**	1.9%	**4.9%**	4.0%	**1.2%**	0.7%	**2.8%**	2.0%
	100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

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

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

	Lending		Investment		Money Market		Pre-settlement		Total ING Bank	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
1 (AAA)	**1.3%**	1.9%	**49.8%**	48.4%	**7.1%**	5.9%	**8.1%**	5.4%	**12.6%**	12.8%
2-4 (AA)	**4.2%**	6.0%	**28.8%**	35.2%	**57.3%**	61.4%	**48.3%**	58.2%	**14.5%**	18.6%
5-7 (A)	**10.2%**	9.5%	**15.0%**	13.7%	**26.3%**	16.8%	**21.5%**	22.3%	**12.5%**	11.8%
8-10 (BBB)	**36.1%**	35.7%	**3.6%**	1.5%	**4.8%**	8.2%	**11.2%**	7.1%	**26.2%**	24.7%
11-13 (BB)	**37.8%**	37.7%	**1.5%**	0.9%	**4.4%**	7.1%	**7.2%**	5.3%	**26.6%**	25.8%
14-16 (B)	**6.6%**	6.3%	**0.6%**	0.1%	**0.1%**	0.3%	**2.7%**	1.2%	**4.8%**	4.3%
17-22 (CCC & Problem Grade)	**3.8%**	2.9%	**0.7%**	0.2%		0.3%	**1.0%**	0.5%	**2.8%**	2.0%
	100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

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

ING Bank experienced a modest downward migration in terms of risk classes, in particular from the AA class to lesser quality classes. The principle driver was the downgrading of many securitisations, particularly at ING Direct. Additionally problem grades also increased during the year. These negative effects were modestly offset by a shift to higher quality counterparties for Money Market and Pre-Settlement activities.

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

	Wholesale Banking		Retail Banking		ING Direct		Total ING Bank	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Private Individuals	**0.2%**	0.4%	**68.4%**	83.7%	**44.1%**	39.8%	**34.5%**	33.9%
Non-Bank Financial Institutions	**13.5%**	14.9%	**2.0%**	2.5%	**29.9%**	31.9%	**15.0%**	17.7%
Commercial Banks	**20.4%**	22.6%	**1.2%**	1.1%	**15.4%**	19.5%	**13.1%**	16.2%
Central Governments	**12.8%**	7.5%	**1.5%**	1.4%	**2.7%**	3.0%	**6.2%**	4.5%
Real Estate	**12.5%**	9.6%	**3.9%**	1.5%	**0.6%**	0.7%	**6.2%**	4.6%
Natural Resources	**6.9%**	6.2%	**0.7%**	0.2%			**2.9%**	2.7%
Central Banks	**2.4%**	3.9%	**1.6%**		**4.5%**	2.4%	**2.8%**	2.4%
Transportation & Logistics	**5.4%**	4.7%	**1.6%**	0.5%			**2.6%**	2.1%
Services	**3.5%**	4.7%	**3.1%**	1.7%			**2.3%**	2.4%
Food Beverage and Personal Care	**3.6%**	3.4%	**2.5%**	1.6%		0.1%	**2.2%**	1.9%
General Industries	**3.4%**	3.8%	**2.6%**	1.1%			**2.1%**	1.9%
Builders & Contractors	**2.9%**	3.7%	**2.8%**	0.9%	**0.1%**	0.1%	**2.0%**	1.8%
Other	**12.5%**	14.6%	**8.1%**	3.8%	**2.7%**	2.5%	**8.1%**	7.9%
	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.

ING Direct continued to increase its diversifications into residential mortgages, while proportionally reducing its securitisation and bond portfolios. During 2008, ING reclassified the Mid-Corporate portfolio from Wholesale Banking to Retail Banking, which proportionally decreased the Retail Banking concentration in Private Individuals and created a wider distribution across other economic sectors. This was partially offset by the purchase of EUR 4.5 billion in residential mortgages from Nationale Nederlanden Hypotheek Bedrijf (NNHB, residential mortgages). All other industries not shown in the table above have less than 2.0% concentrations.

Largest economic exposures: ING Bank lending portfolio, by country [1,2]								
	Wholesale Banking		Retail Banking		ING Direct		Total ING Bank	
amounts in EUR billion	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Netherlands	**56.2**	68.7	**171.9**	141.1	**1.0**	1.6	**229.1**	211.4
United States	**35.3**	28.9	**0.2**	0.2	**63.6**	58.2	**99.1**	87.3
Belgium	**25.6**	44.4	**52.6**	27.5	**1.1**	1.4	**79.3**	73.3
Germany	**12.5**	9.4	**0.2**	0.2	**61.5**	54.8	**74.2**	64.4
Spain	**15.2**	12.4	**0.4**	0.4	**40.1**	38.5	**55.7**	51.3
United Kingdom	**15.8**	19.4	**0.2**	0.1	**13.5**	17.3	**29.5**	36.8
France	**23.4**	17.0	**0.7**	0.6	**4.2**	4.1	**28.3**	21.7
Italy	**14.7**	12.6	**0.5**	0.5	**12.8**	12.2	**28.0**	25.3
Australia	**4.3**	5.0			**23.0**	25.4	**27.3**	30.4
Canada	**1.4**	1.7		0.1	**17.4**	15.7	**18.8**	17.5
Poland	**9.7**	7.0	**2.1**	2.5			**11.8**	9.5
Turkey	**0.8**	6.2	**8.6**	2.7			**9.4**	8.9

(1) Only covers total exposures in excess of EUR 9 billion, including intercompany exposure with ING Insurance.
(2) Country is based on the country of residence of the obligor.

The growth in most countries presented above followed the growth pattern of the portfolio as a whole. The growth at ING Direct in Germany, the United States and Spain was principally driven by own originated mortgages (Germany + EUR 6.3 billion, USA + EUR 7.3 billion, Spain + EUR 1.4 billion). Retail Banking in the Netherlands, Belgium and Turkey grew through organic growth as well as the shift of Mid-Corporates from Wholesale Banking to Retail Banking. The decline in the United Kingdom is driven by exchange rate effects.

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.

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 Wholesale 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 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 Portfolios

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 a 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 Wholesale Banking activities.

CMRM Trading focuses on the management of market risks in the trading portfolios of Wholesale 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 Trading 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 Trading 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 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.

The VaR for linear portfolios is calculated using a variance - covariance approach. The market risk of all the important option portfolios within ING is measured by Monte Carlo and historical simulation methods.

Limitations
VaR as a risk measure has some limitations. VaR quantifies the potential loss under the assumption of normal market conditions. This assumption may not always hold true in reality, especially when market events occur, and therefore could lead to an underestimation of the potential loss. VaR also 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.

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 'occurrence' has taken place. Based on ING's one-sided confidence level of 99% an occurrence is expected once in every 100 business days. In 2008, there was no occurrence (2007: none) where a daily trading loss exceeded the daily consolidated VaR of ING Wholesale Banking. ING reports the results of this backtesting to the Dutch Central Bank on a quarterly basis.

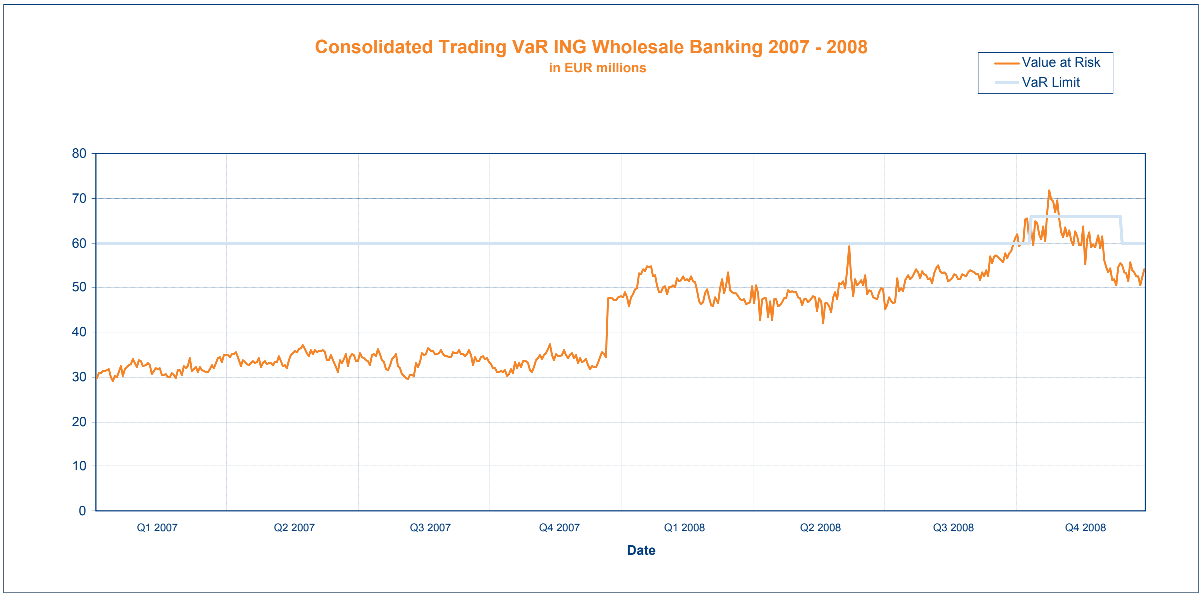
Stress testing
Stress tests are used for the monitoring of market risks under extreme market conditions. Since VaR in general does not produce an estimate of the potential losses that can occur as a result of extreme market movements, ING uses structured stress tests for monitoring the market risk under these extreme conditions. Stress scenarios are based on historical and 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 Wholesale Banking. The event risk number for the ING Wholesale Banking trading activity is generated on a weekly basis. Like VaR, event risk is limited by ALCO Bank. The event-risk policy (and its technical implementation) is specific to ING as there is no event risk calculation method that is generally accepted by other banks and regulators (like the Value at Risk model). 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 back-tested against extreme market movements that actually occurred in the markets. The market developments in 2008 will be taken into account in the definition of scenarios and stress parameters during 2009. If and when necessary, ING evaluates specific stress scenarios, as an addition to its structured stress tests. These specific scenarios relate to current concerns, like political instability in certain regions, terrorist attacks or extreme movements in energy prices.

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 trading 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 Wholesale Banking trading portfolio which was risk managed by CMRM Trading during 2007 and 2008. Several banking books are governed by the trading risk process and are therefore excluded from the non-trading risk table and included in the trading risk graph and table below.



During 2007 and 2008 the overnight VaR for the ING Wholesale Banking trading portfolio ranged from EUR 29 to EUR 72 million.

The average exposure over 2008 was substantially higher than 2007 (average VaR 2008: EUR 53 million and average VaR 2007: EUR 34 million). This increase is to a large extent related to the increase of volatility in the different financial markets, as well as the changes in the correlation between different markets and products. As a result, the consolidated trading VaR exceeded the EUR 60 million limit in the fourth quarter. ALCO Bank approved a temporary increase of the limit to 66 million to accommodate the changed market circumstances and a gradual reduction of the exposure. The consolidated trading VaR peaked at a level of EUR 72 million on 24 October. The management of CMRM and Wholesale Banking / Financial Markets have taken further actions to bring back the exposure within the limit. As the VaR decreased during the last two months of the year, the limit was reduced to its original level of EUR 60 million per mid December.

More details on the VaR of the ING Wholesale Banking trading portfolio for 2008 and 2007 are provided in the table below.

Consolidated trading VaR: ING Wholesale Bank

	Minimum		Maximum		Average		Year-end	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Foreign exchange	**4**	2	**9**	7	**5**	4	**7**	4
Equities	**5**	5	**13**	13	**8**	9	**7**	6
Interest rate	**33**	22	**58**	43	**45**	27	**43**	43
Diversification [1]					**–5**	–6	**–3**	–5
Total VaR					**53**	34	**54**	48

[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 captions are consistent with those used for internal risk management purposes and do not relate to financial statement captions.

In general, the level of the trading VaR was not only higher in 2008, but also showed larger movements. The interest rate market, which includes both the general interest rate and credit spread exposures, provided the largest contribution to the trading VaR.

The following table shows the largest trading positions in foreign exchange, interest rate and corporate credit spread positions. The corporate credit spread sensitivities are furthermore split in different risk classes and sectors.

Most important foreign exchange, interest rate and credit spread positions (year-end 2008)

	2008
Foreign exchange	
Singapore dollar	–91
Mexican peso	69
South Korean won	–68
US dollar	55
Chinese yuan	46
Interest Rate (Bpv [1])	
Eurozone	–1.272
Mexico	–0.289
United States	0.241
South Korea	–0.111
Taiwan	0.060
Credit Spread (Bpv [1])	
Eurozone	–0.247
United States	–0.187
Mexico	–0.097
Japan	–0.056
United Kingdom	–0.032

[1] Bpv (or basis point value) refers to profit and loss account sensitivity per 1bp increase in the interest rate or credit spread.

Credit spread sensitivities per risk class and sector (year-end 2008)

In EUR thousands

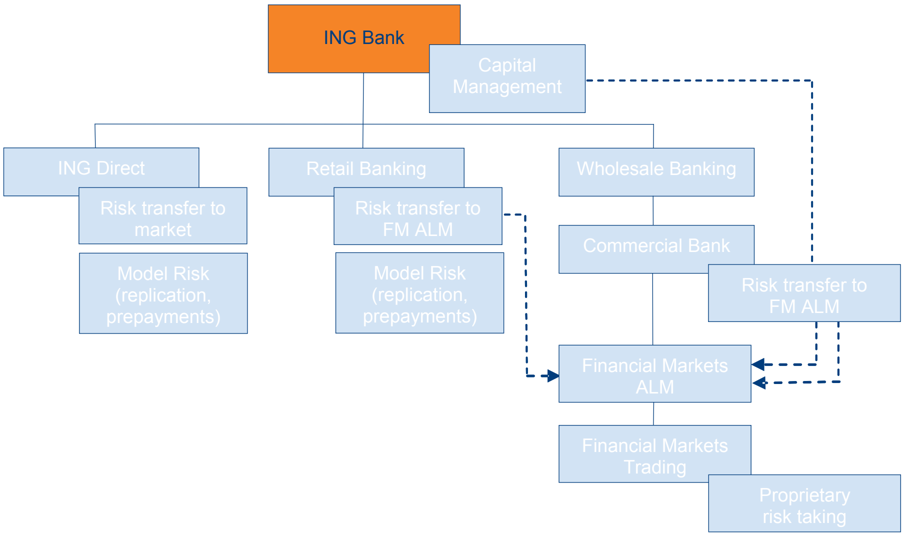
Credit Spread (Bpv [1])	Corporate	Financial Institutions
Risk classes		
1 (AAA)	–20	–40
2-4 (AA)	–19	–115
5-7 (A)	4	–88
8-10 (BBB)	–75	–103
11-13 (BB)	–37	–54
14-16 (B)	–6	–18
17-22 (CCC and Problem Grade)	–21	–2
No rating	–19	–28

[1] Bpv (or basis point value) refers to profit and loss account sensitivity per 1bp increase in the credit spread.

