ING Insurance

# Annual Report 2008

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# Composition of the Boards

## COMPOSITION OF THE BOARDS
on 31 December 2008

ING Insurance 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 Verzekeringen 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 INSURANCE 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 INSURANCE

ING Insurance has three business lines.

**Insurance Europe**

Is a market leader in life insurance and retirement services in the Netherlands and Belgium, and operates life insurance, retirement services and asset management in Hungary, Poland, Czech Republic, Slovakia, Bulgaria, Romania, Russia, but also in Spain, Greece and Turkey. In almost all countries in Europe ING has built its life insurance operations from scratch. This entry strategy has been successful.

**Insurance Americas**

Provides insurance, investment, retirement and asset management products and services in the region. ING is ranked third in the defined contribution segment of the US retirement services market as measured by assets. We are also a leading pension and life insurance company in a number of Latin American countries, including Mexico, Chile and Peru.

**Insurance Asia/Pacific**

Conducts life insurance and asset/wealth management activities in the region. ING is the region's second-largest international life insurer in nine countries. ING has strong positions in Australia, New Zealand, Japan, Hong Kong, Malaysia and South Korea, and has a growing presence in the high-growth markets of China, India and Thailand.

# Overview and Insurance Europe

## OVERVIEW

ING Verzekeringen N.V., together with ING Bank N.V., is part of ING Groep N.V. The business lines for the insurance activities are Insurance Europe, Insurance Americas and Insurance Asia/Pacific.

ING manages its business 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 42 ‘Primary reporting format – Business segments’.

### Financial results

Total result before tax from Insurance operations declines EUR 8,341 million from a profit of EUR 6,615 million in 2007 to a loss of EUR 1,726 million in 2008. Underlying result before tax (excluding the impact of divestments and special items) decreased from a profit of EUR 6,195 million in 2007 to a loss of EUR 1,326 million in 2008. The sharp decline in results was due mainly to the deterioration of the financial markets in the second half of 2008. Additionally 2007 results included gains of EUR 2,087 million in 2007 on the sale of ING’s stakes in ABN AMRO and Numico.

Underlying result from life insurance fell by EUR 6,748 million from a profit of EUR 4,913 last year to a loss of EUR 1,835 million. Investment income was adversely impacted by capital losses and impairments on equity and debt securities as well as negative fair value changes on real estate and private equity investments. The result was also adversely affected by deferred acquisition costs (DAC) unlocking in the US and hedge losses on the SPVA business in Japan. Underlying profit before tax on non-life insurance declined 60.3% to EUR 509 million from EUR 1,282 million last year, due primarily to capital losses and impairments of equities, and disappointing underwriting results in Canada.

Underlying gross premium income from life insurance decreased 3.7% to EUR 38,748 million, but up 3.3% excluding ING Life Taiwan and currency effects are excluded, driven mainly by the US, Australia, and most countries in Asia. Underlying gross premium income from non-life insurance decreased 8.1%, or 4.1% excluding currency effects, to EUR 4,402 million, largely because of the sale of the Chile health business.

Underlying operating expenses for insurance operations increased 1.4% (up 2.7% excluding ING Life Taiwan) to EUR 5,242 million as cost containment helped offset most of the costs of supporting business growth in Asia/Pacific and Central Europe. In 2007, operating expenses also included a EUR 89 million non-recurring net release of employee benefits provisions in the Netherlands.

## INSURANCE EUROPE

Insurance Europe delivered a resilient performance in 2008, especially in Central Europe. However, Insurance Europe was affected by the global financial turmoil. The lower net result was mainly due to negative revaluation of real estate and private equity investments. The business responded by managing the business more efficiently and prudently, and by de-risking its balance sheet.

Insurance Europe’s underlying result before tax fell 76.7% to EUR 456 million in 2008, as most European investment portfolios were negatively impacted by the financial market turmoil. The EUR 1,504 million decline in underlying result before tax, EUR 667 million was primarily caused by lower income from real estate and for EUR 456 million by lower private equity income, due to impairments and revaluations. Life insurance results declined EUR 1,381 million to EUR 151 million in 2008. Underlying profit before tax from non-life insurance declined 28.7% to EUR 305 million, primarily due to a decline of EUR 120 million in investment income. Corporate income tax fell 61.1% to EUR 110 million.

Underlying premium income decreased by 0.6% to EUR 10,194 million, as both life and non-life premiums fell marginally in the deteriorating economic environment. Premium growth in Central and Rest of Europe clearly slowed down in the course of the year, as the effects of the credit crisis were increasingly felt in the emerging economies in the region. The successful introduction of a single premium investment product in Poland, which generated EUR 542 million in sales, is not reflected in gross premiums. Pension inflows in Central Europe totalled EUR 2.0 billion in 2008, up 29.1% from 2007. In Belgium, life premiums declined 8.3% to EUR 1,064 million as the outlook for single premium products with profit participation worsened and bank deposits offered increasingly attractive rates. Life premiums in the Netherlands were flat at EUR 5.0 billion.

In 2008, Insurance Europe received EUR 2.3 billion in (net) capital contributions from the Corporate Line Insurance. These capital contributions were needed to meet regulatory and/or internal solvency requirements, as available solvency was adversely affected by declining market values of the investment portfolios.

The value of new business was virtually flat at EUR 397 million although new sales (APE) increased by 4.2% to EUR 1,010 million, due in particular to higher sales in the Netherlands after inclusion of group contract renewals in the definition of new sales. The Romanian second-pillar pension fund, which was launched in September 2007, contributed EUR 73 million in value of new business and EUR 40 million in new sales in 2008.

### Overall strategic approach

Insurance Europe operates in the mature Benelux market and the emerging markets of Central Europe, Spain, Greece and Turkey with a focus on life insurance and retirement services. Within the Benelux, Insurance Europe maintains its focus on the pension and life insurance business while continuing to enhance cost and capital efficiency. Insurance Europe has the long-term ambition to grow bancassurance in Central Europe. For the longer term, Insurance Europe will focus on growth in pension and life insurance client balances

# Insurance Europe and Insurance Americas

driven by economic growth and growth in retirement services.

**Business developments**
ING Insurance Europe operates in the mature Benelux market and the emerging markets of Central Europe, with a focus on life insurance and retirement services. It is the leading life insurer and pension provider in both the Netherlands and Central Europe. In addition, Insurance Europe operates life insurance businesses in Spain, Greece, Russia, and has a growing presence in Turkey. Commercial performance was resilient in 2008, especially in Central Europe, which continued to see strong net pension inflows and traditional life sales. However, Insurance Europe was negatively affected by the global financial turmoil. The lower net result is mainly attributable to negative fair value changes on real estate and private equity investments.

**Developments in mature markets**
Within the Benelux, ING maintains its focus on the pension and life insurance business while continuing to enhance cost and capital efficiency. Cost containment in the Netherlands was reflected in lower staffing levels and increased operational efficiency. Life insurance operations in Belgium are continuing their operational efficiency efforts. The life insurance market in the Benelux remains highly competitive. ING is focused on maintaining profitability and returns by enhancing its multi-channel distribution platform, reducing costs and reinforcing its market position as the specialist in retirement services.

In mid November 2008 ING reached an outline agreement with consumer organisations in the Netherlands to resolve a dispute regarding individual universal life insurance products sold to customers in the Netherlands by ING's Dutch insurance subsidiaries. The costs of the settlement have been valued at EUR 365 million. Nationale-Nederlanden demonstrated its commitment to improve customer confidence and transparency by ceasing production of its individual unit-linked life insurance policies, and by launching a new generation of fully transparent variable annuity products in the course of 2008.

**Stable growth in Central Europe**
Markets in Central Europe tend to be sizable, with a growing middle-class: demographic conditions that are conducive to growth in life insurance and retirement services. In 2008, ING in Central and Rest of Europe showed solid financial results and sales in general were up. Overall, the number of customers increased from 7 million to 8.6 million. A growing number of customers as well as wage increases resulted in a solid performance in the pensions business in Central Europe. ING is implementing a multi-channel distribution approach, with a blend of channels such as tied agents, bancassurance and brokers. In December 2008, ING completed the acquisition of Turkish voluntary pension company Oyak Emeklilik, providing the opportunity to enter the growing Turkish pension market. In July 2008, ING received approval from the relevant authorities to start life insurance operations in Ukraine.
However, circumstances in Ukraine have deteriorated drastically due to the global financial turmoil. As a result of this instability, ING decided to postpone its greenfield life insurance operation there.

**Looking ahead**
Insurance Europe will reinforce its position as the specialist in investments and retirement services across Europe. Although economic prospects are muted due to the global economic climate, long-term growth prospects remain favourable. Insurance Europe will re-base the business to respond to market conditions, through a focus on expense reduction and capital management. In Central and Rest of Europe, ING will build on its leading position and focus on broadening the distribution base and increasing its operating efficiency.

## INSURANCE AMERICAS

Insurance Americas' results were significantly affected by the global financial turmoil, which resulted in substantial credit and investment-related losses together with lower sales of equity-linked products. The CitiStreet acquisition has given Retirement Services in the US a robust platform for further growth. Sales in Latin America remained constant, while returns were lower and Canada produced firm results given the challenging market circumstances.

Underlying result before tax declined to a loss of EUR 534 million. The US recorded a loss of EUR 1,117 million following the severe impact of turbulent financial environment. This result included investment losses of EUR 965 million, of which EUR 811 million related to credit losses. In addition, deferred acquisition costs unlocking had a negative impact of EUR 1,180 million. Underlying profit before tax in Canada decreased 22.6%, or 17.7% excluding currency effects, to EUR 364 million. Underlying profit before tax in Latin America decreased by 6.8%, or 12.2% excluding currencies, to EUR 220 million.

Premium income decreased by 1.1% to EUR 21,887 million, but excluding currency effects rose 6.9%. In the US, premiums increased by 8.7% excluding currency impact, as sales of retirement services, variable and fixed annuities and insurance were higher than 2007 levels. Premium income in Canada decreased 4.2% to EUR 2,671 million, but increased by 1.7% excluding currency impact, reflecting rate increases in personal lines but a lower number of new insured risks. Premiums in Latin America decreased 20.6% excluding currency effects, reflecting the sale of Chilean health insurance business in the first quarter of 2008, which was partly offset by higher annuity sales.

The value of new business (VNB) increased by 12.6%, driven by higher pension fund sales and better quality of business in Latin America. VNB in the US fell 7.9% due to reduced spread-related products sales and pressure on variable annuity margins and sales.

# Insurance Americas and Insurance Asia/Pacific

**Developments in the United States**

Insurance Americas' most critical priorities in 2009 are customer retention, cost containment and reducing risk to preserve capital and to improve profitability. The acquisition of CitiStreet for EUR 570 million boosted ING's leading position in retirement services in the US. Variable annuity sales were well supported by ING *LifePay Plus,* a withdrawal benefit launched in 2007, but sales began to slow in the third quarter as equity markets became more volatile and dipped further in the fourth quarter. Sales of fixed annuities improved 35% as customers sought fixed-rate products in the volatile market environment. The US Individual Life business generated a 11% increase in sales in 2008. More than 156,000 new policies were issued during 2008, up 87% from 2007.