Market risk in Non-Trading Portfolios
Organisation
Within ING Bank, positions are either labelled as trading or non-trading (banking book) positions. The most important aspect in segregating the banking from the trading books is the intent of the positions held in these books. The banking book positions are intended to be held for the long-term (or until maturity) or for the purpose of hedging other banking positions emerging from commercial business, as for instance in the mortgage book.

Interest rate risk in banking books

The interest rate risk of the banking books is the risk that ING Bank's earnings or market value resulting from the non-trading positions is negatively impacted by movements in interest rates. To assign clear responsibilities for risk and return within the banking book structure an Asset and Liability Management (ALM) framework has been implemented by ALCO Bank. This framework enables a clear separation of three types of activities: the investment of own capital, the commercial business and the management of the bank's strategic interest rate risk position in the designated ALM books. The figure below presents the ALM framework of ING Bank within which the interest rate risk is measured and monitored:



ING Bank's capital management positions, i.e. the own funds (core capital) and the investments of these own funds, are isolated in the ING Bank corporate line. ALCO Bank determines the target maturity profile over which ING Bank's own funds must be invested. This maturity profile reflects the long term nature of the rate of return required by ING Bank's investors and aims for both earnings maximisation and stabilisation. ALCO Bank considers a well balanced portfolio of long-dated fixed income investments as the risk neutral position in its internal risk transfer framework.

The risk transfer principle forms the basis of ING Bank's ALM framework. This refers to the principle whereby the outright interest rate risk resulting from the commercial business is transferred to the ALM books. The interest rate risk from the commercial business arises from the fact that own originated assets and liabilities do not reprice simultaneously with respect to interest rate characteristics. The transfer of the outright interest rate risk is to a large degree based on modelling client behaviour. Within CMRM, extensive research is being done in order to optimise this modelling. For this purpose, several methods are in place to replicate the interest rate risk, taking into account both the contractual and behavioural characteristics of demand deposits, saving accounts and mortgages. All models and assumptions are back-tested regularly and results are presented to the designated ALCO.

For the determination of the interest rate sensitivity of savings accounts and current accounts, several methods depending on the focus of the risk analysis have been developed, e.g. historical simulation, Earnings at Risk analysis and valuation models. Pricing strategies, outstanding volumes and the level and shape of the yield curve are taken into account in these models. Based on these analyses, investment rules are determined for the various portfolios.

The hedging of the embedded prepayment options within mortgage portfolios is based on prepayment prediction models. These models include the incentive for clients to prepay. The parameters of these models are based on historical data and are regularly updated. The interest sensitivity of the embedded offered rate options is determined as well for the mortgage portfolio and a hedging process is in place to minimise the resulting interest rate risk.

After transferring the outright interest rate risk position to the ALM books, the residual interest rate risk that remains in the commercial banking books is caused by basis risk and optionality. The commercial business units bear responsibility for these residual interest rate risks that result from banking products of which future cash flows depend on client behaviour (e.g. optionality in mortgages) and from banking products of which the client rate earned and paid imperfectly correlate with the changing market rates (basis risk). Examples of products in which these risks are inherent are current accounts, saving accounts and mortgages.

Within ING Direct the interest rate risk is managed and measured at the level of the local ING Direct entities. The interest rate risk that remains in the ING Direct entities also largely results from basis risk and optionality as the outright interest rate risk is to a large extent hedged.

The ALM books are managed within ING Wholesale Banking and contain the strategic interest rate risk position of ING Bank. 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 of ING Bank.

In the following sections, the risk figures for interest rate risk in the banking books are presented ING Bank uses several risk measures to manage interest rate risk both from an earnings and a value perspective. Earnings at Risk (EaR) 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 banking books are governed by the trading risk process and are therefore excluded from the following non-trading risk tables and are included in the trading risk graph and table under 'Market Risk in Trading Books'.

Earnings at Risk (EaR)
EaR measures the impact on (pre tax) IFRS earnings resulting from changes of market rates over a time period of one year. Changes in balance sheet dynamics and management interventions are not incorporated in these calculations. The EaR figures in the table below are determined on the basis of an instantaneous upward 1% parallel shock in market rates. This shock is assumed to take place at the beginning of the year and the market rates are assumed to remain stable for the remainder of the year. For the ALM books EaR measures the potential loss of earnings due to the structural mismatch in interest rate positions. The calculations for the ALM books capture the EaR resulting from the current positions. For the commercial banking books the EaR captures the interest rate risks resulting from savings, current accounts and the main mortgage portfolios. The impact of new business is included in the EaR calculations for the savings and demand deposits portfolios, as it is most relevant for these portfolios. The EaR of the Corporate Line, i.e. the investment of ING Bank's own funds, reflects the interest risk profile of the investments only. This is in line with the accounting based definition of (pre tax) EaR.

Earnings at Risk (1% instantaneous upward shock to interest rates)

	2008	2007
By Business Line		
ING Wholesale Banking	**–91**	–87
ING Retail Banking	**–102**	–121
ING Direct	**5**	–5
ING Bank Corporate Line	**46**	26
ING Bank Total	**–142**	–187
By Currency		
Euro	**–220**	–125
US dollar	**80**	9
Pound sterling	**5**	–13
Other	**–7**	–58
Total	**–142**	–187

The total EaR figure, as result of an upward shock of the market rates of 1%, improved compared to last year by EUR 45 million to EUR –142 million. Especially the last quarter in 2008 was dominated by a decreasing interest rate environment due to substantial interest rate cuts of central banks. This was of strong influence on the lower EaR under this scenario as several units within Retail Banking and ING Direct invested assets more short term and, as a consequence, will benefit more from increasing interest rates.

This dynamic in mainly non-EUR units is also the main driver for the strong increase in the positive EaR generated by USD exposure to EUR 80 million (from EUR 9 million) and the strong improvement in negative EaR in other currencies to EUR –7 million (from EUR –58 million). The negative EaR based on the EUR exposure substantially increased by EUR 95 million to EUR –220 million mainly driven by Wholesale Banking ALM positions that were, in comparison to year end 2007, more positioned to benefit from interest rate decreases.

Net Present Value at Risk (NPV)

The Net Present Value (NPV) at Risk figures represent the full value impact (i.e. including convexity) to the banking books resulting from changing interest rates. This full value impact cannot be linked directly to the balance sheet or profit and loss account as the 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. These mutations would be expected to materialise over time in e.g. the profit and loss account, if interest rates develop according to forward rates throughout the remaining maturity of the portfolio. The NPV at Risk figures in the table below are determined on the basis of an instantaneous upward 1% parallel shock of market rates in line with the EaR calculations. For the ALM books the NPV at Risk figures again capture the potential change of value due to the structural mismatch in interest rate positions. For the commercial banking books the NPV at Risk calculations capture the convexity resulting from the optionality in the main mortgage portfolios, e.g. the option for clients to prepay in case of moving house. In these calculations it is assumed that savings and other demand deposits of Retail and Wholesale Banking are perfectly represented via the replicating methods and therefore are fully hedged. The NPV at Risk of the Corporate Line again only reflects the interest risk profile of the investments of the bank's own funds.

NPV at risk (1% instantaneous upward shock to interest rates)

	2008	2007
By Business Line		
ING Wholesale Banking	**–674**	–442
ING Retail Banking	**–100**	–222
ING Direct	**–232**	–234
ING Bank Corporate Line	**–1,388**	–892
ING Bank Total	**–2,394**	–1,790
By Currency		
Euro	**–2,105**	–1,498
US dollar	**–238**	–439
Pound sterling	**–40**	74
Other	**–11**	73
Total	**–2,394**	–1,790

The end-of-year overall NPV at Risk figure as result of an upward shock of market rates of 1% is on a higher level compared to last year. This is mainly driven by Wholesale Banking's ALM positions and the Corporate Line that increased in line with ING Bank's higher capital position after the capital injection from the Dutch State in October 2008.

Basis Point Values (BPV)

The Basis Point Value (BPV) figures below represent the value impact to the banking books resulting from a change in interest rates of 1 basis point. The BPV figures represent the directional position under a small upward shift in interest rates and do not capture the convexity resulting from the optionality in mortgages under larger interest rate movements.

BPV's per currency

In EUR thousands

Currency	**2008**	2007
Euro	**–19,176**	–15,165
US dollar	**337**	–2,055
Pound sterling	**–582**	778
Other	**–373**	706
Total	**–19,794**	–15,736

The outright interest rate risk that is represented through the BPV positions in the table above is mainly caused by the investments of the Bank's core capital. This only holds under the view that this capital is not sensitive to interest movements but ignores ALCO Bank's assumption that its shareholders expect ING Bank to invest the funds in such a way that it produces a long-term and stable income. The remaining outright risk is mainly maintained in the Bank's ALM books in which the strategic position is maintained.

Foreign exchange risk in non-trading books

Foreign exchange (FX) exposures in non-trading books result from commercial banking business (business units doing business in other currencies than their base currency), realised non-EUR results and FX translation risk on foreign currency investments. The policy regarding these exposures is briefly explained below.

Commercial banking business
Every business unit hedges the FX risk as result of their commercial activities into the base currency of the unit. Consequently assets and liabilities are matched in terms of currency.

Realised results
Every unit hedges realised results to the base currency of the unit. On a monthly basis the central Capital Management department hedges the non-EUR results to EUR. ING does not hedge the future EUR value of projected results in non-EUR currency.

FX Translation result
ING's strategy is to protect its Tier-1 ratio against unfavourable currency fluctuations. The protection is largely achieved by the issuance of USD and GBP denominated Tier-1 capital and furthermore by taking structural foreign currency positions. In general, open positions are deliberately taken in order to achieve protection of the Tier-1 ratio by establishing the right ratio of non-EUR denominated capital and risk weighted assets in these currencies. The US dollar, Pound sterling, Polish zloty, Australian dollar and Turkish lira are the main currencies in this respect. For other currencies the objective is to substantially mitigate the translation risk.

The following tables present the non-trading currency exposures of the central Capital Management department. As a consequence of the layered hedging policy described above, the net position of Capital Management in principle equals the aggregated non-trading currency exposure of the entire bank. Exception is the 2008 US dollar exposure which will be explained below. Note: all amounts are in EUR millions (equivalents).

Overnight non-trading currency exposures ING Bank

2008	**Foreign invest-ments**	**Tier-1**	**Gross exposure**	**Hedges**	**Net position**
US dollar	**9,061**	**–3,757**	**5,304**	**–745**	**4,559**
Pound sterling	**–1,132**	**–628**	**–1,760**	**1,741**	**–19**
Polish zloty	**1,027**		**1,027**	**–490**	**537**
Australian dollar	**1,031**		**1,031**	**–700**	**331**
Turkish lira	**1,687**		**1,687**	**–193**	**1,494**
Other currency	**4,897**		**4,897**	**–3,794**	**1,103**
Total	**16,571**	**–4,385**	**12,186**	**–4,181**	**8,005**

Overnight non-trading currency exposures ING Bank

2007	Foreign invest-ments	Tier-1	Gross exposure	Hedges	Net position
US dollar	2,644	–3,630	–986	–483	–1,469
Pound sterling	–848	–817	–1,665	1,635	–30
Polish zloty	1,076		1,076	–656	420
Australian dollar	1,228		1,228	–136	1,092
Turkish lira	1,848		1,848		1,848
Other currency	5,719		5,719	–3,871	1,848
Total	11,667	–4,447	7,220	–3,511	3,709

The US dollar position at the end of 2007 was adjusted (reduced) in order to match with lower risk-weighted assets under the new Basel II rules starting 1 January 2008. As a result of changing market circumstances this reduction was undone and the net position in US dollars increased significantly in 2008, for two reasons. Firstly, on the back of the credit crisis, the (credit) risk-weighted assets in US dollars increased significantly. The second reason is because of negative market value revaluations of Alt-A RMBS positions within ING Direct US, US dollar funding of ING Direct Holding was converted to EUR in order to avoid P/L volatility. As a consequence, a (net) long US dollar position emerged at ING Direct Holding level which has been added to the Capital Management position in the 2008 table above.

The net position in Australian dollar dropped by EUR 762 million. This is a consequence of a large drop in risk-weighted assets under Basel II (compared to Basel I).

The drop in the Turkish lira position is caused by a depreciation of the currency. The position in local currency did not change significantly.

The FX risk in the non-trading books is measured by using the Value at Risk methodology as explained in the trading risk section. The VaR for FX quantifies with a one-sided confidence interval of 99%, the maximum overnight loss in 99% of the cases that could occur due to changes in foreign exchange rates.

Consolidated non-trading FX VaR ING Bank

	Low		High		Average		Year-end	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
FX VaR	**36**	14	**135**	62	**72**	22	**112**	62

During 2008, the FX VaR increased significantly. The major contributor was the long position in US dollars.

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 price 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 1,813 million (2007: EUR 2,010 million) and equity securities held in the available-for-sale portfolio of EUR 1,863 million (2007: EUR 3,627 million). The value of equity securities held in the available-for-sale portfolio is directly linked to equity security prices with increases/decreases being recognised (except in the case of impairment) in the revaluation reserve. During the year ended 31 December 2008 the revaluation reserve relating to equity securities held in the available-for-sale portfolio fluctuated between a month-end low amount of EUR 776 million (2007: EUR 518 million) and a high amount of EUR 1,969 million (2007: EUR 2,580 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.

Real Estate

Real estate price risk arises from the possibility that real estate prices will fluctuate affecting both the value of real estate assets and earnings related to real estate activities.

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, although the general policy is to mitigate risk by pre-sale agreements where possible.

Third, ING Bank is one of the largest real estate investment management companies in the world in terms of assets under management. For various real estate funds, ING Bank has co-invested seed capital and bridge capital to support the launch of new 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.

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

For the third category mentioned above real estate price shocks will have a direct impact on reported net profit. As of Q4 2008 ING Bank has EUR 7.0 billion of real estate related investments (corrected for Canadian minority stake). ING Bank's real estate exposure (i.e. including leverage and committed purchases) is EUR 8.9 billion of which EUR 4.9 billion is revalued through P&L and EUR 4.0 billion is not revalued through P&L, but is either booked at cost or is revalued through equity.