**Lower returns in Latin America mask solid sales**

ING's strong market positions in life and pension businesses across Latin America allowed the company to post solid top-line growth, but investment returns declined due to the financial market crisis. The sale of the Mexican insurance business, completed in July 2008, allowed ING in Mexico to concentrate on its growing Afore pension, annuities and investment management businesses. In November 2008, the Argentine government nationalised the country's private pension system, which includes ING's pension fund business. ING is the second largest pension provider in Latin America. It holds strong positions in Peru, Mexico, Chile, Uruguay and Colombia. In Peru, ING increased its stake in AFP Integra to 80%, and also increased its shareholding in ING Fondos, a Peruvian mutual fund provider, under the holding company of ING Wealth Management.

**Canada**

In February 2009, ING completed the sale of its entire 70% stake in property & casualty insurer ING Canada.

**Looking ahead**

ING will focus on aggressive capital management and de-risking in 2009 to ensure the company is well-positioned for the rebound in markets. Over the longer term, Insurance Americas will balance profit, growth, value creation and capital management with a continued focus on retirement services, life insurance and investments in the Americas. Insurance Americas remains committed to building and strengthening customer and distributor relationships, and making it easier for people to do business with ING.

## INSURANCE ASIA/PACIFIC

Growth in the Asia/Pacific region was adversely affected by global economic developments in 2008. However, as one of the leading international insurance and asset management companies in the region with a strong and diversified distribution network, ING remains well-positioned to maintain its franchise. Based on annual premium equivalent, ING maintained or improved its market positions across the region in 2008, a sign of its sound product portfolio and distribution capabilities. Active repositioning of its product portfolio was at the core of ING's response to changing customer needs due to the economic downturn.

Underlying result before tax decreased by 79.9% to EUR 116 million. Japan recorded a loss of EUR 167 million. Excluding Japan and currency effects, underlying result before tax declined 3.0%.

Gross premium income decreased 12.6%, or 3.3% excluding Taiwan and currency effects, to EUR 11,040 million. Double-digit growth was recorded in local currency terms in Australia, South Korea and Rest of Asia, but this was more than offset by a sharp decline in single premium variable annuity premiums in Japan.

Assets under management decreased by 22.6% to EUR 82 billion at year-end 2008. Underlying operating expenses fell 6.7%, but were up 6.9% excluding Taiwan and currency impacts, to EUR 1,040 million as cost containment helped to offset most of the increased expenses from a higher in-force base in some countries and continued investment in greenfield operations, to support the growth in premium income in these markets.

The Value of New Business (VNB) decreased 27.4%, or 14.6%, excluding Taiwan, to EUR 321 million, broadly consistent with the decline in sales.

**Continued strengthening of distribution channels**

Broadening distribution methods and increasing the efficiency of existing channels continues to be a strategic priority for ING in Asia. Traditionally, the tied agent channel has been the largest, but distribution through banks is on the rise. The number of tied agents grew from 75,000 in 2007 to over 100,000. This growth took place mainly in India, South Korea and Thailand. Insurance Asia/Pacific's bank distribution takes place through partnerships with other banks as well as through ING's retail banking presence in the region.

Bank distribution was further reinforced through an exclusive agreement with the Royal Bank of Scotland in Hong Kong, and by sales expansion to TMB Bank's entire branch network in Thailand.

**Products**

In several countries, ING introduced new products. For instance, in Japan, a new single premium variable annuity product with guaranteed income benefits was introduced. In Malaysia, ING further expanded its unit-linked product offering in response to government deregulation. In South Korea, ING launched retirement services. In Australia, a flexible term-deposit option was added to the wealth management platform to compete against higher deposit rates offered by banks. In South Korea, a product was launched that allows customers a choice between asset-linked performance (with a capital guarantee) or a fixed interest rate every six months.

# Insurance Asia/Pacific

**Organisational and operational efficiency**
Insurance Asia/Pacific's regional structure was strengthened and simplified by the establishment of a new regional governance structure. ING continues to focus on talent management, managing the inflow of new talent as well as local leadership development.

**Brand awareness**
Brand awareness in the region has risen as a result of the global advertising campaign and sponsorship activation of the Shanghai, Tokyo, Melbourne and Singapore Formula 1 Grands Prix, as well as Insurance Asia/Pacific's sponsorships of the national and league competitions under the purview of the Asian Football Confederation. Together with local advertising and sponsorships, brand awareness increased throughout the region.

**Looking ahead**
In the year ahead, ING will continue to focus on maintaining its market share and managing for value rather than growth. In addition to initiatives for cost containment and repositioning of product portfolios, new measures to strengthen capital and risk management, as well as compliance are underway. Throughout the business line, efficiency will be increased through the standardisation of key operational processes. Insurance Asia/Pacific will continue to strengthen the bancassurance model.

**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 Verzekeringen 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 for 2008 is proposed of EUR 2,800 million. This amount has already been paid as interim dividend.

### Meetings

The Supervisory Board met thirteen times in 2008 of which six meetings were scheduled. Most of the ad-hoc meetings focussed 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 Insurance 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 the ING Insurance employees 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 Verzekeringen N.V. ('ING Insurance') 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 judgments and estimates that are prudent and reasonable. It is also responsible for establishing and maintaining internal procedures which ensure that all major financial information is known to the 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 Verzekeringen N.V. 2008 Annual Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of ING Verzekeringen N.V. and the enterprises included in the consolidation taken as a whole;

- the ING Verzekeringen 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 Verzekeringen N.V. and the enterprises included in the consolidation taken as a whole, together with a description of the principal risks ING Verzekeringen 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 Insurance

## as at 31 December

| amounts in millions of euros | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents 1 | **14,440** | 3,115 |
| Financial assets at fair value through profit and loss 2 | | |
| – trading assets | **537** | 1,008 |
| – investments for risk of policyholders | **95,366** | 114,827 |
| – non-trading derivatives | **6,344** | 1,232 |
| – designated as at fair value through profit and loss | **3,789** | 3,805 |
| Available-for-sale investments 3 | **109,487** | 132,266 |
| Loans and advances to customers 4 | **25,635** | 27,529 |
| Reinsurance contracts 15 | **5,797** | 5,874 |
| Investments in associates 5 | **2,723** | 3,189 |
| Real estate investments 6 | **1,118** | 1,302 |
| Property and equipment 7 | **710** | 907 |
| Intangible assets 8 | **4,731** | 3,942 |
| Deferred acquisition costs 9 | **11,843** | 10,692 |
| Other assets 10 | **29,700** | 12,395 |
| Total assets | **312,220** | 322,083 |
| | | |
| **EQUITY** | | |
| Shareholders' equity (parent) 11 | **11,893** | 17,911 |
| Minority interests | **520** | 890 |
| Total equity | **12,413** | 18,801 |
| | | |
| **LIABILITIES** | | |
| Subordinated loans 12 | **6,928** | 4,493 |
| Debt securities in issue 13 | **4,728** | 4,636 |
| Other borrowed funds 14 | **13,153** | 11,355 |
| Insurance and investment contracts 15 | **240,790** | 265,712 |
| Financial liabilities at fair value through profit and loss 16 | | |
| – trading liabilities | **4** | 101 |
| – non-trading derivatives | **5,213** | 1,704 |
| Other liabilities 17 | **28,991** | 15,281 |
| Total liabilities | **299,807** | 303,282 |
| | | |
| Total equity and liabilities | **312,220** | 322,083 |

References relate to the notes starting on page 34. These form an integral part of the consolidated annual accounts.

# Consolidated profit and loss account of ING Insurance

## for the years ended 31 December

| amounts in millions of euros | 2008 | 2008 | 2007 | 2007 | 2006 | 2006 |
|---|---|---|---|---|---|---|
| Gross premium income 30 | | **43,812** | | 46,818 | | 46,835 |
| Investment income 31 | | **7,177** | | 12,827 | | 10,473 |
| Net gains/losses on disposals of group companies | | **15** | | 299 | | 46 |
| Gross commission income | **3,510** | | 3,527 | | 3,073 | |
| Commission expense | **–1,440** | | –1,626 | | –1,438 | |
| Commission income 32 | | **2,070** | | 1,901 | | 1,635 |
| Valuation results on non-trading derivatives 33 | | **1,977** | | –687 | | –48 |
| Net trading income 34 | | **–350** | | 370 | | 272 |
| Share of profit from associates 5 | | **–187** | | 530 | | 465 |
| Other income 35 | | **150** | | 294 | | –10 |
| Total income | | **54,664** | | 62,352 | | 59,668 |
| | | | | | | |
| Gross underwriting expenditure 36 | **18,831** | | 51,818 | | 53,065 | |
| Investment result for risk of policyholders | **32,408** | | –1,079 | | –2,702 | |
| Reinsurance recoveries | **–1,754** | | –1,906 | | –2,175 | |
| Underwriting expenditure 36 | | **49,485** | | 48,833 | | 48,188 |
| Intangible amortisation and other impairments 37 | | **310** | | 14 | | 18 |
| Staff expenses 38 | | **2,896** | | 2,836 | | 2,810 |
| Interest expenses 39 | | **1,121** | | 1,445 | | 1,231 |
| Other operating expenses 40 | | **2,578** | | 2,609 | | 2,464 |
| Total expenses | | **56,390** | | 55,737 | | 54,711 |
| | | | | | | |
| Result before tax | | **–1,726** | | 6,615 | | 4,957 |
| | | | | | | |
| Taxation 41 | | **–499** | | 782 | | 706 |
| Net result (before minority interests) | | **–1,227** | | 5,833 | | 4,251 |
| | | | | | | |
| Attributable to: | | | | | | |
| Shareholders of the parent | | **–1,265** | | 5,650 | | 3,960 |
| Minority interests | | **38** | | 183 | | 291 |
| | | **–1,227** | | 5,833 | | 4,251 |

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Dividend per ordinary share (in euros) | **18.20** | 29.89 | 10.72 |
| Total amount of dividend paid (in millions of euros) | **2,800** | 4,600 | 1,650 |

References relate to the notes starting on page 74. These form an integral part of the consolidated annual accounts.