Real Estate exposure revalued through P&L

2008	Residential	Office	Retail	Industrial	Other	Total
Europe	1	893	454	133	98	1,579
Americas	237	172	234	1,199	295	2,137
Australia	3	93	261	126	51	534
Asia	244	99	278	7	19	647
Total	485	1,257	1,227	1,465	463	4,897

Real Estate exposure not revalued through P&L

2008	Residential	Office	Retail	Industrial	Other	Total
Europe	644	1,500	853	81	359	3,437
Americas	78	158	7		24	267
Australia	22	1	87		147	257
Asia						
Total	744	1,659	947	81	530	3,961

ING BANK – LIQUIDITY RISK

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.

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. Within ING Bank the liquidity risk framework has been determined by ALCO Bank, which bears the overall responsibility for liquidity risk. The liquidity risk framework is further cascaded down the organisation under the responsibility of the regional and local ALCOs. The main objective of ING's liquidity risk framework is to maintain sufficient liquidity in order to ensure safe and sound operations. For this purpose liquidity risk is considered from three different angles namely from a structural, tactical and a contingency point of view.

Structural liquidity risk

Structural liquidity risk is the risk that the structural, long term balance sheet can not be financed timely or at a reasonable cost. In this view of liquidity risk the total on and off balance sheet positions are considered from a structural asset and liability management perspective. For this purpose ALCO Bank established a working group consisting of Corporate Market Risk Management, Capital Management and Financial Markets that focuses on liquidity risk aspects from a going concern perspective. The main objective of the working group 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 or 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 highly marketable assets that can be used to obtain secured funding;
- Maintaining an adequate structural liquidity gap taking into account the asset mix and both the secured and unsecured funding possibilities of ING Bank;
- Maintaining a funds transfer pricing methodology in which ING Bank's cost of liquidity is adequately reflected both under a going concern and a contingency perspective.

Tactical liquidity risk

From a tactical, short-term perspective the liquidity risk resulting from the short term cash and collateral positions is managed. ALCO Bank has delegated day-to-day liquidity management to Financial Markets Amsterdam, which is responsible for managing the overall liquidity risk position of ING Bank, while regional and local Financial Markets departments are responsible for managing liquidity in their respective regions and locations.

Within Financial Markets the focus is mainly on the daily and intraday cash and collateral positions and it is policy to sufficiently spread day-to-day funding requirements. For this purpose the Treasury function monitors all maturing cash flows along with expected changes in core business funding requirements.

The liquidity risk management function is delegated to CMRM, which bears the responsibility for liquidity risk stress testing and for the identification, measurement and monitoring of the liquidity risk position. For the measurement and monitoring of the actual liquidity position the focus is on the daily cash and collateral position. For stress testing purposes the liquidity risk positions are calculated in line with the regulatory reporting requirements for liquidity risk of the Dutch Central Bank. For this purpose ING Bank's weekly and monthly liquidity positions are stress tested under a scenario that is a mix between a market event and an ING specific event. The resulting liquidity positions are corrected for liquidity surpluses in inconvertible currencies and in locations with restrictions on capital transfer.

Contingency liquidity risk
Contingency liquidity risk relates to the organisation and planning for liquidity management in times of stress. Within ING a specific crisis team is responsible for the liquidity management in times of crisis. This crisis team consists of the CRO, the CFO, the Executive Board member responsible for Wholesale Banking, the Directors of CMRM and Capital Management and all the main treasurers of both ING Bank and ING Insurance. Within ING it is policy to have adequate and up-to-date contingency funding plans in place throughout the organisation. The main objective of ING's contingency funding plans is to enable senior management to act effectively and efficiently at times of crisis. The contingency funding plans are established for addressing temporary and long-term liquidity disruptions caused by a general event in the market or an ING specific event. These plans ensure that all roles and responsibilities are clearly defined and all necessary management information is in place. The contingency funding plans are regularly tested both on consolidated and local level in order to be best prepared for potential liquidity risk issues.

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

OPERATIONAL RISKS
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 operational risk costs.

ING recognises the following operational risk areas:

- *Control risk* is the risk of loss due to non-adherence to business policies or guidelines. Control risks can lead to losses incurred due to non-compliance with controls established in connection with items such as governance procedures, new product approval procedures, and/or project management methods. Control risk can stem from improper or insufficient monitoring of entities or activities.
- The risk of a loss caused by unauthorised employee activities, including -but not limited to- unauthorised approvals or overstepping of authority are considered *unauthorised activity risk.*
- *Processing risk* deals with the risk of losses due to failed transaction processing or process management. These events are normally not intentional and usually involve documenting or completing current business transactions.
- *Employment practice risk* is the risk of loss due to actions which are consistent with employment, health or safety laws, or agreements, from payment of personal injury claims or from diversity /discrimination events. Managing this risk means: meeting health and workplace regulations; preventing discrimination and harassment; and in case this does happen, taking adequate counter measures.
- *Personal and physical security risk* is the risk of criminal and environmental threats that might endanger the security of ING personnel (within and outside ING locations, while travelling or being expatriated) and ING assets or might have an impact on the ING organisation.
- *Information (Technology) risk* is the risk of loss due to inadequate information security, resulting in a loss of information confidentiality and/or integrity and/or availability. Aspects of information (technology) risks are user access controls, platform security controls, change management controls, sourcing controls, security monitoring controls and fundamental information security controls.
- *Continuity risk* is the risk of events (e.g. natural disasters, power outages, terrorism) leading to a situation that threatens the continuation of business (including people and assets).
- *Internal and external fraud risk* is the risk of loss due to deliberate abuse of procedures, systems, assets, products and/or services of ING by those who intend to deceitfully or unlawfully benefit themselves or others.

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 processes.

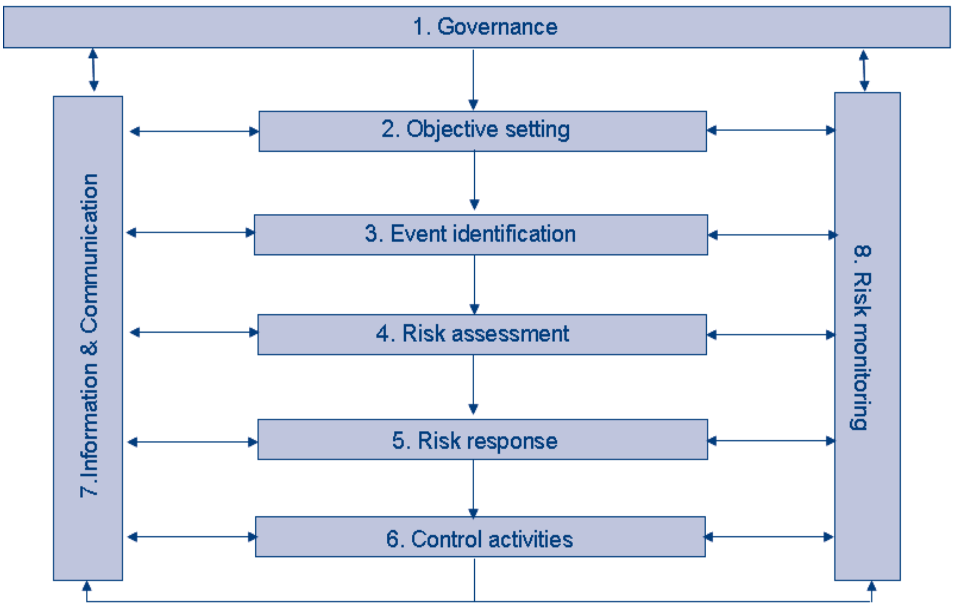
Organisation of Operational Risk Management
The General Manager Corporate Operational Risk management (CORM) reports directly to the CRO and is responsible for managing operational risks and developing and establishing the Operational Risk Framework within ING Group (including ING Bank). The General Manager Corporate ORM also establishes and approves the Minimum Standards, and assists and supports the Executive Board in managing ING's operational risks. The ORM function is organised along functional reporting lines. The Business Line operational risk managers report functionally to the General Manager CORM.

The CORM function consists of functional departments for operational risks & risk reporting, for Information (Technology) risks, for Security & Investigations and for SOX testing. The CORM function is responsible for developing and communicating ING's operational risk framework, policies, minimum standards and guidelines. The corporate function advises the business line ORM staff, monitors the quality of operational risk management and co-ordinates the group-wide reporting of operational risks to the Executive Board.

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. The local and regional/division ORM Officer has the responsibility to assist local and regional/division management in managing operational risk. The business line ORM officer has a monitoring role in the operational risk management process and manages and supervises all functional activities of the ORM officers in the business line and region/division.

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 COSO model (Committee of Sponsoring Organisations of the Treadway Commission). Generic mandatory controls are described in the ORM policy house. The policies have been refreshed in 2008 and are structured in line with the risk areas. Each policy has one or more minimum standards.



At all levels in the organisation Operational Risk Committees (ORCs) 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. ORCs, 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.

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 monitored quarterly through the Non-Financial Risk Dashboard which reports the key 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 Integrated Risk Assessment (IRA), scenario analysis, external events inventories, internal event analysis (e.g. based on information from incident reporting), key risk indicator events and threat scans.

At least once a year all business units perform an integrated risk assessment with involvement of other risk departments such as Compliance and Legal.

Based on the results of the risk assessment, response measures must be determined for the identified risks. 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 the global Audit Outstanding scan 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 with world-wide cover for (Computer) Crime, Professional Liability, Directors and Officers Liability, Employment Practices Liability and Fiduciary Liability. The portion of the risks that ING retains is of a similar magnitude to the risk retained for casualty business-related catastrophe exposures.

Control activities are defined as the control measures that have been implemented and are maintained. Generic mandatory controls are described in the ORM policy house.

Management at all levels in the organisation periodically need 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, the Non-Financial Risk Dashboard (NFRD) was developed and rolled out in 2008 to all business units.

To ensure robust operational risk management ORM develops and communicates the ORM framework, policies and guidance throughout ING Group (including ING Bank) and monitors the key risks of ING Group (including ING Bank) to ensure that ING's risk policies and Minimum Standards are fully implemented. Business units have to demonstrate that the appropriate steps have been taken to control their operational risk. ING applies scorecards to measure the quality of management of the operational risk processes within a business unit. Scoring is based on the ability to demonstrate that the required risk management processes are in place with the business units. The scorecards indicate the level of control within the business units. These scorecards are integral part of ING's Dutch Central Bank approved regulatory capital model (AMA).

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. From 2008 onwards, the model is used for regulatory capital reporting purposes as well. ING received approval for its Advanced Measurement Approach (AMA) from the Dutch Central Bank.

Developments in 2008

Enhancements of the Non-financial Risk Dashboard

The introduction of a Non-financial Risk Dashboard (NFRD) was given priority by the Chief Risk Officer (CRO) with the aim to keep focus on the key risk exposures when looking at the risk faced by business. The objective of the NFRD is to deliver comprehensive and integrated risk information on Operational, Compliance and Legal Risk, using a consistent approach and risk language at all levels in the organisation. It gives management an overview of all key risks within their jurisdiction with forced ranking and a clear description of the risks and responses so that they can balance priorities. This supports the ING strategy for making things 'easier' whereby management is better able to manage risk and give priority where it is necessary.

Corporate Operational Risk Management, in close coordination with Group Compliance Risk Management and Corporate Legal, has been rolling out the NFRD in the ING organisation. The NFRD covers all BUs in the ING organisation. A number of existing risk reports, e.g. the IT Risk & Control report, Compliance report and the Incident report, have been integrated into the NFRD.

The NFR Dashboard was presented to the Executive Board and the Audit Committee in November 2008. As of the fourth quarter 2008 report, the quarterly NFRD will be a recurring agenda point in Executive Board and Audit Committee meetings.

Product Approval Process

ING has revised the Product Approval Process (PAP) Minimum Standard to ensure that adequate risk assessment procedures are executed prior to the development and/or launch of new or modified products. The PAP ensures that adequate controls are put in place to manage the inherent risks associated with new products, related processes and system implementation, and other initiatives.

IT Risk forecasting

An IT risk forecasting model is introduced to represent the expected IT risk profile after implementation of defined mitigating actions. Through the model, management can determine if additional mitigation projects are necessary to reduce or to maintain the IT risks at an acceptable level.

Continuity risk
As a risk response to mitigate the risk of power supply failure in one of the data centres ING accelerated an improvement programme for the business continuity and disaster recovery capability and platform security of its data centres.

Fraud risks
Based on the Corporate Anti-Fraud policy each business unit had to conduct a fraud-risk assessment and translated this into an anti-fraud implementation plan (to prevent both internal and external fraud). In reaction to the SocGen incident ING initiated a project aiming to further mitigate all trading risk related fraud risks.

Refreshment of policies and standards
ORM policies and Minimum Standards have been further enhanced to fully encompass the integrated approach of Operational, Compliance and Legal risks (between risk departments and along functional lines). All major IT risk policies and standards have been re-assessed against the current internal and external threats and adapted consequently.

COMPLIANCE RISK
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 and procedures or ethical standards. In addition to reputational damage, failure to effectively manage Compliance Risk can expose financial institutions to fines, civil and criminal penalties, payment of damages, court orders and suspension or revocation of licenses. A failure (or perceived failure) can adversely impact customers, staff and shareholders of ING.

ING believes that fully embedded Compliance Risk Management preserves the trust its customers, shareholders and staff have in ING and is important for the way ING does business. Managing Compliance Risk is fundamental to driving value. The pursuit of long term business sustainability requires proper conduct of business activities in accordance with the high ethical standards of ING's Business Principles. These principles not only reflect laws and regulations, but are also based on ING's core values: integrity, entrepreneurship, professionalism, responsiveness and teamwork.

Clear and accessible policies and procedures are required to be implemented in ING business processes in all Business Lines. An infrastructure is 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 improving the quality of key relationships based on honesty, integrity and fairness.

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 and which are issued by legislative and regulatory bodies relevant to ING's businesses, or by ING Corporate Compliance Risk Management. The Compliance Risk Management function actively educates and supports the business in managing areas such as anti-money laundering, preventing terrorist financing, conflicts of interest management, sales and trading conduct and customer interest and protection.