# Consolidated statement of cash flows of ING Insurance

## for the years ended 31 December

| amounts in millions of euros | | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Result before tax | | **–1,726** | 6,615 | 4,957 |
| Adjusted for | – depreciation | **268** | 213 | 210 |
| | – deferred acquisition costs and value of business acquired | **–444** | –1,338 | –1,317 |
| | – increase in provisions for insurance and investment contracts | **16,363** | 26,494 | 17,689 |
| | – other | **2,479** | –2,654 | –4,493 |
| Taxation paid | | **97** | –514 | –793 |
| Changes in | – trading assets | **471** | –43 | –1,062 |
| | – non-trading derivatives | **1,276** | 165 | –22 |
| | – other financial assets at fair value through profit and loss | **–147** | –771 | –50 |
| | – loans and advances to customers | **–793** | –3,390 | –81 |
| | – other assets | **–2,418** | –1,794 | –1,313 |
| | – trading liabilities | | | 41 |
| | – other financial liabilities at fair value through profit and loss | **1,535** | 2 | 265 |
| | – other liabilities | **–3,832** | 133 | –262 |
| Net cash flow from operating activities | | **13,129** | 23,118 | 13,769 |
| | | | | |
| Investments and advances | – group companies | **–1,146** | –1,217 | –136 |
| | – associates | **–651** | –490 | –175 |
| | – available-for-sale investments | **–133,255** | –188,146 | –188,184 |
| | – real estate investments | **–378** | –623 | –1,300 |
| | – property and equipment | **–161** | –190 | –209 |
| | – investments for risk of policyholders | **–64,735** | –54,438 | –44,116 |
| | – other investments | **–266** | –106 | –108 |
| Disposals and redemptions | – group companies | **1,563** | 1,042 | 219 |
| | – associates | **832** | 826 | 87 |
| | – available-for-sale investments | **130,563** | 180,876 | 182,079 |
| | – real estate investments | **225** | 170 | 983 |
| | – property and equipment | **113** | 82 | 82 |
| | – investments for risk of policyholders | **59,251** | 47,136 | 37,945 |
| | – other investments | **11** | 6 | 35 |
| Net cash flow from investing activities **44** | | **–8,034** | –15,072 | –12,798 |
| | | | | |
| Proceeds from issuance of subordinated loans | | **2,948** | 707 | |
| Repayments of subordinated loans | | **–898** | | |
| Proceeds from borrowed funds and debt securities | | **33,257** | 51,399 | 85,300 |
| Repayments of borrowed funds and debt securities | | **–31,656** | –55,402 | –84,115 |
| Issuance of ordinary shares/ capital injection (1) | | **5,450** | | |
| Payments to acquire treasury shares | | **–23** | –29 | –23 |
| Sales of treasury shares | | **39** | 24 | 37 |
| Dividends paid | | **–2,842** | –4,640 | –1,684 |
| Net cash flow from financing activities | | **6,275** | –7,941 | –485 |
| | | | | |
| Net cash flow **45** | | **11,370** | 105 | 486 |
| | | | | |
| Cash and cash equivalents at beginning of year | | **3,115** | 3,017 | 2,745 |
| Effect of exchange rate changes on cash and cash equivalents | | **–45** | –7 | –214 |
| Cash and cash equivalents at end of year | | **14,440** | 3,115 | 3,017 |

References relate to the notes starting on page 88. These form an integral part of the consolidated annual accounts.

# Consolidated statement of changes in equity of ING Insurance

## 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 | 174 | 4,374 | 16,079 | 20,627 | 1,227 | 21,854 |
| | | | | | | |
| Unrealised revaluations after taxation | | | –3 | –3 | –8 | –11 |
| Realised gains/losses transferred to profit and loss | | | –575 | –575 | –1 | –576 |
| Changes in cash flow hedge reserve | | | –273 | –273 | | –273 |
| Transfer to insurance liabilities/DAC | | | 820 | 820 | –3 | 817 |
| Employee stock option and share plans | | | 51 | 51 | 2 | 53 |
| Exchange rate difference | | | –1,076 | –1,076 | –72 | –1,148 |
| Other revaluations | | | 36 | 36 | | 36 |
| Total amount recognised directly in equity | | | –1,020 | –1,020 | –82 | –1,102 |
| | | | | | | |
| Net result | | | 3,960 | 3,960 | 291 | 4,251 |
| | | | 2,940 | 2,940 | 209 | 3,149 |
| | | | | | | |
| Changes in composition of the group | | | | | 368 | 368 |
| Dividends | | | –1,650 | –1,650 | –34 | –1,684 |
| Balance as at 31 December 2006 | 174 | 4,374 | 17,369 | 21,917 | 1,770 | 23,687 |
| | | | | | | |
| Unrealised revaluations after taxation | | | –1,669 | –1,669 | –109 | –1,778 |
| Realised gains/losses transferred to profit and loss | | | –2,847 | –2,847 | | –2,847 |
| Changes in cash flow hedge reserve | | | –692 | –692 | | –692 |
| Transfer to insurance liabilities/DAC | | | 1,132 | 1,132 | 4 | 1,136 |
| Employee stock option and share plans | | | 49 | 49 | | 49 |
| Exchange rate difference | | | –1,029 | –1,029 | 23 | –1,006 |
| Other revaluations | | | | | 31 | 31 |
| Total amount recognised directly in equity | | | –5,056 | –5,056 | –51 | –5,107 |
| | | | | | | |
| Net result | | | 5,650 | 5,650 | 182 | 5,832 |
| | | | 594 | 594 | 131 | 725 |
| | | | | | | |
| Changes in composition of the group | | | | | –914 | –914 |
| Dividends | | | –4,600 | –4,600 | –40 | –4,640 |
| Change in minority interest shareholdings | | | | | –58 | –58 |
| Balance as at 31 December 2007 | 174 | 4,374 | 13,363 | 17,911 | 889 | 18,800 |
| | | | | | | |
| Unrealised revaluations after taxation | | | **–11,570** | **–11,570** | **–78** | **–11,648** |
| Realised gains/losses transferred to profit and loss | | | **898** | **898** | | **898** |
| Changes in cash flow hedge reserve | | | **1,350** | **1,350** | | **1,350** |
| Transfer to insurance liabilities/DAC | | | **2,193** | **2,193** | | **2,193** |
| Employee stock option and share plans | | | **40** | **40** | | **40** |
| Exchange rate difference | | | **–314** | **–314** | **–134** | **–448** |
| Other revaluations | | | | | **–23** | **–23** |
| Total amount recognised directly in equity | | | **–7,403** | **–7,403** | **–235** | **–7,638** |
| | | | | | | |
| Net result | | | **–1,265** | **–1,265** | **38** | **–1,227** |
| | | | **–8,668** | **–8,668** | **–197** | **–8,865** |
| | | | | | | |
| Changes in composition of the group | | | | | **–130** | **–130** |
| Dividends | | | **–2,800** | **–2,800** | **–42** | **–2,842** |
| Capital injection | | **5,450** | | **5,450** | | **5,450** |
| Balance as at 31 December 2008 | **174** | **9,824** | **1,895** | **11,893** | **520** | **12,413** |

## Consolidated statement of changes in equity of ING Insurance (continued)

In 2008, deferred taxes for the year with regard to unrealised revaluations amounted to EUR 2,005 million (2007: EUR 620 million). For details on deferred tax see Note 17 'Other liabilities'.

In 2008, an amount of EUR 5,450 million (2007: nil) additional share premium was received from ING Group to strengthen solvency.

Reserves include Revaluation reserve of EUR –4,645 million (2007: EUR 2,834 million; 2006: EUR 7,098 million), Currency translation reserve of EUR –1,191 million (2007: EUR –1,086 million; 2006: EUR –257 million) and Other reserves of EUR 7,731 million (2007: EUR 11,615 million; 2006: EUR 10,528 million). Changes in individual components are presented in Note 11 'Shareholders' equity (parent)'.

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

## AUTHORISATION OF ANNUAL ACCOUNTS

The consolidated annual accounts of ING Verzekeringen N.V. ('ING Insurance') 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 Verzekeringen N.V. is incorporated and domiciled in Amsterdam, the Netherlands. The principal activities of ING Insurance are described in 'ING at a glance' on page 4.

## BASIS OF PRESENTATION

ING Insurance 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 Insurance 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)
- Amendments to IFRS 7 'Improving Disclosures about Financial Instruments'
- Amendments to IFRIC 9 and IAS 39 – 'Embedded Derivatives'

ING Insurance 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 Insurance'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 Insurance made with regard to the options available under International Financial Reporting Standards as adopted by the 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 Insurance (continued)

## CRITICAL ACCOUNTING POLICIES

ING Insurance 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 insurance provisions and deferred acquisition costs, 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'.

### INSURANCE PROVISIONS AND DEFERRED ACQUISITION COSTS (DAC) AND VALUE OF BUSINESS ACQUIRED (VOBA)

The establishment insurance provisions, DAC and VOBA is an inherently uncertain process, involving assumptions about factors such as court decisions, changes in laws, social, economic and demographic trends, inflation, investment returns, policyholder behaviour and other factors, and, in the life insurance business, assumptions concerning mortality and morbidity trends. Specifically, significant assumptions related to these items that could have a material impact on financial results include interest rates, mortality, morbidity, property and casualty claims, investment yields on equity and real estate, foreign currency exchange rates and reserve adequacy assumptions.

The use of different assumptions about these factors could have a material effect on insurance provisions and underwriting expense. Changes in assumptions may lead to changes in the insurance provisions over time. Furthermore, some of these assumptions can be volatile.

In addition, the adequacy of insurance provisions, net of DAC and VOBA, is evaluated regularly. The test involves comparing the established insurance provision with current best estimate assumptions about factors such as court decisions, changes in laws, social, economic and demographic trends, inflation, investment returns, policyholder behaviour and other factors, and mortality and morbidity trends. The use of different assumptions in this test could lead to a different outcome.

Insurance provisions also include the impact of minimum guarantees which are contained within certain variable annuity products. This impact is dependent upon the difference between the potential minimum benefits payable and the total account balance, expected mortality and surrender rates. The determination of the potential minimum benefits payable also involves the use of assumptions about factors such as inflation, investment returns, policyholder behaviour, mortality and morbidity trends and other factors. The use of different assumptions about these factors could have a material effect on insurance provisions and underwriting expense.

The process of defining methodologies and assumptions for insurance provisions, DAC and VOBA is governed by ING Insurance risk management governance as described in the section 'Risk management'.

See section 'Risk management' for a sensitivity analysis of net result and shareholders' equity to insurance, interest rate, equity, foreign currency and real estate risks. These sensitivities are based on changes in assumptions that management considers reasonably likely at the balance sheet date.

### 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 use 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 values of financial assets and liabilities' for the basis of the determination of the fair values of financial instruments and related sensitivities.

**IMPAIRMENTS**

Impairment evaluation is a complex process that inherently involves significant judgements and uncertainties that may have a material impact on the ING Insurance'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.

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

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 Insurance's domestic and international 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 or 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, 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 Insurance comprises ING Verzekeringen N.V. and all its subsidiaries. The consolidated financial statements of ING Insurance comprise the accounts of ING Verzekeringen N.V. and each of those 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 ING Insurance controls another entity. For interests in investment vehicles the existence of control is determined taking into account both ING'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 Insurance has agreed to sell but is still legally owned by ING Insurance may still be controlled by ING Insurance 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 group companies have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with ING Insurance policies. In general, the reporting dates of subsidiaries are the same as the reporting date of ING Verzekeringen N.V. There are no material restrictions on subsidiaries to transfer funds to ING Verzekeringen N.V.

ING Insurance's interests in jointly controlled entities are accounted for using proportionate consolidation. ING Insurance 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 Insurance's financial statements. ING Insurance recognises the portion of gains or losses on the sale of assets to the joint venture that is attributable to the other venturers. ING Insurance does not recognise its share of profits or losses from the joint venture that results from the purchase of assets by ING Insurance 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 ING Insurance 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 ING Insurance engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The geographical analyses are based on the location of the office from which the transactions are originated. The business lines of ING Insurance are the business segments and the primary segment reporting format. The geographical segments are considered the secondary.

## ANALYSIS OF INSURANCE BUSINESS

Where amounts in respect of insurance business are analysed into 'life' and 'non-life', health and disability insurance business which is similar in nature to life insurance is included in 'life'.

## FOREIGN CURRENCY TRANSLATION

### Functional and presentational currency

Items included in the financial statements of each of ING Insurance'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 Company'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 difference 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 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); and
- All resulting exchange rate differences are recognised in a separate component of equity.

On consolidation exchange rate differences arising from the translation of a monetary item that forms part of the net investment in a foreign operation, and of borrowings and other instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold 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 ING Insurance is the current bid price; the quoted market price used for financial liabilities is the current ask price.