ING separates Compliance Risk into four conduct-related integrity risk areas, shown below with examples of sub-risks in each risk area:

Client Related Integrity Risk	Personal Conduct Related Integrity Risk	Organisational Conduct Related Integrity Risk	Financial Services Conduct Related Integrity Risk
• Money laundering • Terrorist financing • Political or reputational exposed person • Client engagements or transactions with sanctioned countries	• Market abuse & personal trading • Breaches of the ING Business Principles or local code of conduct • Outside positions by ING officers • Gifts or entertainment given or received; bribery. • External incident reporting	• Organisational conflicts of interest, market abuse and insider trading. • Anti-trust/competition law • New or modified products and services (e.g. customer base, design) and governance changes • Agreed sector /industry standards. • Regulatory registration and reporting requirements	• Marketing, sales & trading conduct • Conduct of advisory business • Complaint handling • Transparency of product offerings (e.g. costs, disclosures). • Data protection/privacy • Third party intermediaries as representatives of ING

To ensure that staff is protected when raising issues and to help identify Compliance Risks, 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 organisation of Compliance Risk Management
The Chief Compliance Officer (CCO) reports directly to the CRO and is responsible for developing and establishing the company-wide Compliance Risk Management Charter & Framework. The CCO also establishes the Minimum Standards for managing Compliance Risks and assists and supports the Executive Board in managing ING's Compliance Risks. The Compliance Risk Management function is organised hierarchically at the Corporate Level and along functional reporting lines in the Business Lines. It is part of the second line in ING's three lines of defence model.

The Group Compliance Risk Management function is made up of Corporate Compliance Risk Management and Business Line Compliance with the CCO and a Reporting and Analytics team overseeing both areas. Corporate Compliance Risk Management is responsible for developing and communicating ING's Group Compliance Risk Management Charter and Framework, policies and guidance for key areas of Compliance Risk and provides advice to Business Line Compliance staff on Group policy matters.

ING uses a functional approach within Business Lines to ensure systematic and consistent implementation of the company-wide Charter & Framework and Minimum Standards and related policies and 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 of all functional activities of the Compliance Officers in the respective region or division. 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 interests, it is imperative that the Compliance Officer is 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 vetoing and escalation.

Compliance Risk Management Policies and Tools
The responsibility of the Compliance Risk Management function is, in accordance with the Charter and Framework, to proactively:

- Identify, assess, monitor and report on the Compliance Risks faced by ING;
- Assist, support and advise management in fulfilling its responsibilities to manage Compliance Risks;
- Advise any employee or officer with respect to their (personal) obligations to manage Compliance Risks.

The Framework consists of three key components: the Compliance Chart, an Advisory component and the Scorecard as illustrated below

Compliance Risk Management Framework

A. The Chart

The Chart is an output from five key activities carried out in accordance with the requirements of the Framework:

1. Identification of Compliance Risk Obligations;
2. Risk Assessment;
3. Compliance Risk Mitigation (includes Training and Education);
4. Compliance Risk Monitoring (includes Action Tracking);
5. Compliance Risk Reporting (includes Incident Management).

B. 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.

C. 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 (AMA).

Developments in 2008

– **ING Compliance Risk Management's revised Charter and Framework**

In August the Executive Board of ING issued the ING Compliance Risk Management Charter and Framework ('Charter and Framework') to help businesses more effectively manage their Compliance Risks expectations. The fundamental requirements of the 2005 'Compliance Policy and Minimum Standards' remain and are enhanced in terms of changing Board and stakeholder expectations. The Charter states the roles and responsibilities for managing Compliance Risk.

The Charter and Framework and the supporting documentation were produced in close collaboration with the Business Lines, Legal and Compliance Risk Management and business leaders.

– **Updated FEC Policy and Guidance**

The ING Financial Economic Crime (FEC) Policy provides a clear statement on Financial Economic Crime in order to guard against any involvement in criminal activity, and to participate in international efforts to combat money laundering and the funding of terrorist and criminal activities. The FEC Policy has been updated in 2008 explicitly recognising the differences between business lines and their inherent FEC related risk, without lowering existing standards. A risk-based approach allows each Business Line to identify the criteria to measure potential money laundering risks and implement proportionate measures and controls to mitigate these risks. Managing Compliance Risk in accordance with the ING FEC Policy and Minimum Standards is required.

The FEC Minimum Standards are the basis for (local) procedures covering

- Customer Due Diligence and Know Your Customer
- Anti-Money Laundering and Anti-Terrorist Financing.

– **Compliance Risk Management Training and Education**

In 2008, Compliance Risk Management has developed and is executing several global training programmes, including:

1. 'Managing Compliance Risk in your Business'. This programme targets the top four echelons of management (approximately 13,500) worldwide during 2008/2009. Managers attending the training will not only gain a deeper understanding of the effective embedding of ING's three lines of defence model and the strategic value of Compliance Risk Management, but also learn practically what actions they can take to strengthen the management of Compliance Risk as well as how to apply the Framework and tools.

2. 'MLRO Master Class'. This new training programme targeted approximately 200 Money Laundering Reporting Officers. The course aims to strengthen our MLROs' understanding of the enhanced FEC and regulatory policy requirements.

3. 'Compliance Officer Training'. This programme is designed for all Compliance Officers worldwide (approximately 750), across, and in cooperation with, all Business Lines. The training programme has sections on technical knowledge, personal effectiveness and skills.

Additionally, the e-Learning course ‘Compliance, more than money’ created in 2006 and made mandatory by the Netherlands Board for all ING employees in the Netherlands was refreshed. The follow-up course named ‘Compliance, part of our business’ takes into account changes in financial services laws and regulation and internal ING policies and procedures.

– **Enhanced Business Aligned Communications**
To ensure continued awareness of the importance of effectively managing Compliance Risk a campaign entitled ‘Play to Win, Know the Rules’ was launched. The key message of the campaign is that managing Compliance Risk is an integral part of managing business and must be embedded into daily practice and business strategy. The campaign helps further drive understanding and behaviours relating to the management of Compliance Risk. It includes a one-pager with key messages for business teams, as well as a PowerPoint presentation and short videos by each Executive Board member stating why they believe managing Compliance Risk is integral to building sustainable businesses.

The four key messages defining good Compliance Risk Management are:
- knowing, understanding and applying the rules;
- a culture where people are trusted and accountable;
- effectively managing Compliance Risk in our businesses, and
- vital for sustainable profitable growth - our licence to operate.

Discussions with regulators and implementation of enhanced compliance and risk management procedures
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 also remains in discussions with authorities in the US and in other jurisdictions concerning these matters, including with respect to ongoing information requests, and it is not possible to predict at this time the outcome thereof. Financial institutions continue to experience close scrutiny by regulatory authorities, governmental bodies, shareholders, rating agencies, customers and others to ensure they comply with the relevant laws, regulations, standards and expectations. Bank and insurance 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 perceived 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 group policies.

Discontinuation of business with certain countries
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. ING Bank N.V. is now in the final stages of liquidating the Netherlands Caribbean Bank, which is now a 100% owned subsidiary.

MODEL DISCLOSURES
The analyses set out in the risk management section provide a valuable guide to investors as to the risk profile of ING Bank. Users of the information should bear in mind that the analyses provided are forward looking measures that rely on assumptions and estimates of future events, some of which are considered extreme and therefore unlikely to occur. In the normal course of business ING Bank continues to develop, recalibrate and refine the various models that support risk metrics, which may result in changes to the risk metrics as disclosed.

This model disclosure section explains the models applied to determine Economic Capital for ING Bank. The risk models used for ING Bank are reviewed on a periodical basis and validated by the internal Model Validation department. The ING Bank 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. Specific measurement by risk type is described in greater detail in the separate risk type sections; i.e. credit and transfer and operational risk as well as market and business risk bank.

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). By comparing Economic Capital figures with ING's available financial resources, adequate capital buffers can be ensured.

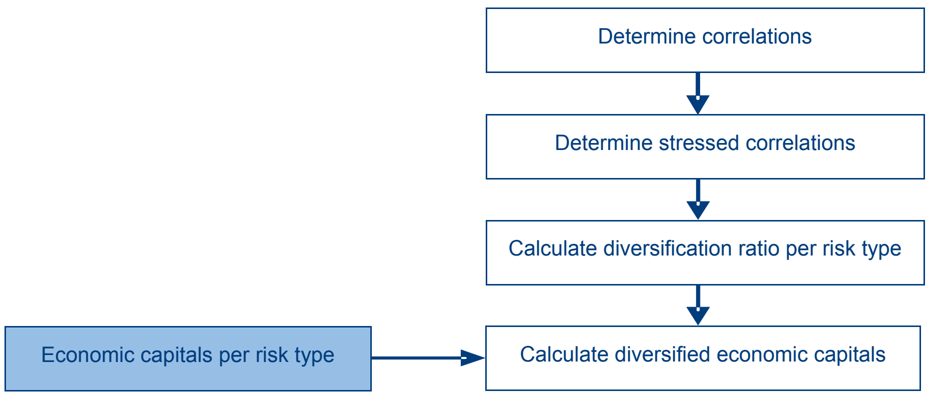
The following fundamental principles and definitions have been established for the model:

- 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.

Further details are provided in the relevant model descriptions for each risk area.

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 corporate risk departments.



As a foundation the correlations in the risk dashboard 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, these correlation factors are stressed upwards where necessary to account for potential measurement inaccuracy in extreme events due to limited historic data observations. For aggregating other risk (business and operational), expert opinion is used.

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. The same methodology is used for both the banking and the insurance operations.

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. Each model is individually reviewed and validated annually by the Model Validation department (MV), in order to determine the continued viability or need to adjust each individual model.

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 the correlation of the individual transactions to the portfolio as a whole. ING uses Monte Carlo simulation tools to determine certain parameters which are then applied to individual transactions in determining the level of Economic Capital related to credit and transfer risk in a bottom up approach. The correlations, which are updated quarterly, are determined at a business line level, and diversification effects are applied at the transactional level.

The underlying formulas and models that are used for determining Economic Capital for credit and transfer risk are the same as 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. Some inputs come from EC-MC portfolio calculator but with 99.95% confidence level country and industry.	Pricing, Economic Capital for credit at transactional level and above
Capital and earnings at risk	Monte Carlo simulation based on aggregate portfolio ('EC-MC portfolio calculator')	Stand alone tool using same data from Central Datawarehouse as VRE	90.00%	Basel II model outputs excluding Basel II caps and correlation factors, migration matrix country and industry.	Risk Dashboard at Line of Business Level and above

With regard to methodology, the EC-MC Portfolio calculator provides a sophisticated and consistent framework to measure capital numbers for credit risk. Because of its complexity and required calculation time the EC-MC Portfolio calculator is more suited for portfolio calculation, rather than to be implemented in an environment requiring real time reporting at a transactional level for day-to-day management, pricing of new transactions and limit setting. As a result, Economic Capital figures are based on RAC figures that are derived from the EC-MC Portfolio calculator but are not fully equivalent. The main characteristics are:

- RAC is calculated at facility level with closed algebraic formulas rather than from a Monte Carlo Simulation. The RAC algebraic formula includes parameters which incorporate the impact of portfolio dynamics, such as correlations and diversification effects. These parameters are derived through a regression of the outputs of the EC-MC portfolio calculator;
- Due to its proprietary nature the inputs in the EC-MC Portfolio calculator are subject to certain technical caps and floors (LGD/EAD is constant and PD migration matrix is capped) which are not applicable in RAC. Also, due to the implemented mathematical routines the EC-MC portfolio calculator is subject to a minimum Probability of default (PD) and maximum tenor, which are not applicable in RAC.

Additionally the banking operations use the RAC model for determining the optimal pricing on (new) lending transactions in order to ensure that ING meets its desired RAROC returns.

During 2008, the Economic Capital levels for credit and transfer risk were calculated on a weekly basis for most of the Wholesale Bank and ING Direct investment portfolios and for the SME portfolios within the Retail banking operations. For consumer loans, residential mortgages, credit cards, and the insurance portfolios, the calculations are made on a monthly basis. 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.

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 Steering Committee (MDSG) and 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 MDSG 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 BANK

General

Economic Capital for market risk is the Economic Capital necessary to withstand unexpected value movements due to changes in model risks and 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 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 the investment portfolio and the development risk of ING Real Estate. The real estate price risk for ING Real Estate 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 price risk, the risk drivers of vacancy rate 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.

Economic Capital for market risk for the large non-trading portfolios within ING Retail Banking and ING Wholesale Banking is calculated for embedded option risk (e.g. the prepayment option in mortgages) and model risk. The model risk is calculated by stressing the underlying assumptions in the models for behavioural assets and liabilities. For example, the hedge for savings portfolios is based on assumptions with respect to developments of volumes and client rates. Deviations in these assumptions can lead to (ex-post) incorrect estimation of the typical interest rate maturity of saving deposits. If there is more outflow than initially modelled, the duration of the savings money may be lower than the duration of the investments, which leads to losses if interest rates go up. The Economic Capital figures of ING Direct capture the model risk of the behavioural liabilities in line with the model described above.

For the model applied to mortgage portfolios a similar rationale is employed. The quality of the hedge depends on assumptions with respect to prepayment behaviour. If these assumptions are wrong, the funding may be either too long or too short term. Similar to the above, the Economic Capital model for market risk is based on the estimated 99% confidence prepayment model error and the 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 Bank 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, many incidents still 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.

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 then leads to an increase or decrease of the capital of the specific institution.

'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 actual losses are lower than expected, the capital will be decreased. Only internal incidents above one million EUR from the last five years are used. The Bonus/Malus adjustments are capped at + and – 20% to prevent large capital fluctuations in total ING capital.

BUSINESS RISK BANK

The current calculation method applied within ING Bank defines business risk as the 'residual risk category' that includes all risks that are not covered by the explicitly defined (and managed/measured) credit/transfer, market and operational risk categories. In accordance with the residual risk definition, the measurement of business risk capital is based on a single risk factor; i.e. the volatility of the 'residual' profit and loss figures (for each BU) that are cleansed for the effects of other risk types. As a consequence there is no further gain in insight regarding sub business risks.

The level of the business risk capital is linked to the volatility of (cleansed historical) profit and loss data taking into account observed trends. In practice, this means that more stable earnings over time generally lead to less capital.

Using a T-distribution and the level of confidence, the volatility is then 'capitalised' to obtain a business risk capital. The T-distribution is a theoretical probability distribution, is symmetrical, bell-shaped and similar to the standard normal curve. However, the T-distribution has relatively more scores in its tails than the normal distribution.

As relatively short data series are available, a capital floor and cap are included in order to prevent the business risk capital from being under- or overestimated. The minimum (floor: 20%) and maximum (cap: 80%) are specified as a percentage of the operating costs and as such link business risk capital for units that operate at the floor to cost efficiency.

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. The rating objective for these three entities is AA. Capital Management takes into account the metrics and requirements of regulators and rating agencies (Tier-1 and BIS ratios and limits for hybrid capital), and internal risk management models and market value balance sheets (Economic Capital (EC) and available financial resources (AFR)).

ING applies three main capital definitions:
- AFR – This is a market value concept, defined as market value of assets (MVA) less the market value of liabilities (MVL) on the balance sheet. The liabilities do not include the hybrid capital and core Tier-1 securities which are included in AFR as equity. In the absence of a full market value balance sheet for ING Bank, AFR Bank is defined as IFRS Equity including several adjustments (see table in this section). AFR is used as the measure of available capital in comparison with EC employed. EC, or Economic Capital, is the amount of capital that is required to absorb unexpected losses in times of severe stress given ING Group's 'AA' target rating.
- Core Tier-1 capital, Tier-1 capital and total BIS capital are regulatory concepts applicable to ING Bank. Tier-1 capital is defined as shareholders' equity plus hybrid capital less certain prudential filters and deductible items. Tier-1 and BIS capital divided by risk weighted assets equals the Tier-1 and BIS ratio respectively. Core Tier-1 capital is equal to Tier-1 capital excluding hybrid capital.

Increasingly Capital Management considers AFR and EC employed when managing capital. AFR should exceed EC and for ING Group as a whole there should be a prudent buffer. The target for the buffer at Group level is 20%.

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 Bank, ING Insurance and ING Group 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 Adequacy Assessment 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.

CAPITAL ADEQUACY ASSESSMENT
As at 31 December 2008 and 2007, ING Bank met all key target capital ratios and metrics and regulatory requirements. As at 31 December 2008 and 2007, ING Bank was adequately capitalised in relation to its risk profile and strategic objectives.

BASEL II
As of 1 January 2008, ING Bank calculates its capital ratios under Basel II. In 2008, ING Bank published 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. The Basel I floor is a temporary minimum capital requirement based on 90% of Basel I RWA for 2008 and 80% of Basel I RWA for 2009. The minimum requirements according to Basel II and Basel I will both be compared to total BIS available capital according to Basel II.

AVAILABLE FINANCIAL RESOURCES (AFR)

ING Bank

Available Financial Resources – ING Bank

	2008	2007
IFRS Equity	22,889	25,511
Revaluation Reserve Debt Securities	5,185	1,097
Revaluation Reserve cash flow hedge	128	–428
Goodwill	–1,636	–1,428
Minorities	1,198	1,668
Deduction [1]		–1,084
Hybrid capital	7,085	6,397
Total AFR ING Bank	34,849	31,733

[1] Difference between loan loss provisions and expected loss is no longer deducted from AFR in 2008.

ING Bank paid dividends to ING Group of EUR 4.25 billion during the year. It received EUR 7.2 billion in capital injections from ING Group. Hybrid capital increased due to the issuance of additional hybrid capital.

AFR/EC RATIOS
For details regarding the computation of EC see the section entitled 'Risk management'.

AFR/EC Reconciliation

	2008	2007
Available Financial Resources ING Bank	34,849	31,733
Required Economic Capital (EC)	22,407	17,927
AFR/EC Ratio	156%	177%
Target AFR/EC Ratio	100%	100%
Surplus/(deficit)	12,442	13,806

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 position of ING Bank

	2008	2007
Shareholders' equity (parent)	**22,889**	25,511
Minority interests	**1,198**	1,668
Subordinated loans qualifying as Tier-1 capital (1)	**7,085**	6,397
Goodwill and intangibles deductible from Tier-1	**–1,636**	–1,428
Deductions Tier-1 (as of 2007)	**–1,040**	–93
Revaluation reserve (2)	**3,523**	–2,283
Available capital – Tier-1	**32,019**	29,772
Supplementary capital – Tier-2(3)	**12,910**	14,199
Available Tier-3 funds		
Deductions	**–1,040**	–2,407
BIS capital	**43,889**	41,564
Risk-weighted assets(4)	**343,388**	402,727
Tier-1 ratio(4)	**9.32%**	7.39%
BIS ratio(4)	**12.78%**	10.32%
Required capital based on Basel I floor(5)	**34,369**	
Required capital based on Basel I floor as at 1/1/09(5)	**30,550**	
BIS ratio based on Basel I floor	**10.22%**	
BIS ratio based on Basel I floor as at 1/1/09	**11.49%**	

(1) Subordinated loans qualifying as Tier-1 capital have been placed by ING Groep N.V. with ING Bank N.V.
(2) Includes revaluation debt securities, revaluation reserve cash flow hedge and revaluation reserves equity and real estate
(3) Includes eligible lower Tier-2 loans and revaluation reserves equity and real estate revaluations removed from Tier-1 capital
(4) Based on Basel II as of 2008
(5) 90% of Basel I Risk Weighted Assets in 2008 and 80% in 2009

Main credit ratings at 31/12/2008 (1)

	Standard & Poor's	Moody's	Fitch
ING Bank			
– short term	A-1+	P-1	F1+
– long term	AA	Aa2	AA
– financial strength		B	

(1) The Standard & Poor's and Fitch ratings have a negative outlook, the Moody's ratings have a stable outlook.

Main credit ratings at 16/02/2009 (1)

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

(1) The Standard & Poor's ratings have a negative outlook, the Moody's and Fitch ratings have a stable outlook.

ING's long-term credit ratings 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.

Subsequent events

SUBSEQUENT EVENTS

On 26 January 2009 ING Group and the Dutch government (‘State’) announced that they have reached an agreement on an Illiquid Assets Back-Up Facility (‘Facility’) term sheet. The transaction is expected to close in the first quarter of 2009, but the closing is dependent on the completion of final documentation and approval of various regulators.
The Facility covers the Alt-A portfolios of ING Direct US, with a par value of approximately EUR 26 billion. Under the Facility, ING Bank is expected to transfer 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 will be transferred to the Dutch State. ING Bank will retain the legal ownership of its Alt-A portfolio.
The transaction price for the 80% of the economic ownership is expected to be approximately EUR 19 billion, being 90% of the par value with respect to the 80% proportion of the portfolio of which the Dutch State will become the economic owner. The transaction price will remain payable by the State to ING and will be redeemed over the remaining life. Furthermore, under the Facility other fees will have to be paid by both ING and the State.
As a result of the transaction, 80% of the Alt-A portfolio will be derecognised from the balance sheet in 2009 and a receivable on the Dutch State will be recognised. The transaction is expected not to have a significant impact on net result in the first quarter 2009. The transaction will result in a reduction of the negative revaluation -and therefore increase equity- by approximately EUR 4 billion (after tax).
The valuation method of the Alt-A securities in the IFRS balance sheet as at 31 December 2008 is not impacted by this transaction. The same applies to the 20% that will remain after the transaction. The methodology used to determine fair value for these assets in the balance sheet under IFRS is disclosed in Note 29 ‘Fair value of financial assets and liabilities’.

As disclosed in this Annual Report, shareholders' equity and net result of ING Bank in 2008 were significantly impacted by the turmoil and extreme volatility in the worldwide financial markets. These financial markets and the worldwide economies have deteriorated further in the first months of 2009 in several areas, especially the equity markets. Current levels continuing or further negative developments in these financial markets and/or economies in 2009 may have a material adverse impact on shareholders' equity and net result for 2009. Any such impact cannot be reliably estimated at the date of this Annual Report.

AUTHORISATION OF ANNUAL ACCOUNTS

Amsterdam, 16 March 2009

THE SUPERVISORY BOARD

Jan H.M. Hommen, *chairman*
Eric Bourdais de Charbonnière, *vice-chairman*
Henk W. Breukink
Peter A.F.W. Elverding
Claus Dieter Hoffmann
Piet Hoogendoorn
Piet C. Klaver
Wim Kok
Godfried J.A. van der Lugt
Harish Manwani
Aman Mehta
Joan E. Spero
Jackson P. Tai
Karel Vuursteen

THE EXECUTIVE BOARD

Eric F. Boyer de la Giroday, *acting CEO*
Dick H. Harryvan
John C.R. Hele, *CFO*
Eli P. Leenaars
Tom J. McInerney
Hans van der Noordaa
Koos (J.)V. Timmermans, *CRO*
Jacques M. de Vaucleroy

Parent company balance sheet of ING Bank

as at 31 December before appropriation of result

amounts in millions of euros	2008	2007
ASSETS		
Cash and balances with central banks 1	**5,807**	2,157
Short-dated government paper 2	**5,948**	3,032
Amounts due from banks 3	**256,589**	209,553
Loans and advances to customers 4	**136,197**	122,857
Debt securities 5		
– available-for-sale	**16,800**	16,234
– trading	**18,537**	28,904
Equity securities 6		
– available-for-sale	**1,546**	3,175
– trading	**813**	5,713
Investments in group companies 7	**25,410**	27,129
Investments in associates 8	**437**	452
Intangible assets 9	**1,015**	1,044
Equipment 10	**42**	34
Other assets 11	**67,793**	31,914
Total assets	**536,934**	452,198
LIABILITIES		
Amounts due to banks 12	**255,529**	246,850
Customer deposits and other funds on deposit 13	**78,215**	67,268
Debt securities in issue	**60,871**	35,391
Other liabilities 14	**96,447**	56,904
General provisions 15	**652**	873
Subordinated loans 16	**22,331**	19,401
Total liabilities	**514,045**	426,687
EQUITY		
Share capital	**525**	525
Share premium	**16,392**	9,192
Legal reserves (1)	**–4,025**	2,334
Other reserves	**9,225**	11,171
Unappropriated result	**772**	2,289
Total equity 17	**22,889**	25,511
Total liabilities and equity	**536,934**	452,198

(1) Legal reserves includes Share of associates reserve of EUR 128 million (2007: EUR 69 million), Currency translation reserve of EUR –475 million (2007: EUR –18 million) and Revaluation reserve of EUR –3,678 million (2007: EUR 2,283 million).

References relate to the notes starting on page 132. 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	**2008**	2007	2006
Result of group companies after taxation	**2,142**	4,549	4,398
Other results after taxation	**–1,370**	–960	–628
Net result	**772**	3,589	3,770

Parent company statement of changes in equity of ING Bank

for the years ended 31 December

amounts in millions of euros	Total	Share capital	Share premium	Share of associates reserve	Currency translation reserve	Revaluation reserve	Other reserves
Balance as at 1 January 2007	20,732	525	6,992	45	42	2,470	10,658
Unrealised revaluations after taxation	678				300	378	
Realised gains/losses transferred to profit and loss	–338					–338	
Changes in cash flow hedge reserve	–227					–227	
Employee stock options and share plans	61						61
Exchange rate differences	–360				–360		
Other	476			24			452
Net result	3,589						3,589
Dividend	–1,300						–1,300
Capital injection	2,200		2,200				
Balance as at 31 December 2007	25,511	525	9,192	69	–18	2,283	13,460
Unrealised revaluations after taxation	**–6,755**				**173**	**–6,928**	
Realised gains/losses transferred to profit and loss	**1,523**					**1,523**	
Changes in cash flow hedge reserve	**–556**					**–556**	
Employee stock options and share plans	**67**						**67**
Exchange rate differences	**–630**				**–630**		
Other	**7**			**59**			**–52**
Net result	**772**						**772**
Dividend	**–4,250**						**–4,250**
Capital injection	**7,200**		**7,200**				
Balance as at 31 December 2008	**22,889**	**525**	**16,392**	**128**	**–475**	**–3,678**	**9,997**

In 2008, an amount of EUR 7,200 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 balance sheet and profit and loss account 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 initially recognised at cost and subsequently accounted for by the equity method of accounting.

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 Netherlands Authority for the Financial Markets and the office of 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 statutory reserve is carried at an amount equal to the share in the results of associates since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the Share of associates reserve.

Notes to the parent company balance sheet 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 5,706 million (2007: EUR 2,078 million).

2 SHORT-DATED GOVERNMENT PAPER

Short-dated government paper includes international government paper amounting to EUR 2,302 million (2007: EUR 2,997 million) for the company.

3 AMOUNTS DUE FROM BANKS

Amounts due from banks

	2008	2007
Non-subordinated receivables from		
Group companies	**215,797**	165,383
Third parties	**38,643**	43,984
	254,440	209,367
Subordinated receivables from		
Group companies	**2,149**	44
Third parties		142
	256,589	209,553

As at 31 December 2008, amounts due from banks included receivables with regard to securities, which have been acquired in reverse repurchase transactions amounting to EUR 20,554 million (2007: EUR 28,973 million).

4 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers – subordinated and non-subordinated

	2008	2007
Non- subordinated receivables from		
ING Groep N.V.	**1,280**	1,784
Group companies	**73,266**	67,667
Third parties	**61,651**	53,406
	136,197	122,857

As at 31 December 2008, assets held under finance lease contracts amounted to nil (2007: nil).

As at 31 December 2008, the receivables included in Loans and advances to customers that are part of the trading portfolio amounted to EUR 17,879 million (2007: EUR 23,345 million).

Loans and advances to customers includes receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 17,849 million (2007: EUR 21,949 million) for the company.

5 DEBT SECURITIES

Debt securities by issuer

	2008	2007
Public sector	**24,423**	25,963
Other	**10,914**	19,175
	35,337	45,138

Debt securities analysed by listing

	2008	2007
Listed	**31,867**	43,563
Unlisted	**3,470**	1,575
	35,337	45,138

Debt securities – subordinated and non-subordinated

	2008	2007
Non-subordinated debt securities issued by		
Associates	**142**	14
Third parties	**35,157**	45,108
	35,299	45,122
Subordinated debt securities issued by		
Associates	**38**	16
	35,337	45,138

Changes in debt securities (available-for-sale)

	2008	2007
Opening balance	**16,234**	17,120
Additions	**8,480**	4,906
Amortisation	**5**	17
Changes in the composition of the group	**61**	–823
Gains/(losses) from change in fair value	**232**	–287
Provision for impairment	**–139**	–13
Disposals and redemptions	**–7,894**	–5,902
Exchange rate differences	**–179**	–84
Other changes		1,300
Closing balance	**16,800**	16,234

As at 31 December 2008, the cost of the trading debt securities amounted to EUR 18,537 million (2007: EUR 28,904 million).

As at 31 December 2008, an amount of EUR 14,413 million (2007: EUR 15,110 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 15,857 million as at 31 December 2008 (2007: EUR 12,088 million).

Borrowed debt securities are not recognised in the balance sheet and amount to nil (2007: nil) as at 31 December 2008.