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques. ING Insurance 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 determination of the fair value of financial instruments.

**FINANCIAL ASSETS**

**Recognition of financial assets**

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

**Derecognition of financial assets**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where ING Insurance has transferred substantially all risks and rewards of ownership. If ING Insurance neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset. In transfers where control over the asset is retained, ING Insurance continues to recognise the asset to the extent of its continuing involvement. The extent of continuing involvement is determined by the extent to which ING Insurance 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 and other and comprise the following sub-categories: trading assets, non trading derivatives, financial assets designated at fair value through profit and loss by management, and investments for risk of policyholders. For derivatives reference is made to the 'Derivative and hedge accounting' section below.

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. Investments for risk of policyholders are investments against insurance liabilities for which all changes in fair value of invested assets are offset by similar changes in insurance liabilities. Transaction costs on initial recognition are expensed as incurred. Interest income from debt securities and loans and receivables classified as at fair value through profit and loss is recognised in Investment 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. Investment result from investment for risk of policyholders is recognised in investment result for risk of policyholders. 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 Investment 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 'Impairments 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 for which the ING Insurance has the positive intention 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 Investment 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 Loans and advances to customers and other Other assets and are reflected in these balance sheet lines. Interest income from loans and receivables is recognised in Investment 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 Cash and cash equivalents.
- 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 options pricing models, as appropriate. All derivatives are carried as assets when their fair values are 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. ING Insurance designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge), hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedge), or hedges of a net investment in 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 Insurance documents the relationship between hedging instruments and hedged items, its risk management objectives, together with the methods selected to assess hedge effectiveness. ING Insurance 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. Assessment is made when ING Insurance first becomes party to the contract. Subsequent reassessment is made only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit and loss, and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account. An assessment is carried out when ING Insurance first becomes party to the contract. A subsequent reassessment is carried out only when there is a change in 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 items 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 and 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 ING Insurance as part of its risk management strategies, but which do not qualify for hedge accounting under ING Insurance's accounting policies, are presented as non-trading derivatives. Non-trading derivatives are measured at fair value with changes in the fair value taken to the profit and loss account.

**OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**
Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet when ING Insurance 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.

**IMPAIRMENTS OF LOANS AND ADVANCES TO CUSTOMERS (LOAN LOSS PROVISIONS)**
ING Insurance 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 ING Insurance's credit risk systems.

ING Insurance 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 recognized.

ING Insurance first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and then individually or collectively for financial assets that are not individually significant. If ING Insurance 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 ING Insurance'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 ING Insurance's loan loss provision. Although the loss confirmation periods are inherently uncertain, the Group 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 ING Insurance's account managers. Generally, the frequency increases in relation to the size of the borrower. Loss confirmation periods are based on historical experience and are validated, and revised where necessary, through regular back-testing to ensure that they reflect recent experience and current events.

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

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

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

### IMPAIRMENT OF OTHER FINANCIAL ASSETS
At each balance sheet date ING Insurance 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 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 ING Insurance 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 policy making process, and
- Interchange of managerial personnel.

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

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

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

For interests in investment vehicles the existence of significant influence is determined taking into account both ING Insurance’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 independently 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 values of land and buildings are based on regular appraisals by independently 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 ING Insurance 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 ING Insurance's own development and supervision expenses, where necessary, less impairment losses.

**Property held for sale**
Property held for sale comprises properties obtained from foreclosures. 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 ING Insurance'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.

**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**
**ING Insurance as the lessee**
The leases entered into by ING Insurance 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.

**PURCHASE ACCOUNTING, GOODWILL AND OTHER INTANGIBLE ASSETS**
**Goodwill**
ING Insurance's acquisitions are accounted for under the purchase method of accounting, whereby the cost of the acquisition 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 ING Insurance'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.

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 lower level of 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 values 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 group 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.

### Value of business acquired (VOBA)
VOBA is an asset that represents the present value of estimated net cash flows embedded in the insurance contracts of an acquired company, which existed at the time the company was acquired. It represents the difference between the fair value of insurance liabilities and their book value. VOBA is amortised in a similar manner to the amortisation of deferred acquisition costs as described in the section 'Deferred acquisition costs'.

### 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.

## DEFERRED ACQUISITION COSTS
Deferred acquisition costs (DAC) are an asset and represent costs of acquiring insurance and investment contracts that are deferred and amortised. The deferred costs, all of which vary with (and are primarily related to) the production of new and renewal business, consist principally of commissions, certain underwriting and contract issuance expenses, and certain agency expenses.

For traditional life insurance contracts, certain types of flexible life insurance contracts and non-life contracts, DAC is amortised over the premium payment period in proportion to the premium revenue recognised.

For other types of flexible life insurance contracts DAC is amortised over the lives of the policies in relation to the emergence of estimated gross profits. Amortisation is adjusted when estimates of current or future gross profits, to be realised from a group of products, are revised. The estimates and the assumptions are reassessed at the end of each reporting period. For DAC on flexible insurance contracts the approach is that in determining the estimate of future gross profits ING assumes the short-term and long-term separate account growth rate assumption to be the same. Higher/lower expected profits (e.g. reflecting stock market performance or a change in the level of assets under management) may cause a lower/higher amortisation of DAC due to the catch-up of amortisation in previous and future years. This process is known as DAC unlocking. The impact of the DAC unlocking is recognised in the profit and loss account of the period in which the unlocking occurs.

DAC is evaluated for recoverability at issue. Subsequently it is tested on a regular basis together with the provision for life insurance liabilities and VOBA. The test for recoverability is described in the section 'Insurance, Investment and Reinsurance Contracts'.

DAC is adjusted for the impact of unrealised results on allocated investments through equity.

## TAXATION
Income tax on the net result for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account but 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 ING Insurance 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 costs

Financial liabilities at amortised cost include the following sub-categories: Other borrowed funds, debt securities in issue, subordinated loans, amounts due to banks and customer deposits and other funds on deposit. Borrowings are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

If ING Insurance 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 liabilities designated at fair value through profit and loss by management. Trading liabilities include equity securities 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. 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.

## INSURANCE, INVESTMENT AND REINSURANCE CONTRACTS

### Insurance contracts

Insurance policies which bear significant insurance risk are presented as insurance contracts. Provisions for liabilities under insurance contracts represent estimates of future payouts that will be required for life and non-life insurance claims, including expenses relating to such claims. For some insurance contracts the measurement reflects current market assumptions.

### Provision for life insurance

The Provision for life insurance is calculated on the basis of a prudent prospective actuarial method, taking into account the conditions for current insurance contracts. Specific methodologies may differ between business units as they may reflect local regulatory requirements and local practices for specific product features in the local markets.

Insurance provisions on traditional life policies are calculated using various assumptions, including assumptions on mortality, morbidity, expenses, investment returns and surrenders. Assumptions for insurance provisions on traditional life insurance contracts, including traditional whole life and term life insurance contracts, are based on best estimate assumptions including margins for adverse deviations. The assumptions are set initially at the policy issue date and remain constant throughout the life of the policy, except in the case of loss recognition.

Insurance provisions for universal life, variable life and annuity contracts, unit-linked contracts, etc. are generally set equal to the balance that accrues to the benefit of the policyholders. Certain variable annuity products contain minimum guarantees on the amounts payable upon death and/or maturity. The insurance provisions include the impact of these minimum guarantees, taking into account the difference between the potential minimum benefit payable and the total account balance, expected mortality and surrender rates.

The as yet unamortised interest rate rebates on periodic and single premium contracts are deducted from the Provision for life insurance. Interest rate rebates granted during the year are capitalised and amortised in conformity with the anticipated recovery pattern and are recognised in the profit and loss account.

### Provision for unearned premiums and unexpired insurance risks

The provision is calculated in proportion to the unexpired periods of risk. For insurance policies covering a risk increasing during the term of the policy at premium rates independent of age, this risk is taken into account when determining the provision. Further provisions are made to cover claims under unexpired insurance contracts, which may exceed the unearned premiums and the premiums due in respect of these contracts.

### Claims provision

The Claims provision is calculated either on a case-by-case basis or by approximation on the basis of experience. Provisions have also been made for claims incurred but not reported and (IBNR) for future claims handling expenses. The adequacy of the Claims provision is evaluated each year using standard actuarial techniques. In addition, 'IBNR' reserves are set to recognise the estimated cost of losses that have occurred but which have not yet been notified to ING Insurance.

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

**Deferred profit sharing liability**
For insurance contracts with discretionary participation features a deferred profit sharing liability is recognised for the full amount of the unrealised revaluation on allocated investments. Upon realisation, the profit sharing on unrealised revaluations is reversed and a deferred profit sharing liability is recognised for the share of realised results on allocated investments that is expected to be shared with policyholders. The deferred profit sharing liability is reduced by the actual allocation of profit sharing to individual policyholders.

**Provisions for life insurance for risk of policyholders**
The Provisions for life insurance for risk of policyholders are calculated on the same basis as the Provision for life insurance. For investment contracts for risk of policyholders the provisions are generally shown at the balance sheet value of the associated investments.

**Reinsurance contracts**
Reinsurance premiums, commissions and claim settlements, as well as the reinsurance element of technical provisions are accounted for in the same way as the original contracts for which the reinsurance was concluded. To the extent that the assuming reinsurers are unable to meet their obligations, the Group remains liable to its policyholders for the portion reinsured. Consequently, provisions are made for receivables on reinsurance contracts which are deemed uncollectible.

**Adequacy test**
The adequacy of the Provision for life insurance, net of unamortised interest rate rebates, DAC and VOBA (the net insurance liabilities), is evaluated regularly by each business unit. The test considers current estimates of all contractual and related cash flows, and future developments. It includes investment income on the same basis as it is included in the profit and loss account.

If, for any business unit, it is determined using a best estimate (50%) confidence level, that a shortfall exists, and there are no offsetting amounts within other business units in the Business Line, the shortfall is recognised immediately in the profit and loss account.

If, for any business unit, the net insurance liabilities are not adequate using a prudent (90%) confidence level, but there are offsetting amounts within other business units, then the business unit is allowed to take measures to strengthen the net insurance liabilities over a period no longer than the expected life of the policies. To the extent that there are no offsetting amounts within other business units, any shortfall at the 90% confidence level is recognised immediately in the profit and loss account.

If the net insurance liabilities are determined to be adequate at above the 90% confidence level, no reduction in the net insurance liabilities is recognised.

**Investment contracts**
Insurance policies without discretionary participation features which do not bear significant insurance risk are presented as Investment contracts. Provisions for liabilities under investment contracts are determined either at amortised cost, using the effective interest method (including certain initial acquisition expenses), or at fair value.

**OTHER LIABILITIES**
**Employee benefits - pension obligations**
ING Insurance companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. ING Insurance 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 the 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. The corridor was reset to nil at the date of transition to IFRS-EU.

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

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

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

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

## INCOME RECOGNITION

**Gross premium income**
Premiums from life insurance policies are recognised as income when due from the policyholder. For non-life insurance policies, gross premium income is recognised on a pro-rata basis over the term of the related policy coverage. Receipts under investment contracts are not recognised as gross premium income.

**Interest**
Interest income and expense are recognised in the profit and loss account using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, ING Insurance 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. 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 and investment contract fees 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.

## EXPENSE RECOGNITION

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

**Share-based payments**
Share-based payment expenses are recognised as the employees provide the service. A corresponding increase in equity is recognised if the services are received in an equity-settled share-based payment transaction. 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 Insurance has generally provided equity-settled share-based payment transactions. However, since 2007 ING Insurance 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**

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

# Accounting policies for the consolidated statement of cash flows of ING Insurance

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. 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 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 Insurance

amounts in millions of euros, unless stated otherwise

## ASSETS

### 1 CASH AND CASH EQUIVALENTS

**Cash and cash equivalents**

| | 2008 | 2007 |
|---|---|---|
| Cash and bank balances | **4,389** | 2,648 |
| Short term deposits | **10,051** | 467 |
| | **14,440** | 3,115 |

### 2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

**Financial assets at fair value through profit and loss**

| | 2008 | 2007 |
|---|---|---|
| Trading assets | **537** | 1,008 |
| Investments for risk of policyholders | **95,366** | 114,827 |
| Non-trading derivatives | **6,344** | 1,232 |
| Designated as at fair value through profit and loss | **3,789** | 3,805 |
| | **106,036** | 120,872 |

**Trading assets by type**

| | 2008 | 2007 |
|---|---|---|
| Equity securities | **506** | 983 |
| Debt securities | **26** | 15 |
| Derivatives | **5** | 10 |
| | **537** | 1,008 |

The fair value of credit derivatives included in trading assets and held to mitigate exposure to credit risk was nil (2007: nil), and the change in their fair value in the period was nil (2007: nil).

**Investments for risk of policyholders by type**

| | 2008 | 2007 |
|---|---|---|
| Equity securities | **83,208** | 106,061 |
| Debt securities | **7,729** | 7,398 |
| Loans or receivables | **4,429** | 1,368 |
| | **95,366** | 114,827 |

The fair value of credit derivatives included in investment for risk of policyholders and held to mitigate exposure to credit risk was EUR –12 million (2007: EUR –7 million), and the change in their fair value in the period was EUR –5 million (2007: EUR –7 million).

In 2008 and 2007 there was no significant change in the fair value of loans and receivables included in Investments for risk of policyholders attributable to changes in the credit risk of the financial assets.

The cost of investments for risk of policyholders as at 31 December 2008 was EUR 115,929 million (2007: EUR 105,625 million).

Interests in investment funds (with underlying investments in debt and equity securities, real estate and derivatives) are included under equity securities.

## Non-trading derivatives by type

| | 2008 | 2007 |
|---|---|---|
| Derivatives used in: | | |
| – fair value hedges | **33** | 31 |
| – cash flow hedges | **2,232** | 264 |
| – hedges of net investments in foreign operations | **331** | 258 |
| Other non-trading derivatives | **3,748** | 679 |
| | **6,344** | 1,232 |

The fair value of credit derivatives included in non-trading derivatives and held to mitigate exposure to credit risk on debt securities was nil (2007: nil), and the change in their fair value in the period was nil (2007: nil).

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 | **57** | 9 |
| Debt securities | **1,850** | 1,852 |
| Other | **1,882** | 1,944 |
| | **3,789** | 3,805 |

The change in the fair value of the loans and receivables designated as at fair value through profit and loss attributable to changes in the credit risk of the financial assets during 2008 was nil (2007: nil) and cumulatively was nil (2007: nil).

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

### 3 AVAILABLE-FOR-SALE INVESTMENTS

## Available-for-sale investments by type

| | 2008 | 2007 |
|---|---|---|
| Equity securities | **6,959** | 16,322 |
| Debt securities | **102,528** | 115,944 |
| | **109,487** | 132,266 |

## Changes in available-for-sale investments

| | Equity securities | | Debt securities | | Total | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| Opening balance | **16,322** | 16,327 | **115,944** | 124,163 | **132,266** | 140,490 |
| Additions | **4,128** | 6,928 | **129,127** | 181,218 | **133,255** | 188,146 |
| Amortisation | | | **118** | 100 | **118** | 100 |
| Transfers and reclassifications | **39** | 526 | | –1,408 | **39** | –882 |
| Changes in the composition of the group and other | **–751** | –328 | **–11,669** | –4,184 | **–12,420** | –4,512 |
| Changes in unrealised revaluations | **–3,091** | 1,484 | **–9,599** | –3,840 | **–12,690** | –2,356 |
| Impairments | **–1,585** | –36 | **–776** | –76 | **–2,361** | –112 |
| Disposals and redemptions | **–7,865** | –8,410 | **–122,691** | –172,466 | **–130,556** | –180,876 |
| Exchange rate differences | **–238** | –169 | **2,074** | –7,563 | **1,836** | –7,732 |
| Closing balance | **6,959** | 16,322 | **102,528** | 115,944 | **109,487** | 132,266 |

## Available-for-sale equity securities

| | 2008 | 2007 |
|---|---|---|
| Listed | **5,083** | 14,082 |
| Unlisted | **1,876** | 2,240 |
| | **6,959** | 16,322 |

## Notes to the consolidated balance sheet of ING Insurance (continued)

As at 31 December 2008, the balance sheet value included equity securities which were lent or sold in repurchase transactions amounting to EUR 182 million (2007: EUR 13 million) and nil (2007: nil), respectively, and debt securities which were lent or sold in repurchase transactions amounting to EUR 2,198 million (2007: EUR 479 million) and EUR 1,857 million (2007: EUR 2,199 million), respectively.

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

| | Equity securities | | Debt securities | | Total | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| To/from available-for-sale | | 18 | | –18 | | |
| To/from loans and advances | | –1 | | | | –1 |
| To/from fair value though profit and loss | | 52 | | –1,386 | | –1,334 |
| To/from Investment in associates | **39** | 446 | | | **39** | 446 |
| To/from Other assets/Other liabilities | | 11 | | –4 | | 7 |
| | **39** | 526 | | –1,408 | **39** | –882 |

In 2007 the reclassification from Available-for-sale to Financial assets designated as at fair value through profit and loss relates to debt securities backing insurance contracts where current market assumptions were implemented in the measurement of the insurance contracts.

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 nil as at 31 December 2008 (2007: nil).

As at 31 December 2008 nil investments were classified as held-to-maturity (2007: nil).

### 4 LOANS AND ADVANCES TO CUSTOMERS

**Loans and advances to customers by type**

| | Netherlands | | International | | Total | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| Policy loans | **52** | 54 | **2,908** | 3,414 | **2,960** | 3,468 |
| Loans secured by mortgages | **6,804** | 8,532 | **8,789** | 8,772 | **15,593** | 17,304 |
| Personal loans | **3,210** | 2,851 | **2,012** | 2,555 | **5,222** | 5,406 |
| Other | **309** | 378 | **1,610** | 1,003 | **1,919** | 1,381 |
| | **10,375** | 11,815 | **15,319** | 15,744 | **25,694** | 27,559 |
| | | | | | | |
| Loan loss provisions | **–27** | –14 | **–32** | –16 | **–59** | –30 |
| | **10,348** | 11,801 | **15,287** | 15,728 | **25,635** | 27,529 |

**Changes in loan loss provisions**

| | **2008** | 2007 |
|---|---|---|
| Opening balance | **30** | 37 |
| Changes in the composition of the group | **–4** | –3 |
| Write–offs | **–6** | –11 |
| Recoveries | **2** | 1 |
| Increase in loan loss provisions | **38** | 8 |
| Exchange rate differences | **–1** | –1 |
| Other changes | | –1 |
| Closing balance | **59** | 30 |

## 5 INVESTMENTS IN ASSOCIATES

**Investments in associates**

| 2008 | Interest held (%) | Balance sheet value | Total assets | Total liabilities | Total income | Total expenses |
|---|---|---|---|---|---|---|
| Lionbrook Property Partnership | 29 | 145 | 626 | 126 | –283 | 15 |
| ING Winkels Basisfonds | 16 | 218 | 1,736 | 346 | 119 | 51 |
| ING Woningen Basisfonds | 13 | 122 | 1,064 | 155 | 58 | 45 |
| Property Fund Iberica | 30 | 157 | 1,835 | 1,301 | –2 | 96 |
| ING Vastgoed Winkels C.V. | 10 | 88 | 898 | 22 | 83 | 22 |
| Retail Property Fund France Belgium (RPFFB) | 15 | 79 | 1,602 | 1,075 | 71 | 57 |
| ING Vastgoed Woningen C.V. | 10 | 53 | 528 | 1 | 36 | 25 |
| Sul America S.A. | 36 | 168 | 557 | 91 | 2,663 | 2,348 |
| ING Dutch Office Master Fund C.V. | 16 | 219 | 1,624 | 258 | 63 | 75 |
| ING Vastgoed Kantoren C.V. | 10 | 98 | 1,006 | 22 | 101 | 93 |
| ING Logistics Property Fund Europe | 25 | 65 | 530 | 269 | –5 | 21 |
| ING Retail Property Partnership Southern Europe | 21 | 73 | 1,218 | 879 | 6 | 67 |
| ING Property Fund Central and Eastern Europe | 20 | 55 | 791 | 519 | 32 | 60 |
| ING Re French Residential Fund | 45 | 50 | 182 | 69 | 3 | 4 |
| ING Re Nordic Property Fund | 16 | 64 | 979 | 579 | 16 | 62 |
| Lion Structured Finance | 20 | 174 | 174 | 1 | 3 | 1 |
| Dutch Residential Fund II | 13 | 74 | 602 | 51 | 62 | 127 |
| Dutch Office Fund II | 16 | 109 | 817 | 136 | 50 | 58 |
| Property Fund Central Europe | 25 | 83 | 880 | 546 | 69 | 37 |
| Other investments in associates | | 629 | | | | |
| | | 2,723 | | | | |

Other investments in associates represent a large number of associates with an individual balance sheet value of less than EUR 50 million.

None of these associates are listed.

Accumulated impairments of EUR 4 million (2007: EUR 4 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 Insurance’s financial interests for own risk and its role as investment manager.

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 Insurance. However for practical reasons the reporting date of certain associates, differ slightly from the reporting date of Insurance, but in any case, the difference between the reporting date of the associates and that of Insurance is no more than three months.