6 EQUITY SECURITIES

Equity securities analysed by listing

	2008	2007
Listed	**2,181**	8,806
Unlisted	**178**	82
	2,359	8,888

Notes to the parent company balance sheet of ING Bank (continued)

Changes in equity securities (available-for-sale)

	2008	2007
Opening balance	**3,175**	1,059
Additions	**247**	439
Changes in the composition of the group	**45**	53
Gains/(losses) from change in fair value	**–1,497**	1,802
Provision for impairments	**–238**	
Disposals	**–341**	–73
Exchange rate differences	**64**	–105
Other changes	**91**	
Closing balance	**1,546**	3,175

The cost or purchase price of the shares in the trading portfolio approximates their fair value. As at 31 December 2008, the cost or purchase price of shares in the available-for-sale portfolio was EUR 615 million lower (2007: EUR 2,097 million lower) than the carrying amount.

7 INVESTMENTS IN GROUP COMPANIES

Investments in group companies

	Interest held (%)	Balance sheet value 2008	Interest held (%)	Balance sheet value 2007
ING Bank Nederland N.V.	**100**	**5,906**	100	4,293
ING België N.V.	**100**	**9,460**	100	8,750
ING Direct N.V.	**100**	**774**	100	4,760
ING Financial Holdings Corporation (Holding U.S. entities)	**100**	**818**	100	965
ING Vastgoed Management Holding B.V.	**100**	**2,598**	100	2,745
ING Bank Slaski S.A.	**75**	**749**	75	758
ING Bank A.S.	**100**	**813**	100	888
Other (including financing companies)		**4,292**		3,970
		25,410		27,129

As at 31 December 2008, Investments in group companies included credit institutions of EUR 20,092 million (2007: EUR 21,351 million). As at 31 December 2008, listed investments in group companies amounted to EUR 749 million (2007: EUR 758 million).

Changes in investments in group companies

	2008	2007
Opening balance	**27,129**	25,299
Additions	**463**	3,324
Repayment of capital injection		–3,000
Revaluations	**–4,412**	–1,469
Results from group companies	**2,142**	4,549
Dividends received	**–1,442**	–592
Capital contribution	**2,136**	229
Disposals	**–201**	–290
Exchange rate differences	**–387**	–316
Other changes	**–18**	–605
Closing balance	**25,410**	27,129

8 INVESTMENTS IN ASSOCIATES

Investments in associates

	Interest held (%) 2008	Balance sheet value 2008	Interest held (%) 2007	Balance sheet value 2007
TMB Public Company Limited	**25**	**372**	25	402
Other		**65**		50
		437		452

Changes in associates

	Investments in associates 2008	Investments in associates 2007	Receivables from associates 2008	Receivables from associates 2007	Total 2008	Total 2007
Opening balance	**452**	29		10	**452**	39
Additions	**9**	362			**9**	362
Share of results	**9**	26			**9**	26
Dividends received	**–29**				**–29**	
Disposals	**–3**	–5			**–3**	–5
Exchange rate differences	**–39**	40			**–39**	40
Other changes	**38**			–10	**38**	–10
Closing balance	**437**	452			**437**	452

9 INTANGIBLE ASSETS

Changes in intangible assets

	Goodwill 2008	Goodwill 2007	Software 2008	Software 2007	Other 2008	Other 2007	Total 2008	Total 2007
Opening balance	**1,035**	20	**9**	7			**1,044**	27
Additions	**31**	1,015	**4**	6			**35**	1,021
Changes in the composition of the group			**1**		**218**		**219**	
Depreciation			**–5**	–3	**–30**		**–35**	–3
Exchange rate differences	**–207**				**–40**		**–247**	
Other changes			**–1**	–1			**–1**	–1
Closing balance	**859**	1,035	**8**	9	**148**		**1,015**	1,044

10 EQUIPMENT

Changes in equipment

	2008	2007
Opening balance	**34**	32
Additions	**22**	14
Changes in the composition of the group	**3**	
Depreciation	**–13**	–11
Disposals	**–1**	–1
Exchange rate differences	**–3**	–2
Other changes		2
Closing balance	**42**	34
Gross carrying amount as at 31 December	**138**	130
Accumulated depreciation as at 31 December	**–96**	–96
Net book value	**42**	34

Notes to the parent company balance sheet of ING Bank (continued)

11 OTHER ASSETS

Other assets by type

	2008	2007
Derivatives	**54,617**	18,766
Deferred tax assets	**86**	100
Income tax receivable	**847**	1,062
Accrued interests and rents	**10,396**	8,500
Other accrued assets	**74**	50
Pension asset	**276**	278
Other receivables	**1,497**	3,158
	67,793	31,914

As at 31 December 2008, an amount of EUR 1,397 million (2007: EUR 1,502 million) was expected to be settled after more than one year from the balance sheet date.

LIABILITIES AND EQUITY

12 AMOUNTS DUE TO BANKS

Amounts due to banks by group companies and third parties

	2008	2007
Group companies	**154,455**	121,442
Third parties	**101,074**	125,408
	255,529	246,850

13 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

Customer deposits and other funds on deposit by group companies and third parties

	2008	2007
Group companies	**18,100**	12,783
Third parties	**60,115**	54,485
	78,215	67,268

Customer deposits and other funds on deposit by type

	2008	2007
Savings accounts	**2,244**	1,397
Credit balances on customer accounts	**4,197**	4,232
Corporate time deposits	**52,821**	51,937
Other	**18,953**	9,702
	78,215	67,268

14 OTHER LIABILITIES

Other liabilities

	2008	2007
Derivatives	**57,097**	17,492
Trading liabilities	**13,803**	16,270
Accrued interest	**22,100**	18,622
Costs payable	**329**	306
Income tax payable	**60**	59
Other taxation and social security contribution	**68**	28
Other amounts payable	**2,990**	4,127
	96,447	56,904

As at 31 December 2008, an amount of EUR 1,027 million (2007: EUR 1,029 million) was expected to be settled after more than one year from the balance sheet date.

As at 31 December 2008, Other liabilities includes an amount of EUR 7.91 (2007: EUR 7.91) for seven preference shares with a par value of EUR 1.13 each.

15 GENERAL PROVISIONS

General provisions

	2008	2007
Deferred tax payable	**157**	436
Pension liabilities and other staff-related liabilities	**83**	14
Reorganisations and relocations	**70**	143
Other	**342**	280
	652	873

As at 31 December 2008, an amount of EUR 510 million (2007: EUR 775 million) was expected to be settled after more than one year from the balance sheet date.

16 SUBORDINATED LOANS

Subordinated loans by group companies and third parties

	2008	2007
Group companies	**7,085**	6,397
Third parties	**15,246**	13,004
	22,331	19,401

Subordinated loans by type

	2008	2007
Capital debentures	**15,106**	12,891
Private loans	**7,225**	6,510
	22,331	19,401

17 EQUITY

Capital and reserves

	2008	2007
Share capital	**525**	525
Share premium	**16,392**	9,192
Share of associates reserve	**128**	69
Currency translation reserve	**–475**	–18
Revaluation reserve	**–3,678**	2,283
Other reserves	**9,225**	11,171
Unappropriated result	**772**	2,289
	22,889	25,511

Other reserves includes Retained earnings of EUR 8,659 million (2007: EUR 10,605 million).

Share capital

			Ordinary shares (par value EUR 1.13)	
	Number x1,000	**Amount**	Number x1,000	Amount
		2008		2007
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 2007 and 2008.

Changes in revaluation reserve

2008	Available-for-sale reserve	Cash flow hedge reserve	Property in own use reserve	Real estate investments reserve	Total
Opening balance	**1,262**	**428**	**415**	**178**	**2,283**
Unrealised revaluations after taxation	**–6,950**		**21**	**1**	**–6,928**
Realised transferred to profit and loss	**1,523**				**1,523**
Changes in cash flow hedge reserve		**–556**			**–556**
Closing balance	**–4,165**	**–128**	**436**	**179**	**–3,678**

Changes in revaluation reserve

2007	Available-for-sale reserve	Cash flow hedge reserve	Property in own use reserve	Real estate investments reserve	Total
Opening balance	1,255	655	385	175	2,470
Unrealised revaluations after taxation	345		30	3	378
Realised transferred to profit and loss	–338				–338
Changes in cash flow hedge reserve		–227			–227
Closing balance	1,262	428	415	178	2,283

Retained earnings and Unappropriated result

	Retained earnings		Unappropriated result		Total	
	2008	2007	**2008**	2007	**2008**	2007
Opening balance	**10,605**	8,688	**2,289**	1,970	**12,894**	10,658
Transfer to retained earnings	**2,289**	1,968	**–2,289**	–1,968		
Employee stock options and share plans	**67**	61			**67**	61
Other changes	**–52**	–112		–2	**–52**	–114
Result for the period			**772**	3,589	**772**	3,589
Dividend	**–4,250**			–1,300	**–4,250**	–1,300
Closing balance	**8,659**	10,605	**772**	2,289	**9,431**	12,894

The Revaluation reserve, the Share of associates reserve, Other reserves 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.

As at 31 December 2008 Other reserves included an amount of EUR 566 million (2007: EUR 566 million) related to Regio Bank N.V. (formerly Stichting Regio Bank) that cannot be freely distributed.

The total amount of non-distributable reserves is EUR 4,847 million (2007: EUR 2,936 million).

Additional information to the parent company balance sheet of ING Bank amounts in millions of euros, unless stated otherwise

18 MATURITY OF CERTAIN ASSETS AND LIABILITIES

Analysis of certain assets and liabilities by maturity

2008	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	**78,366**	**14,300**	**25,942**	**61,425**	**57,387**	**19,169**	**256,589**
Loans and advances to customers	**27,161**	**12,332**	**8,593**	**37,581**	**32,900**	**17,630**	**136,197**
Liabilities							
Amounts due to banks	**202,443**	**27,388**	**7,430**	**315**	**297**	**17,656**	**255,529**
Customer deposits and other funds on deposit	**44,342**	**13,714**	**2,030**	**1,668**	**1,452**	**15,009**	**78,215**
Debt securities in issue	**14,179**	**17,362**	**9,452**	**10,368**	**3,292**	**6,218**	**60,871**
Subordinated loans	**11**	**425**	**59**	**4,618**	**16,059**	**1,159**	**22,331**

Analysis of certain assets and liabilities by maturity

2007	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	176,595	3,752	858	501	11	27,836	209,553
Loans and advances to customers	47,946	22,110	11,259	10,926	7,403	23,213	122,857
Liabilities							
Amounts due to banks	194,788	17,528	3,725	416	466	29,927	246,850
Customer deposits and other funds on deposit	47,809	6,236	2,754	627	710	9,132	67,268
Debt securities in issue	12,954	7,387	3,493	2,873	770	7,914	35,391
Subordinated loans	49	289	91	4,429	13,366	1,177	19,401

19 ASSETS NOT FREELY DISPOSABLE

Assets not freely disposable

	Customer deposits and other funds on deposit and debt securities in issue		Banks		Other contingent liabilities		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Investments	**541**	1,227					**541**	1,227
Lending	**1,473**	122	**669**				**2,142**	122
Banks			**6,526**	1,138			**6,526**	1,138
Other assets	**269**	865	**1,160**		**22**	11	**1,451**	876
	2,283	2,214	**8,355**	1,138	**22**	11	**10,660**	3,363

20 CONTINGENT LIABILITIES

Contingent liabilities by type

	2008	2007
Guarantees	**8,673**	5,851
Irrevocable letters of credit	**2,341**	2,464
Other	**236**	134
Contingent debts	**11,250**	8,449
Irrevocable facilities	**24,971**	20,855
	36,221	29,304

Contingent debts

	2008	2007
Group companies	**678**	845
Third parties	**10,572**	7,604
	11,250	8,449

Irrevocable facilities

	2008	2007
Group companies	**15**	
Third parties	**24,956**	20,855
	24,971	20,855

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.

REMUNERATION

See Note 28 'Related parties' to the Consolidated annual accounts.

AUTHORISATION OF PARENT COMPANY ANNUAL ACCOUNTS

Amsterdam, 16 March 2009

THE SUPERVISORY BOARD

Jan H.M. Hommen, *chairman*
Eric Bourdais de Charbonnière, *vice-chairman*
Henk W. Breukink
Peter A.F.W. Elverding
Claus Dieter Hoffmann
Piet Hoogendoorn
Piet C. Klaver
Wim Kok
Godfried J.A. van der Lugt
Harish Manwani
Aman Mehta
Joan E. Spero
Jackson P. Tai
Karel Vuursteen

THE EXECUTIVE BOARD

Eric F. Boyer de la Giroday, *acting CEO*
Dick H. Harryvan
John C.R. Hele, *CFO*
Eli P. Leenaars
Tom J. McInerney
Hans van der Noordaa
Koos (J.)V. Timmermans, *CRO*
Jacques M. de Vaucleroy

Auditor’s report

To the Shareholders, Supervisory Board and the Executive Board of ING Bank N.V.

REPORT ON THE ANNUAL ACCOUNTS

We have audited the annual accounts 2008 of ING Bank N.V., Amsterdam (as set out on pages 12 to 141). The annual accounts consist of the consolidated annual accounts and the parent company annual accounts. The consolidated annual accounts comprise the consolidated balance sheet as at 31 December 2008, the profit and loss account, statement of changes in equity and statement of cash flows 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 2008, the parent company profit and loss account for the year then ended and the notes.

Management's responsibility

Management of the company is responsible for the preparation and fair presentation of the 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 Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the annual accounts based on our audit. We conducted our audit in accordance with Dutch law. This law and these standards requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated annual accounts

In our opinion, the consolidated annual accounts give a true and fair view of the financial position of ING Bank N.V. as at 31 December 2008, 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 2008, 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 2:393 sub 5 part f of the Dutch Civil Code, we report, to the extent of our competence, that the report of the Executive Board report is consistent with the annual accounts as required by 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 16 March 2009

For Ernst & Young Accountants LLP

signed by C.B. Boogaart

Proposed appropriation of result and Subsequent events

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

amounts in millions of euros	
Net result at the disposal of the General Meeting of Shareholders	**772**
Addition to reserves pursuant to Article 24 (2) of the Articles of Association	**59**
At the disposal of the General Meeting of Shareholders pursuant to Article 24 (7) of the Articles of Association	**713**

SUBSEQUENT EVENTS

On 26 January 2009 ING Group and the Dutch government announced that they have reached an agreement on an Illiquid Assets Back-Up Facility. Reference is made to section 'Subsequent events' in the consolidated annual accounts.

ING Bank Nederland N.V. merged into ING Bank N.V. on 6 February 2009 and Postbank N.V. merged into ING Bank N.V. on 7 February 2009. These mergers did not result in an effect to equity and net result, but will result in a transfer from Investments in group companies to the relevant balance sheet lines.

As disclosed in this Annual Report, shareholders' equity and net result of ING Bank in 2008 were significantly impacted by the turmoil and extreme volatility in the worldwide financial markets. These financial markets and the worldwide economies have deteriorated further in the first months of 2009 in several areas, especially the equity markets. Current levels continuing or further negative developments in these financial markets and/or economies in 2009 may have a material adverse impact on shareholders' equity and net result for 2009. Any such impact cannot be reliably estimated at the date of this Annual Report.

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 the Group'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. For 2008, the capital base may not fall below 90% of the amount that would have been applicable under the former rules, called Basel I. For 2009, the floor reduces to 80%. No floor is applied after year end 2009.

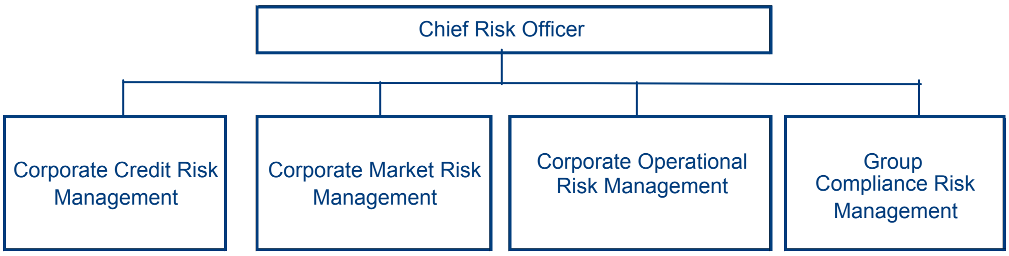
This section relates to Pillar 3, market discipline, and as such provides information on several topics. Some of the required information have already been given elsewhere in the annual report, e.g. in the risk management section and in the capital management section. This section provides additional information, as well as references to the relevant sections.

The Pillar 3 information mostly relates to credit risk, but also to market risk, operational risk and Securitisations. 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. 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.

RISK MANAGEMENT AT ING BANK

ING has a group risk management function that is embedded at all levels of the organisation and operates through a comprehensive risk governance framework.

The primary responsibility of the Bank risk management function lies with the Chief Risk Officer (CRO), who is a member of the Executive Board. The CRO is responsible for the management and control of risk on a consolidated level to ensure that ING's bank risk profile is consistent with its financial resources and the risk appetite defined by the Executive Board. The CRO has several direct reports who are all responsible for a specific risk management function within ING Bank.



A more detailed description of risk management at ING can be found in the risk management section.

REGULATORY CAPITAL REQUIREMENTS

Regulatory capital requirements

	2008
Credit risk	
Portfolios subject to standardised approach	3,083
Portfolios subject to advanced IRB approach	
– Central governments and central banks	309
– Institutions	1,680
– Corporate	9,366
– Residential mortgages	3,062
– Other retail	885
Total portfolios subject to advanced IRB approach	15,302
Securitisation exposures	2,321
Equity portfolios in the banking book under the simple risk weight approach	194
Other Non-Credit Obligation Assets (ONCOA)	2,166
Total credit risk	23,066
Market risk	
Standardised approach	449
Internal models approach - trading book	587
Total market risk	1,036
Operational risk	
Advanced measurement approach	3,368
Total Basel II required Regulatory Capital	27,470
Basel II floor*	34,369
Additional capital requirement	6,899

* 90% 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 2008 and 2009 the capital requirements should be no less than 90% and 80% respectively of the capital requirements calculated under Basel I regulations. The additional capital requirements according to the transition rules are EUR 6,899 million.

The required regulatory capital shown in this section should be compared to the available regulatory capital for which details can be found in the Capital Management section under the heading 'Regulatory Capital'.

CREDIT RISK

BASIS OF PRESENTATION FOR CREDIT RISK

The following paragraphs address the risk information for Pillar 3 reporting.

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.

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 '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). In this section a threshold of 2% of the total value reported is used for determining materiality where applicable. All categories below that threshold have been reported in the category 'Other'.

CREDIT RISK AT ING

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 obligors and obligor groups. The aim is to expand relationship-banking activities, while maintaining stringent internal risk/return guidelines and controls.

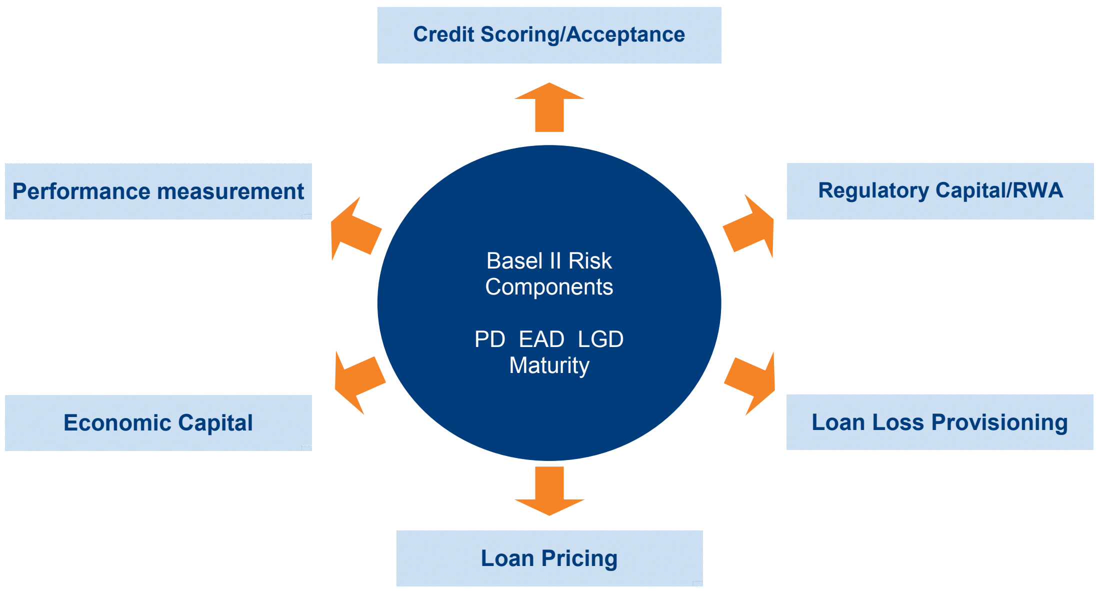
Credit Risk is the risk of loss from the default by debtors or counterparties. Credit risks arise in ING Bank's lending, money market, pre-settlement and investment activities, as well as in its trading activities. Credit risk management is supported by dedicated credit risk information systems and internal rating methodologies for debtors and counterparties.

ING Bank's credit exposure is mainly related to traditional lending to individuals and businesses, bonds held in the investment portfolios and financial markets trading activities. Loans to individuals are mainly mortgage loans secured by residential property. Loans to businesses are often collateralised, but can be unsecured based on internal analysis of the obligors' creditworthiness. Financial Markets activities include derivatives trading, securities financing, and Foreign Exchange (FX) transactions, which we collectively refer to as Pre-Settlement risks. 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.

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.

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.

- **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. In 2006, ING developed and implemented 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.

- **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 kinds of models are especially appropriate for portfolios for which limited historical defaults exists thereby reducing the reliability of a statistical model. These portfolios are also often referred to as 'Low Default Portfolios';
- **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.
- **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'.

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.

APPROACHES APPLIED BY ING BANK

On 1 January, 2008, ING adopted the AIRB to 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 specialized, 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.

ING anticipates that collectively approximately 50% of the remaining standardised portfolios will migrate to the AIRB approach during 2009; in some cases migrations may require additional regulatory approvals.

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.

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.

CREDIT RISK EXPOSURES

Gross credit risk exposures (EAD) by exposure class

2008	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total
Standardised Approach	7,801	3,165	17,706	21,060	14,116	63,848
AIRB Approach	75,869	127,797	272,645	255,567	29,979	761,857
Total	83,670	130,962	290,351	276,627	44,095	825,705

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

Gross credit risk exposures (EAD) by geographic area

2008	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total
Netherlands	9,258	2,711	78,636	134,051	20,187	244,843
Germany	11,566	27,371	6,808	43,627	3,504	92,876
Belgium	15,111	5,181	33,115	18,319	9,047	80,773
United States of America	120	11,201	32,159	25,636	62	69,178
Spain	10,134	16,856	11,027	7,292	582	45,891
France	7,697	14,462	14,198	922	170	37,449
Australia	497	4,722	4,364	19,701	24	29,308
United Kingdom	425	10,120	16,436	2,089	383	29,453
Italy	6,328	3,914	9,116	5,794	1,082	26,234
Canada	1,415	3,833	1,003	13,388	455	20,094
Other	21,119	30,591	83,489	5,808	8,599	149,606
Total	83,670	130,962	290,351	276,627	44,095	825,705

* 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. The figures above are the most significant exposures. Smaller exposures are all group under Other, where none of the individual underlying exposures are more than 16.5 billion. Figures associated with ING's transfer risk positions and economic country risk exposure can be found in risk management section, including their corresponding definitions.

Gross credit risk exposures (EAD) by economic sector

2008	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total
Builders & Contractors			16,876		2,475	19,351
Central Banks	23,786					23,786
Central Governments	53,794					53,794
Commercial Banks	806	110,377	882		28	112,093
Food, Beverages & Personal Care			18,203		2,246	20,449
General Industries			17,865		2,344	20,209
Lower Public Administration	5,019	15,526			106	20,651
Natural Resources			28,794		406	29,200
Non-Bank Financial Institutions		3,690	48,344		845	52,879
Private Individuals			124	276,627	22,314	299,065
Real Estate	191	40	53,305		2,009	55,545
Services		93	18,982		3,898	22,973
Transportation & Logistics			24,166		1,066	25,232
Other	74	1,236	62,810		6,358	70,478
Total	83,670	130,962	290,351	276,627	44,095	825,705

* 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 16.5 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) per 31/12

2008	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total
Current Outstandings	80,020	117,066	250,413	266,918	34,795	749,212
1 month	73,841	107,314	233,559	266,346	33,676	714,736
3 month	47,681	88,317	218,945	265,805	33,069	653,817
6 month	47,469	82,899	209,209	264,981	31,982	636,540
1 year	52,289	70,942	167,254	262,052	20,412	572,949
2 years	47,241	64,600	137,498	258,619	17,828	525,786
3 years	40,753	56,474	110,622	254,560	15,546	477,955
5 years	33,314	44,387	70,160	241,541	11,457	400,859
7 years	22,270	32,210	44,087	232,649	9,577	340,793
10 years	7,331	7,725	23,915	213,740	7,147	259,858

* 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.

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.[1] 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.

[1] The threshold amount varies per business unit, but generally is EUR 0 in the international units, and EUR 1 million in the 'home markets'.

- 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 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

2008	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total
Netherlands			239	92	298	629
Germany			57	211	86	354
Belgium			187	31	114	332
United States of America			90	170	6	266
Spain			112	2	2	116
Poland			93	1	28	122
France		2	19	3	74	98
Iceland		68				68
Turkey	1		71	2	11	85
Italy			18	2	40	60
Other	3	46	349	40	43	481
Total	4	116	1,235	554	702	2,611

* 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 country of the residence of the obligor. Countries not shown in above table have cumulative provisions of less than 50 million, and are grouped under Other.

Cumulative Provisions by economic sector

2008	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total
Automotive			92		11	103
Builders & Contractors			183		34	217
Commercial Banks		106				106
Food, Beverages & Personal Care			149		36	185
General Industries			193		32	225
Media			41		13	54
Natural Resources			77		2	79
Non-Bank Financial Institutions		8	68		11	87
Private Individuals				554	316	870
Real Estate			134		33	167
Retail			37		58	95
Services			85		50	135
Transportation & Logistics			58		11	69
Other	4	2	118		95	219
Total	4	116	1,235	554	702	2,611

* Includes both AIRB and SA portfolios; Excludes securitisations, equities and ONCOA.
* Excludes impairments made directly to the equity accounts.

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 50 million, and are grouped under Other.

Past due loans by geographic area (based on outstandings)

2008	Residential mortgages	Other retail	Total
Belgium	2,128	271	2,399
Netherlands	2,293	37	2,330
Australia	775		775
United States of America	584	1	585
Turkey	101	220	321
Germany	245	13	258
India	57	134	191
Other	251	114	365
Total	6,434	790	7,224

* 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 country of the residence of the obligor. Countries not shown in above table have past due loans of less than 140 million, and are grouped under Other.

Past due loans by economic sector (based on outstandings)

2008	Residential mortgages	Other retail	Total
Private Individuals	6,434	434	6,868
Other		356	356
Total	6,434	790	7,224

* 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 75 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.

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 December 31, 2008, the loan loss provision shortfall was EUR 1,360 million. The cumulative amount of loan loss shortfall will generally increase in periods where loan loss provisions are decreasing on a portfolio basis, and will decrease in periods where loan loss provisions are increasing.

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.

PORTFOLIOS UNDER THE STANDARDISED APPROACH

Gross exposure under the Standardised Approach (SA)

2008	Exposure before risk mitigation	Exposure after risk mitigation
Risk buckets used:		
0%	6,881	7,072
10%		
20%	4,240	4,414
35%	20,188	20,188
50%	4,131	4,200
75%	24,259	21,456
100%	35,081	33,947
150%	610	562
200%		

* 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.
The risk weighting categories are defined in Basel 2 and are interpreted by ING as follows:

0% Risk Weighting

These assets fall into three categories as described below. In all of these cases, ING has developed credit risk models for the specific portfolios, but has not yet implemented the AIRB approach due to restrictions imposed by local regulators. In most cases, these portfolios are eligible to be converted to the AIRB approach in 2009.

Central government and central banks

In accordance with national discretion rules, the risk weight for many central governments and central banks under the standardised approach is 0%.

Regional governments and local authorities

In many countries, exposures to provincial, regional and municipal governments are treated as exposures to the central government in whose jurisdiction they are established.

Multilateral Development Banks

Exposures to certain specific multilateral development banks and other international organisations such as the International Bank for Reconstruction and Development are risk weighted at 0%.

10% Risk Weighting

The 10% risk weighting is applied to covered bonds exposures under the standardised approach. All of ING's covered bond positions are measured under the AIRB.

20% Risk Weighting

20% Risk Weighting is applied to exposures based on their exposure class and external rating. These are generally high quality exposures.

35% Risk Weighting

Exposures secured by mortgages on residential real estate are assigned a risk weight of 35%. The risk weight is only reduced for the part of the exposure that is fully secured.

50% Risk Weighting
50% Risk Weighting is applied to exposures based on their exposure class and external rating. These are generally not prime grade exposures

75% Risk Weighting
Retail exposures under the standardised approach are assigned a risk weight of 75%.