## Notes to the consolidated balance sheet of ING Insurance (continued)

**Investments in associates**

| 2007 | Interest held (%) | Balance sheet value | Total assets | Total liabilities | Total income | Total expenses |
|---|---|---|---|---|---|---|
| Lionbrook Property Partnership | 28 | 295 | 1,243 | 176 | –60 | 27 |
| ING Winkels Basisfonds | 24 | 333 | 1,617 | 209 | 192 | 22 |
| ING Woningen Basisfonds | 25 | 237 | 1,116 | 112 | 135 | 48 |
| Property Fund Iberica | 30 | 185 | 1,959 | 1,331 | 313 | 188 |
| ING PF Brittanica | 20 | 93 | 864 | 402 | –7 | 42 |
| Q-Park N.V. | 19 | 191 | 3,911 | 2,914 | 458 | 403 |
| B.V. Petroleum Maatschappij 'Moeara Enim' | 30 | 130 | 461 | | 19 | 2 |
| ING Vastgoed Winkels C.V. | 10 | 86 | 870 | 8 | 130 | 19 |
| Retail Property Fund France Belgium (RPFFB) | 15 | 81 | 1,597 | 1,069 | 304 | 189 |
| ING Vastgoed Woningen C.V. | 10 | 56 | 557 | 1 | 68 | 15 |
| ING Dutch Office Master Fund C.V. | 24 | 348 | 1,718 | 257 | 202 | 24 |
| ING Vastgoed Kantoren C.V. | 10 | 103 | 1,033 | 7 | 124 | 34 |
| ING Logistics Property Fund Europe | 25 | 78 | 574 | 263 | 76 | 31 |
| ING Retail Property Partnership Southern Europe | 23 | 66 | 1,150 | 857 | 111 | 78 |
| ING Property Fund Central and Eastern Europe | 23 | 66 | 761 | 478 | 40 | 39 |
| ING Re Nordic Property Fund | 22 | 104 | 1,089 | 623 | 70 | 47 |
| Property Fund Central Europe | 25 | 73 | 649 | 358 | 119 | 41 |
| Lion Structured Finance | 20 | 171 | 180 | 1 | 5 | 2 |
| Other investments in associates | | 493 | | | | |
| | | 3,189 | | | | |

**Changes in investments in associates**

| | 2008 | 2007 |
|---|---|---|
| Opening balance | **3,189** | 3,151 |
| Additions | **674** | 546 |
| Changes in the composition of the group | **1** | 1,402 |
| Transfers to and from Investments | **–39** | –446 |
| Revaluations | **132** | –448 |
| Share of results | **–187** | 534 |
| Dividends received | **–111** | –173 |
| Disposals | **–871** | –1,275 |
| Impairments | | –4 |
| Exchange rate differences | **–65** | –98 |
| Closing balance | **2,723** | 3,189 |

In 2007, Changes in the composition of the group related mainly to the change in status of Real estate funds as a result of the reduction of ING's shareholding in these funds.

In 2008, share of results of EUR –187 million (2007: EUR 534 million) and impairments of nil (2007: EUR –4 million) are presented in the profit and loss account in the Share of profit from associates for EUR –187 million (2007: EUR 530 million).

### 6 REAL ESTATE INVESTMENTS

**Changes in real estate investments**

| | 2008 | 2007 |
|---|---|---|
| Opening balance | **1,302** | 3,310 |
| Additions | **378** | 624 |
| Changes in the composition of the group | **–361** | –2,469 |
| Transfers to and from Property in own use | **–46** | –60 |
| Transfers to and from Other assets | **120** | 14 |
| Fair value gains/(losses) | **–50** | 75 |
| Disposals | **–225** | –170 |
| Exchange rate differences | | –22 |
| Closing balance | **1,118** | 1,302 |

In 2007 Changes in the composition of the group related mainly to the deconsolidation of Real estate funds as a result of the reduction of ING's shareholding in these funds.

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2008 was EUR 79 million (2007: EUR 95 million). The total amount of contingent rent recognised in the profit and loss account for the year ended 31 December 2008 was EUR 17 million (2007: EUR 14 million).

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 14 million (2007: EUR 15 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 7 million (2007: EUR 14 million).

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

| | 2008 |
|---|---|
| Most recent appraisal in 2008 | 96 |
| Most recent appraisal in 2007 | 1 |
| Most recent appraisal in 2006 | 2 |
| Most recent appraisal in 2005 | 1 |
| Most recent appraisal in 2004 | 0 |
| | 100 |

## 7 PROPERTY AND EQUIPMENT

**Property and equipment by type**

| | 2008 | 2007 |
|---|---|---|
| Property in own use | 394 | 603 |
| Equipment | 316 | 304 |
| | 710 | 907 |

**Changes in property in own use**

| | 2008 | 2007 |
|---|---|---|
| Opening balance | 603 | 694 |
| Additions | 17 | 57 |
| Changes in the composition of the group | –156 | –109 |
| Transfers to and from real estate investments | 46 | 60 |
| Transfers to and from other assets | 6 | 64 |
| Depreciation | –3 | –8 |
| Revaluations | 2 | –59 |
| Impairments | –1 | |
| Disposals | –107 | –61 |
| Exchange rate differences | –13 | –35 |
| Other changes | | |
| Closing balance | 394 | 603 |
| | | |
| Gross carrying amount as at 31 December | 425 | 696 |
| Accumulated depreciation as at 31 December | –29 | –41 |
| Accumulated impairments as at 31 December | –2 | –52 |
| Net book value | 394 | 603 |
| | | |
| **Revaluation surplus** | | |
| Opening balance | 50 | 109 |
| Revaluation in year | –9 | 22 |
| Released in year | 11 | –81 |
| Closing balance | 52 | 50 |

The cost or the purchase price amounted to EUR 374 million (2007: EUR 646 million). Cost less accumulated depreciation and impairments would have been EUR 342 million (2007: EUR 553 million).

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

| | 2008 |
|---|---|
| Most recent appraisal in 2008 | 87 |
| Most recent appraisal in 2007 | 5 |
| Most recent appraisal in 2006 | 1 |
| Most recent appraisal in 2005 | 4 |
| Most recent appraisal in 2004 | 1 |
| Most recent appraisal in 2003 | 2 |
| | 100 |

**Changes in equipment**

| | Data processing equipment | | Fixtures and fittings and other equipment | | Total | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Opening balance | 65 | 51 | 239 | 306 | 304 | 357 |
| Additions | 37 | 51 | 107 | 82 | 144 | 133 |
| Changes in the composition of the group | –6 | 4 | –18 | 2 | –24 | 6 |
| Disposals | –1 | –5 | –4 | –16 | –5 | –21 |
| Depreciation | –33 | –31 | –58 | –58 | –91 | –89 |
| Impairments | –3 | | –3 | | –6 | 0 |
| Exchange rate differences | –3 | –3 | –11 | –11 | –14 | –14 |
| Other changes | 1 | –2 | 7 | –66 | 8 | –68 |
| Closing balance | 57 | 65 | 259 | 239 | 316 | 304 |
| | | | | | | |
| Gross carrying amount as at 31 December | 240 | 314 | 457 | 584 | 697 | 898 |
| Accumulated depreciation as at 31 December | –180 | –249 | –195 | –344 | –375 | –593 |
| Accumulated impairments as at 31 December | –3 | | –3 | –1 | –6 | –1 |
| Net book value | 57 | 65 | 259 | 239 | 316 | 304 |

## 8 INTANGIBLE ASSETS

**Changes in intangible assets**

| | Value of business acquired | | Goodwill | | Software | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Opening balance | 2,301 | 2,641 | 1,076 | 264 | 178 | 163 | 387 | 164 | 3,942 | 3,232 |
| Additions (bought) | | 93 | 1,082 | 908 | 97 | 106 | 142 | 96 | 1,321 | 1,203 |
| Capitalised expenses | 98 | | | | 26 | 24 | | | 124 | 24 |
| Amortisation | –298 | –229 | | | –70 | –104 | –104 | –13 | –472 | –346 |
| Impairments | | | –155 | | | | –44 | –1 | –199 | –1 |
| Effect of unrealised revaluations in equity | 555 | 32 | | | | | | | 555 | 32 |
| Changes in the composition of the group | –730 | 25 | 6 | –28 | –8 | | 233 | 154 | –499 | 151 |
| Exchange rate differences | 158 | –261 | –120 | –68 | –12 | –5 | –55 | –13 | –29 | –347 |
| Disposals | | | | | –11 | –6 | –1 | | –12 | –6 |
| Closing balance | 2,084 | 2,301 | 1,889 | 1,076 | 200 | 178 | 558 | 387 | 4,731 | 3,942 |
| | | | | | | | | | | |
| Gross carrying amount as at 31 December | 2,980 | 2,946 | 2,044 | 1,076 | 684 | 607 | 744 | 425 | 6,452 | 5,054 |
| Accumulated amortisation as at 31 December | –896 | –645 | | | –484 | –414 | –141 | –37 | –1,521 | –1,096 |
| Accumulated impairments as at 31 December | | | –155 | | | –15 | –45 | –1 | –200 | –16 |
| Net book value | 2,084 | 2,301 | 1,889 | 1,076 | 200 | 178 | 558 | 387 | 4,731 | 3,942 |

Amortisation of software and other intangible assets is included in the profit and loss account in Other operating expenses. Amortisation of VOBA is included in Underwriting expenditure.

Additions to goodwill in 2008 include mainly EUR 462 million related to the acquisition of CitiStreet, EUR 285 million related to the acquisition of the pension business of Santander Chile, EUR 34 million related to the acquisition of ING Investment Management Luxemburg, EUR 127 million related to the acquisition of ING Investment Management België and EUR 69 million related to the acquisition of Oyak Emeklilik. The increase in Other intangibles in 2008 includes mainly EUR 31 million related to the pension business of Santander Chile and EUR 73 million related to CitiStreet. Reference is made to Note 25 'Companies acquired and companies disposed'.

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 |
|---|---|---|
| Insurance Americas – Latin America | **543** | 474 |
| Insurance Americas – United States | **590** | 85 |
| Insurance Americas – Canada | **71** | 84 |
| Insurance Asia/Pacific – South Korea | **164** | 107 |
| Insurance Asia/Pacific – Rest of Asia | **186** | 224 |
| Insurance Europe – Benelux | **210** | 49 |
| Insurance Europe – Rest of Europe | **125** | 53 |
| Total Insurance | **1,889** | 1,076 |

As a result of the nationalisation of AFJP Pension in Argentina goodwill of EUR 155 million was written off.

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 Insurance Americas - United States, 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.

## 9 DEFERRED ACQUISITION COSTS

**Changes in deferred acquisition costs**

| | Investment contracts | | Life insurance | | Non–life insurance | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| Opening balance | **101** | 83 | **10,183** | 9,645 | **408** | 435 | **10,692** | 10,163 |
| Capitalised | **50** | 31 | **2,495** | 2,766 | **126** | 257 | **2,671** | 3,054 |
| Amortisation and unlocking | **–12** | –12 | **–1,884** | –1,294 | **–130** | –274 | **–2,026** | –1,580 |
| Effect of unrealised revaluations in equity | | | **1,523** | 43 | | | **1,523** | 43 |
| Changes in the composition of the group | **–34** | | **–1,289** | | **–104** | –5 | **–1,427** | –5 |
| Exchange rate differences | **–16** | –1 | **461** | –938 | **–35** | 10 | **410** | –929 |
| Disposal of portfolios | | | | –39 | | –15 | | –54 |
| Closing balance | **89** | 101 | **11,489** | 10,183 | **265** | 408 | **11,843** | 10,692 |

For flexible life insurance contracts the growth rate assumption used to calculate the amortisation of the deferred acquisition costs for 2008 is 6.4% gross and is 5.6% net of investment management fees (2007: 6.6% gross and 5.6% net of investment management fees).

In 2008, Changes in the composition of the group related for EUR 1,164 million to the sale of ING Life Taiwan.

## 10 OTHER ASSETS

### Other assets by type

| | 2008 | 2007 |
|---|---|---|
| Reinsurance and insurance receivables | **3,683** | 3,664 |
| Deferred tax assets | **1,964** | 472 |
| Property held for sale | **12** | 13 |
| Income tax receivable | **448** | 475 |
| Accrued interest and rents | **3,347** | 3,217 |
| Other accrued assets | **1,028** | 513 |
| Pension assets | **670** | 439 |
| Taiwan – assets held for sale | **15,312** | |
| Other receivables | **3,236** | 3,602 |
| | **29,700** | 12,395 |

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

Accrued interest and rents includes EUR 2,068 million (2007: EUR 2,648 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).

### Reinsurance and insurance receivables

| | 2008 | 2007 |
|---|---|---|
| Receivables on account of direct insurance from | | |
| – policyholders | **2,750** | 2,211 |
| – intermediaries | **191** | 283 |
| Reinsurance receivables | **742** | 1,170 |
| | **3,683** | 3,664 |

### Taiwan – assets held for sale

| | 2008 |
|---|---|
| Cash and bank balances | **80** |
| Financial assets at fair value through profit and loss | **1,552** |
| Available for sale investments | **9,801** |
| Loans and advances to customers | **1,341** |
| Property and equipment | **41** |
| Intangible assets | **671** |
| Deferred acquisition costs | **1,164** |
| Other assets | **662** |
| Taiwan – assets held for sale | **15,312** |

Reference is made to Note 25 'Companies acquired and disposed'. As at 31 December 2008 ING Life Taiwan is classified as held for sale in the consolidated balance sheet. Amounts as at 31 December 2007 are presented in the relevant balance sheet lines.

## EQUITY

### 11 SHAREHOLDERS' EQUITY (PARENT)

**Shareholders' equity (parent)**

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Share capital | **174** | 174 | 174 |
| Share premium | **9,824** | 4,374 | 4,374 |
| Revaluation reserve | **–4,645** | 2,834 | 7,098 |
| Currency translation reserve | **–1,191** | –1,086 | –257 |
| Other reserves | **7,731** | 11,615 | 10,528 |
| Shareholders' equity (parent) | **11,893** | 17,911 | 21,917 |

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

**Share capital**

| | | | | | | Ordinary shares (par value EUR 1.13) |
|---|---|---|---|---|---|---|
| | | Number x1,000 | | | | Amount |
| | 2008 | 2007 | 2006 | 2008 | 2007 | 2006 |
| Authorised share capital | **680,000** | 680,000 | 680,000 | **768** | 768 | 768 |
| Unissued share capital | **526,116** | 526,116 | 526,116 | **594** | 594 | 594 |
| Issued share capital | **153,884** | 153,884 | 153,884 | **174** | 174 | 174 |

No shares have been issued in 2008, 2007 or 2006.

**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 Insurance. The par value of ordinary shares is EUR 1.13. The authorised ordinary share capital of ING Insurance consists of 680 million shares, of which as at 31 December 2008 154 million have been issued and fully paid. There were no changes in issued share capital during 2008, 2007 or 2006.

**Dividend restrictions**
ING Verzekeringen 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 group 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 | 23 | 2,801 | 10 | 2,834 |
| Unrealised revaluations after taxation | 2 | –11,922 | | –11,920 |
| Realised gains/losses transferred to profit and loss | | 898 | | 898 |
| Change in cash flow hedge reserve | | | 1,350 | 1,350 |
| Transfer to insurance liabilities/DAC | | 2,193 | | 2,193 |
| Closing balance | 25 | -6,030 | 1,360 | –4,645 |

Transfer to insurance liabilities/DAC includes the change in the deferred profit sharing liability (net of deferred tax). Reference is made to Note 15 'Insurance and investment contracts, reinsurance contracts'.

## Notes to the consolidated balance sheet of ING Insurance (continued)

### Changes in revaluation reserve

| 2007 | Property revaluation reserve | Available-for-sale reserve | Cash flow hedge reserve | Total |
|---|---|---|---|---|
| Opening balance | 82 | 6,314 | 702 | 7,098 |
| Unrealised revaluations after taxation | –59 | –1,798 | | –1,857 |
| Realised gains/losses transferred to profit and loss | | –2,847 | | –2,847 |
| Change in cash flow hedge reserve | | | –692 | –692 |
| Transfer to insurance liabilities/DAC | | 1,132 | | 1,132 |
| Closing balance | 23 | 2,801 | 10 | 2,834 |

### Changes in revaluation reserve

| 2006 | Property revaluation reserve | Available-for-sale reserve | Cash flow hedge reserve | Total |
|---|---|---|---|---|
| Opening balance | 98 | 5,927 | 969 | 6,994 |
| Unrealised revaluations after taxation | –16 | 187 | | 171 |
| Realised gains/losses transferred to profit and loss | | –620 | | –620 |
| Change in cash flow hedge reserve | | | –267 | –267 |
| Transfer to insurance liabilities/DAC | | 820 | | 820 |
| Closing balance | 82 | 6,314 | 702 | 7,098 |

### Changes in currency translation reserve

| | **2008** | 2007 | 2006 |
|---|---|---|---|
| Opening balance | **–1,086** | –257 | 744 |
| Unrealised revaluations after taxation | **209** | 200 | 75 |
| Exchange rate differences | **–314** | –1,029 | –1,076 |
| Closing balance | **–1,191** | –1,086 | –257 |

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** | **Other reserves** | **Total** |
|---|---|---|---|---|
| Opening balance | **10,987** | **567** | **61** | **11,615** |
| Result for the year | **–1,078** | **–187** | | **–1,265** |
| Unrealised revaluations after taxation | **343** | **–202** | | **141** |
| Dividend | **–2,689** | **–111** | | **–2,800** |
| Employee stock options and share plans | **40** | | | **40** |
| Closing balance | **7,603** | **67** | **61** | **7,731** |

### Changes in other reserves

| 2007 | Retained earnings | Share of associates reserve | Other reserves | Total |
|---|---|---|---|---|
| Opening balance | 9,885 | 570 | 73 | 10,528 |
| Result for the year | 5,327 | 323 | | 5,650 |
| Unrealised revaluations after taxation | | | –12 | –12 |
| Dividend | –4,427 | –173 | | –4,600 |
| Employee stock options and share plans | 49 | | | 49 |
| Other | 153 | –153 | | |
| Closing balance | 10,987 | 567 | 61 | 11,615 |

## Changes in other reserves

| 2006 | Retained earnings | Share of associates reserve | Other reserves | Total |
|---|---|---|---|---|
| Opening balance | 8,147 | –2 | 196 | 8,341 |
| Result for the year | 3,260 | 700 | | 3,960 |
| Dividend | –1,522 | –128 | | –1,650 |
| Other | | | –123 | –123 |
| Closing balance | 9,885 | 570 | 73 | 10,528 |

## LIABILITIES

### 12 SUBORDINATED LOANS

**Subordinated loans**

| Interest rate | Year of Issue | Due date | Notional amount in original currency | | Balance sheet value 2008 | 2007 |
|---|---|---|---|---|---|---|
| 8.500% | 2008 | Perpetual | USD | 1,500 | **1,075** | |
| 8.000% | 2008 | Perpetual | EUR | 750 | **750** | |
| Variable | 2008 | Perpetual | USD | 1,100 | **788** | |
| 7.375% | 2007 | Perpetual | USD | 1,000 | **716** | 680 |
| 5.775% | 2005 | Perpetual | USD | 1,000 | **717** | 680 |
| 4.176% | 2005 | Perpetual | EUR | 300 | **297** | 276 |
| 6.125% | 2005 | Perpetual | USD | 200 | **149** | 130 |
| 6.125% | 2005 | Perpetual | USD | 100 | **75** | 65 |
| 6.375% | 2002 | 7 May 2027 | EUR | 1,000 | **1,077** | 1,048 |
| 7.200% | 2002 | Perpetual | USD | 500 | | 340 |
| 6.250% | 2001 | 21 June 2021 | EUR | 1,250 | **1,284** | 1,274 |
| | | | | | **6,928** | 4,493 |

Subordinated loans consists of subordinated bonds issued by ING Verzekeringen N.V. These bonds have been issued to raise hybrid capital. Under IFRS these bonds are classified as liabilities. They are considered capital for regulatory purposes.

### 13 DEBT SECURITIES IN ISSUE

The 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 Insurance, except for subordinated items. Debt securities in issue do not include debt securities presented as Financial liabilities at fair value through profit and loss. ING Insurance 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 | **649** | 76 |
| More than 1 year but less than 2 years | **290** | 647 |
| More than 2 years but less than 3 years | **412** | 313 |
| More than 3 years but less than 4 years | **814** | 361 |
| More than 4 years but less than 5 years | **2,018** | 766 |
| More than 5 years | **545** | 2,473 |
| Total fixed rate debt securities | **4,728** | 4,636 |

### 14 OTHER BORROWED FUNDS

**Other borrowed funds by remaining term**

| **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **There after** | **Total** |
|---|---|---|---|---|---|---|---|
| Loans contracted | **5,593** | **1,165** | **23** | **23** | **23** | **751** | **7,578** |
| Loans from credit institutions | **4,599** | **279** | **191** | **1** | **1** | **504** | **5,575** |
| | **10,192** | **1,444** | **214** | **24** | **24** | **1,255** | **13,153** |

**Other borrowed funds by remaining term**

| 2007 | **2008** | **2009** | **2010** | **2011** | **2012** | **There after** | **Total** |
|---|---|---|---|---|---|---|---|
| Loans contracted | 4,792 | 1,054 | 1,306 | | | 1,274 | 8,426 |
| Loans from credit institutions | 1,365 | 2 | 353 | 279 | 167 | 763 | 2,929 |
| | 6,157 | 1,056 | 1,659 | 279 | 167 | 2,037 | 11,355 |

## 15 INSURANCE AND INVESTMENT CONTRACTS, REINSURANCE CONTRACTS

The gross amount for provisions for insurance and investment contracts, net of reinsurance (i.e. the provision for ING Insurance's own account) are presented in the balance sheet gross under 'Insurance and investment contracts' and 'Reinsurance contracts'.

**Insurance and investment contracts, reinsurance contracts**

| | Provision net of reinsurance | | Reinsurance contracts | | Insurance and investment contracts | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| Provision for non-participating life policy liabilities | **67,120** | 70,401 | **4,822** | 4,481 | **71,942** | 74,882 |
| Provision for participating life policy liabilities | **55,266** | 54,645 | **217** | 175 | **55,483** | 54,820 |
| Provision for (deferred) profit sharing and rebates | **147** | 1,601 | **2** | 5 | **149** | 1,606 |
| Provision for life insurance for risk of policyholders | **84,279** | 100,753 | **541** | 639 | **84,820** | 101,392 |
| Life insurance provisions | **206,812** | 227,400 | **5,582** | 5,300 | **212,394** | 232,700 |
| | | | | | | |
| Provision for unearned premiums and unexpired risks | **1,756** | 2,614 | **13** | 99 | **1,769** | 2,713 |
| | | | | | | |
| Reported claims provision | **3,995** | 5,051 | **202** | 475 | **4,197** | 5,526 |
| Claims incurred but not reported (IBNR) | **1,345** | 1,121 | | | **1,345** | 1,121 |
| Claims provisions | **5,340** | 6,172 | **202** | 475 | **5,542** | 6,647 |
| | | | | | | |
| Total provisions for insurance contracts | **213,908** | 236,186 | **5,797** | 5,874 | **219,705** | 242,060 |
| | | | | | | |
| Investment contracts for risk of company | **9,804** | 9,520 | | | **9,804** | 9,520 |
| Investment contracts for risk of policyholders | **11,281** | 14,132 | | | **11,281** | 14,132 |
| Total provisions for investment contracts | **21,085** | 23,652 | | | **21,085** | 23,652 |
| | | | | | | |
| Total | **234,993** | 259,838 | **5,797** | 5,874 | **240,790** | 265,712 |