100% Risk Weighting
Under the standardised approach, exposures without external ratings that do not fall into one of the other categories rare assigned a risk weight of 100%.

150% Risk weighting
Under the standardised approach, certain specified exposures, such as exposures to venture capital and private equity, as well as the unsecured portion of any past due obligation is assigned a risk weighting of 150%.

200% Risk weighting
The 200% risk weighting must be applied to collective investment undertakings which contain high risk equity investments.

PORTFOLIOS UNDER THE AIRB APPROACH

RISK RATING METHODOLOGY
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 from Rating Models:

Risk Rating processes take on several forms as described below:

- Rating Models requiring manual interference: these are Models that require manual interference from the User who has to answer Rating Model based questions for each individual legal organisation in order to arrive at a Risk Rating. If not reviewed, the Risk Rating will expire 18 months after the previous review. These models are typically used for Governments, Institutions and larger Corporates; and

- Automated Rating Models: these are Models that do not require manual interference. Instead, data is automatically gathered and used to determine the Risk Rating (this process is detailed further in the sections that describe ING's Data Management and IT processes). These models are typically used for small businesses, consumer loans, and residential mortgage exposures.

- Risk Ratings from Appeals: Rating Model outcomes that are perceived to be inaccurate can be appealed through the relevant Rating Appeal Process, where this exists. The Rating Appeal Process applies to all Rating Models that require manual interference. It does not apply to automated Rating Models developed for consumer lending and residential mortgage business.

- Non-Rating Model based Ratings: this pertains to Risk Ratings not calculated by means of an approved Rating Model, but manually calculated or set on the basis of an approved subjective methodology. These are generally only used for problem loan classifications (18-22) which are owned by the relevant global or regional credit restructuring unit; and for the securitisation portfolios, whereby the external ratings of the tranche in which ING has invested are leading.

Exposures (EAD) by PD grade under the AIRB approach

2008	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total
1 (AAA)	28,745	1,857	7,698		181	38,481
2 (AA+)	26,271	2,185	1,553	1,859	146	32,014
3 (AA)	3,321	19,158	5,142	1,990	100	29,711
4 (AA-)	11,463	43,761	6,352	1,046	84	62,706
5 (A+)	618	23,075	9,156	4,761	2,638	40,248
6 (A)	314	10,589	12,181	1,571	311	24,966
7 (A-)	865	9,357	14,793	18,839	1,086	44,940
8 (BBB+)	948	5,441	24,173	19,238	2,481	52,281
9 (BBB)	129	1,950	30,589	40,149	4,067	76,884
10 (BBB-)	848	3,792	39,143	45,809	3,523	93,115
11 (BB+)	116	1,636	35,671	66,961	6,085	110,469
12 (BB)	1,969	1,329	30,210	30,016	2,558	66,082
13 (BB-)	42	1,121	23,890	6,088	2,036	33,177
14 (B+)	151	432	14,343	1,501	1,139	17,566
15 (B)	53	415	4,993	7,396	1,089	13,946
16 (B-)		403	2,289	855	347	3,894
17 (CCC-C)	9	1,011	3,771	2,776	481	8,048
18 (Special Mention)		52	2,183	311	488	3,034
19 (Substandard)	3	43	567	1,566	271	2,450
20 (Doubtful)	4	181	3,359	1,466	679	5,689
21 (Liquidation – no loss)			182	1,346	79	1,607
22 (Liquidation – with loss)		9	407	23	110	549
Total	75,869	127,797	272,645	255,567	29,979	761,857

* 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 approximately 90 PD 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.

Average LGD by PD Grade under the AIRB approach

2008	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total
1 (AAA)	20%	16%	34%	10%	53%	23%
2 (AA+)	20%	22%	34%	10%	46%	20%
3 (AA)	20%	21%	37%	10%	42%	23%
4 (AA-)	20%	22%	41%	10%	37%	23%
5 (A+)	20%	24%	35%	12%	55%	27%
6 (A)	21%	24%	28%	10%	52%	25%
7 (A-)	24%	27%	31%	21%	40%	26%
8 (BBB+)	55%	27%	34%	18%	22%	27%
9 (BBB)	18%	37%	29%	16%	33%	23%
10 (BBB-)	41%	29%	25%	14%	26%	19%
11 (BB+)	22%	38%	20%	13%	37%	17%
12 (BB)	37%	42%	22%	16%	38%	20%
13 (BB-)	49%	43%	18%	16%	40%	20%
14 (B+)	8%	36%	23%	15%	39%	23%
15 (B)	8%	43%	26%	13%	45%	21%
16 (B-)	52%	74%	20%	14%	33%	25%
17 (CCC-C)	17%	33%	30%	12%	37%	24%
18 (Special Mention)	20%	24%	16%	19%	19%	17%
19 (Substandard)	33%	48%	18%	14%	35%	18%
20 (Doubtful)	28%	30%	25%	24%	44%	27%
21 (Liquidation – no loss)		1%	15%	14%	57%	16%
22 (Liquidation – with loss)		15%	27%	14%	73%	36%
Total	21%	24%	26%	15%	36%	22%

* Includes both AIRB 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 34%, while the weighted average LGD for a BBB rated corporate is 29%. 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

2008	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total
Standardised Approach	4	228	2,625	454	7,208	10,519
AIRB Approach	208	2,403	55,310	10,439	7,818	76,178
Total	212	2,631	57,935	10,893	15,026	86,697

* 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 12%. 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

2008	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total
Standardised Approach			481		2	483
AIRB Approach	8,689	7,922	120,253	574	6,006	143,444
Total	8,689	7,922	120,734	574	6,008	143,927

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

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 (EAD) from derivatives (SA and AIRB)

2008	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total
Credit Derivatives	22	2,681	1,540			4,243
Derivatives		3	55		6	64
Equity Derivatives		757	812		28	1,597
Foreign Exchange Derivatives	529	5,282	4,814		69	10,694
Interest Rate Derivatives	2,239	13,586	7,412		52	23,289
Total	2,790	22,309	14,633		155	39,887

* 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 (EAD) from derivatives (SA and AIRB)

2008	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total
Gross MTM plus regulatory add-on	2,861	96,664	30,086		156	129,767
Amount after compensation	2,790	25,750	15,174		155	43,869
Amount after compensation, netting and collateral	2,790	22,309	14,633		155	39,887

* 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.

Counterparty credit risk (EAD) from securities financing (SA and AIRB)

2008	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total
Bond Financing Given	213	1,625	242			2,080
Equity Financing Given	6,619	1,815	3,330			11,764
Bond Financing Taken		237	993			1,230
Stock Financing Taken		658	1,634			2,292
Total	**6,832**	**4,335**	**6,199**			**17,366**

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

Counterparty credit risk (EAD) from securities financing (SA and AIRB)

2008	Central governments and central banks	Institutions	Corporate	Residential mortgages	Other retail	Total
Gross MTM plus regulatory add-on	11,944	7,552	9,976			29,472
Amount after compensation	6,832	6,746	8,965			22,543
Amount after compensation, netting and collateral	6,832	4,336	6,198			17,366

* 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

Credit derivatives (notional amounts)

2008	Total
Credit derivatives used for hedging purposes	
– credit protection bought	2,019
– credit protection sold	
Credit derivatives used for trading activities	
– credit protection bought	50,092
– credit protection sold	45,395

* 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.

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 23 'Special Purpose Entities' in the annual accounts. The applicable accounting policies are included in the section 'Accounting policies for the consolidated balance sheet and profit and loss account of ING Group/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.

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.

Exposures per risk weight band (ING as Investor)

	Purchased Exposures
Risk weight band 1 <= 10%	64,678
Risk weight band 2 >10% and >= 18%	11,381
Risk weight band 3 >18% and >= 35%	1,008
Risk weight band 4 >35% and >= 75%	764
Risk weight band 5 >75%	933
Risk weight 1250%	1,336
Total	**80,100**

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. ING also retains the first loss tranches. 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. As of 31 December 2008, five transactions totalling approximately EUR 15 billion (Mars 2004, 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.

  Securitisations of residential mortgages release less capital under Basel II than under Basel I because the capital required for this type of exposure has been reduced under Basel II rules.

- **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 2008 position of approximately EUR 70 billion of AAA rated notes. The underlying exposures are residential mortgages in the Netherlands, Canada, Germany and Australia.

  As long as the securitisation exposures created are not transferred to third parties, the regulatory capital remains unchanged. These are not detailed hereunder. Apart from the structuring and administration costs of these securitisations these securitisations are profit / loss neutral.

Exposures securitised as originator: All securitisations reported in this section are synthetic securitisations used to transfer risk to third parties. Transactions for liquidity/funding purpose are not included.

The determination of impairments and losses occurs at least every quarter at the cut-off date applicable to each specific transaction. Figures as of 31 December 2008 are used whenever available.

Exposures securitised

	Cut off Date	Initial Pool	Out-standings	Credit Events	Past due Assets	Losses
Residential Mortgages						
Memphis 2005	31 Oct 2008	3,000	2,351	3	62	< 1
Memphis 2006	31 Oct 2008	4,000	3,750	11	207	2
		7,000	6,101			
SME						
Mars 2004	31 Oct 2008	2,000	1,995	3	25	< 1
Mars 2006	31 Dec 2008	4,500	4,202	12	32	2
BEL SME 2006	30 Nov 2008	2,500	2,406	11	5	1
Total		9,000	8,603			

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 securitized exposures is published regularly.
Outstandings	EAD on 31 December 2008 of assets that were performing on the Cut-off date.
Credit Events	Aggregate outstandings of assets subject to a credit event reported in the twelve 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 recognised on securitised assets and reported in the twelve 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). Economically, on a total of about EUR 15 billion underlying exposures in the five transactions mentioned below, ING has retained approximately EUR 204 million of first loss exposure and has transferred approximately EUR 1.1 billion of mezzanine tranches (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 is insufficient due to the increasing impact of the maturity mismatch formula. The RWA of the retained tranches for four of the transactions in the table above would be higher than the total RWA of the underlying pool before securitisation, and therefore these transactions are treated for RWA purposes as if they were not securitised. The total RWA for the fifth transaction calculated under Pillar 1 rules is EUR 230 million (retained senior and super senior tranches). In addition EUR 28 million (retained first loss) is deducted from capital.

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 are trade receivables, consumer finance receivables, credit card receivables, auto loans, RMBS, wrapped future cashflow transactions and CDOs/CLOs.

Exposures Securitised as Sponsor

The total liquidity facilities, including programme wide enhancements, provided to the Mont Blanc conduit are EUR 4,867 million. The total drawn liquidity amount as of 31 December 2008 is EUR 972 million.

Securitisation in the trading book
The exposures involved are mainly synthetic Collateralized Debt Obligations (CDOs) in which the underlying credit exposures are taken on using a credit default swap rather than a vehicle buying 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.

EQUITY IN THE BANKING BOOK
Total exposure under the Simple Risk Weight Approach at the 31 December 2008 is EUR 1,042 million resulting in EUR 194 million of capital requirement.

Equities Unrealised Gains and Losses

2008	
Gross unrealised gains	874
Gross unrealised losses	–211
Total	**663**

Above table shows the unrealised gains and losses for the equity holdings. Please refer to the Market Risk segment in the Risk Management section for a description of the equity holdings and accounting methodology.

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 2008 is EUR 2,166 million.

MARKET RISK
The general description of market risk in ING Bank can be found in the Risk Management section, where the organisation, measurement and management of market risk is explained. Further, contrary to the Risk Management section where several banking books are governed by the trading risk process, for Pillar 3 non-trading exposures are excluded from the trading governance. As a result the figures for both trading and non-trading books differ from the risk paragraph.

CAPITAL REQUIREMENTS

Capital requirements

2008	Standardised approach	Internal Model Approach	Total
Interest rate risk	255	456	711
Equity position risk		80	80
Foreign exchange risk [1]	194	51	245
Total	**449**	**587**	**1,036**

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

MODEL APPROACH
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 Dutch Central Bank (DNB) to use an internal Value at Risk (VaR) model to determine the regulatory capital for the market risk in the trading book of ING Bank. Market risk capital of CAD2 trading books is calculated according to the internal VaR model, where correlations and volatilities are taken into account. On the other hand, market risk capital of CAD1 books is calculated using standardised fixed risk weights.

In 2008, 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. 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 IMA Portfolios				
	Over the reporting Period 2008			31 Dec 2008
	High	Mean	Low	Period-end
Interest rate risk	50	37	22	40
Equity position risk	11	7	4	7
Foreign exchange risk	8	5	2	6
Diversification effect		5		3
Total		**44**		**50**

For a summary of the Value at Risk measurement applicable to the internal model approach please refer to the Market Risk segment in the Risk Management section. It should be noted that the VaR figures in the above table only relate to the CAD2 trading books for which the internal model approach is applied. The VaR figures reported in the Risk management section relate to all books under trading governance.

OPERATIONAL RISK

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 capital calculation meets industry standards and was approved in April 2008 by DNB. Originally, the model was designed for Economic Capital (99.95% confidence level) and the Financial Risk Dashboard (90% confidence level). From 2008 onwards, the model is used for regulatory capital reporting purposes as well (AMA approach). Insurance reduction because of risk mitigation by insurance has not been applied to the AMA capital of 2008.

The Operational Risk Capital using AMA significantly increased to EUR 3,368 million in 2008 (as stated in the operational risk part of the risk management section) due the periodic update of the external loss data, which reflected the increased uncertainty/turmoil in the financial market. Two acquisitions took place that impacted capital and the related diversification benefit as well: ING Turkey and ING Direct Interhyp.

INTEREST RATE RISK IN THE BANKING BOOKS

Earnings at Risk	
	2008
By line of business	
ING Wholesale Banking	–132
ING Retail Banking	–101
ING Direct	5
ING Bank Corporate Line	46
Total	**–182**
By Currency	
Euro	–221
US Dollar	36
Pound Sterling	3
Other	
Total	**–182**

Additional Pillar 3 information (continued)

Net Present Value at Risk

	2008
By line of business	
ING Wholesale Banking	**–710**
ING Retail Banking	**–100**
ING Direct	**–232**
ING Bank Corporate Line	**–1,388**
Total	**–2,430**
By Currency	
Euro	**–2,140**
US Dollar	**–238**
Pound Sterling	**–41**
Other	**–11**
Total	**–2,430**

The Earnings at Risk and the Net Present Value at Risk are based on a 1% instantaneous upward shock.

In the Risk Management section a detailed description is given on the interest rate risk in the Banking book. Contrary to Pillar 3, in the Risk Management section several non-trading books are governed by the trading risk process. As a result the figures above differ from the figures in the Risk Management section.

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