For insurance contracts with discretionary participation features a deferred profit sharing liability is recognised for the full amount of the unrealised revaluation on allocated investments. Upon realisation, the profit sharing on unrealised revaluation is reversed and a deferred profit sharing liability is recognised for the share of realised results on allocated investments that is expected to be shared with policyholders. The deferred profit sharing liability is reduced by the actual allocation of profit sharing to individual policyholders. The change in the deferred profit sharing liability (net of deferred tax) is recognised in equity in the Revaluation reserve. The deferred profit sharing liability is included in Provision for (deferred) profit sharing and rebates and amounts to EUR –876 million as at 31 December 2008 (2007: EUR 318 million)

**Changes in life insurance provisions**

| | Provision net of reinsurance | | Reinsurance contracts | | Insurance and investment contracts | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| Opening balance | **227,400** | 231,946 | **5,300** | 5,773 | **232,700** | 237,719 |
| Changes in the composition of the group | **–15,050** | –3,475 | **–25** | 2 | **–15,075** | –3,473 |
| | **212,350** | 228,471 | **5,275** | 5,775 | **217,625** | 234,246 |
| | | | | | | |
| Current year provisions | **33,078** | 27,224 | **884** | 139 | **33,962** | 27,363 |
| | | | | | | |
| Change in deferred profit sharing liability | **–1,169** | –1,546 | | | **–1,169** | –1,546 |
| | | | | | | |
| Prior year provisions: | | | | | | |
| – benefit payments to policyholders | **–24,626** | –21,933 | **–719** | –82 | **–25,345** | –22,015 |
| – interest accrual | **4,059** | 6,794 | **–15** | –40 | **4,044** | 6,754 |
| – effect of changes in discount rate assumptions | **–1** | | | | **–1** | |
| – valuation changes for risk of policyholders | **–32,408** | 5,612 | | | **–32,408** | 5,612 |
| – effect of changes in other assumptions | **–32** | 2 | | | **–32** | 2 |
| | **–53,008** | –9,525 | **–734** | –122 | **–53,742** | –9,647 |
| | | | | | | |
| Exchange rate differences | **9,918** | –15,583 | **259** | –501 | **10,177** | –16,084 |
| Other changes | **5,643** | –1,641 | **–102** | 9 | **5,541** | –1,632 |
| Closing balance | **206,812** | 227,400 | **5,582** | 5,300 | **212,394** | 232,700 |

Changes in the composition of the group in 2008 relate mainly to the sale of ING Life Taiwan. Reference is made to Note 17 ‘Other liabilities’.

Included in Changes in the composition of the group in 2007 is EUR 4,017 million relating to the disposal of portfolios in connection with the sale of the Belgian broker and employee benefits insurance business as disclosed in Note 25 ‘Companies acquired and companies disposed’.

Where discounting is used in the calculation of life insurance provision, the rate is within the range of 3.1% to 6.0% (2007: 2.9% to 6.0%) based on weighted averages.

Insurance provisions include a provision for the estimated cost of the agreement with regard to unit-linked policies. For more information reference is made to Note 26 ‘Legal proceedings’.

ING Insurance transferred part of its life insurance business to Scottish Re in 2004 by means of a co-insurance contract. This business continues to be included in Life insurance provisions. The related asset from the co-insurance contract is recognised under Reinsurance contracts. On 23 January 2009, Hannover Re and Scottish Re announced that Hannover Re has agreed to assume the ING individual life insurance business originally transferred to Scottish Re in 2004.

To the extent that the assuming reinsurers are unable to meet their obligations, the Group remains liable to its policyholders for the portion reinsured. Consequently, provisions are made for receivables on reinsurance contracts which are deemed uncollectible. The life reinsurance market is highly concentrated and, therefore, diversification of exposure is inherently difficult. To minimise its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographical regions, activities or economic characteristics of the reinsurer. Reference is also made to section ‘Risk management’

As at 31 December 2008, the total Reinsurance exposure, including Reinsurance contracts and Receivables from reinsurers (presented in Other assets) amounted to EUR 6,539 million (2007: EUR 7,044 million) after the provision for uncollectible reinsurance of nil (2007: EUR 5 million).

**Changes in provision for unearned premiums and unexpired risks**

| | Provision net of reinsurance | | Reinsurance contracts | | Insurance and investment contracts | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| Opening balance | **2,614** | 2,631 | **99** | 156 | **2,713** | 2,787 |
| Changes in the composition of the group | **–643** | –194 | **–93** | 3 | **–736** | –191 |
| | **1,971** | 2,437 | **6** | 159 | **1,977** | 2,596 |
| | | | | | | |
| Premiums written | **4,747** | 5,780 | **196** | 306 | **4,943** | 6,086 |
| Premiums earned during the year | **–4,719** | –5,701 | **–190** | –326 | **–4,909** | –6,027 |
| Exchange rate differences | **–231** | 15 | **–1** | –10 | **–232** | 5 |
| Other changes | **–12** | 83 | **2** | –30 | **–10** | 53 |
| Closing balance | **1,756** | 2,614 | **13** | 99 | **1,769** | 2,713 |

## Changes in claims provisions

| | Provision net of reinsurance | | Reinsurance contracts | | Insurance and investment contracts | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| Opening balance | **6,172** | 6,651 | **475** | 600 | **6,647** | 7,251 |
| Changes in the composition of the group | **–401** | –667 | **–135** | –18 | **–536** | –685 |
| | **5,771** | 5,984 | **340** | 582 | **6,111** | 6,566 |
| | | | | | | |
| Additions | | | | | | |
| – for the current year | **2,934** | 3,356 | **–93** | 78 | **2,841** | 3,434 |
| – for prior years | **–322** | –282 | **–12** | 14 | **–334** | –268 |
| – interest accrual of provision | **30** | 32 | | | **30** | 32 |
| | **2,642** | 3,106 | **–105** | 92 | **2,537** | 3,198 |
| | | | | | | |
| Claim settlements and claim settlement costs | | | | | | |
| – for the current year | **1,399** | 1,747 | **8** | –42 | **1,407** | 1,705 |
| – for prior years | **1,209** | 1,343 | **18** | 151 | **1,227** | 1,494 |
| | **2,608** | 3,090 | **26** | 109 | **2,634** | 3,199 |
| | | | | | | |
| Exchange rate differences | **–407** | 84 | **–26** | –14 | **–433** | 70 |
| Other changes | **–58** | 88 | **19** | –76 | **–39** | 12 |
| Closing balance | **5,340** | 6,172 | **202** | 475 | **5,542** | 6,647 |

ING Insurance had an outstanding balance of EUR 52 million as at 31 December 2008 (2007: EUR 66 million) relating to environmental and asbestos claims. In establishing the liability for unpaid claims and claims adjustment expenses related to asbestos related illness and toxic waste clean-up, the management of ING Insurance considers facts currently known and current legislation and coverage litigation. Liabilities are recognised for IBNR claims and for known claims (including the costs of related litigation) when sufficient information has been obtained to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, liabilities are reviewed and updated regularly.

Where discounting is used in the calculation of the claims provision the rate is, based on weighted averages, within the range of 3.0% to 4.0% (2007: 3.8% to 4.3%).

## Changes in investment contracts liabilities

| | **2008** | 2007 |
|---|---|---|
| Opening balance | **23,652** | 20,750 |
| Changes in the composition of the group | **–548** | –277 |
| | **23,104** | 20,473 |
| | | |
| Current year liabilities | **8,635** | 12,890 |
| | | |
| Prior year provisions | | |
| – payments to contract holders | **–8,472** | –9,697 |
| – interest accrual | **268** | 408 |
| – valuation changes investments | **–1,535** | 576 |
| | **–9,739** | –8,713 |
| | | |
| Exchange rate differences | **–1,111** | –1,147 |
| Other changes | **196** | 149 |
| Closing balance | **21,085** | 23,652 |

**Gross claims development table**

| | | | Underwriting year | | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
| Estimate of cumulative claims | | | | | | |
| At the end of underwriting year | 2,023 | 1,891 | 1,889 | 1,898 | 2,851 | |
| 1 year later | 1,785 | 1,754 | 1,821 | 1,798 | | |
| 2 years later | 1,594 | 1,620 | 1,708 | | | |
| 3 years later | 1,537 | 1,568 | | | | |
| 4 years later | 1,520 | | | | | |
| Estimate of cumulative claims | 1,520 | 1,568 | 1,708 | 1,798 | 2,851 | 9,445 |
| | | | | | | |
| Cumulative payments | –1,153 | –1,077 | –1,072 | –833 | –1,343 | –5,478 |
| | 367 | 491 | 636 | 965 | 1,508 | 3,967 |
| | | | | | | |
| Effect of discounting | –35 | –51 | –63 | –82 | –125 | –356 |
| Liability recognised | 332 | 440 | 573 | 883 | 1,383 | 3,611 |
| | | | | | | |
| Liability relating to prior underwriting years | | | | | | 1,931 |
| Total amount recognised in the balance sheet | | | | | | 5,542 |

ING Insurance applies the exemption provided for in IFRS-EU not to present Gross claims development for annual periods beginning before 1 January 2004 (the date of transition to IFRS-EU) as it is impracticable to obtain such information.

## 16 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

**Financial liabilities at fair value through profit and loss**

| | 2008 | 2007 |
|---|---|---|
| Trading liabilities | 4 | 101 |
| Non-trading derivatives | 5,213 | 1,704 |
| | 5,217 | 1,805 |

**Trading liabilities by type**

| | 2008 | 2007 |
|---|---|---|
| Equity securities | | 43 |
| Derivatives | 4 | 58 |
| | 4 | 101 |

**Non-trading derivatives by type**

| | 2008 | 2007 |
|---|---|---|
| Derivatives used in: | | |
| – fair value hedges | 531 | 143 |
| – cash flow hedges | 558 | 401 |
| – hedges of net investments in foreign operations | 106 | 267 |
| Other non-trading derivatives | 4,018 | 893 |
| | 5,213 | 1,704 |

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 during 2008 was nil (2007: nil) and nil (2007: nil) on a cumulative basis. This change has been determined as the amount of change in fair value of the financial liability that is not attributable to changes in market conditions that gave rise to market risk (i.e. mainly interest rate risk based on yield curves).

## 17 OTHER LIABILITIES

**Other liabilities by type**

| | 2008 | 2007 |
|---|---|---|
| Deferred tax liabilities | **1,275** | 1,615 |
| Income tax payable | **482** | 432 |
| Post-employment benefits | **120** | 136 |
| Pension benefits | **236** | –65 |
| Other staff-related liabilities | **128** | 159 |
| Other taxation and social security contributions | **112** | 185 |
| Deposits from reinsurers | **909** | 427 |
| Accrued interest | **1,664** | 1,223 |
| Costs payable | **1,223** | 909 |
| Amounts payable to brokers | **89** | 114 |
| Amounts payable to policyholders | **2,231** | 2,283 |
| Reorganisation provision | **31** | 36 |
| Other provisions | **409** | 288 |
| Share-based payment plan liabilities | **4** | 1 |
| Taiwan – liabilities held for sale | **15,020** | |
| Other | **5,058** | 7,538 |
| | **28,991** | 15,281 |

Other staff-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 individually material.

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

**Changes in deferred tax**

| | Net liability 2007 | Change through equity | Change through net result | Changes in the composition of the group | Exchange rate differences | Other | Net liability 2008 |
|---|---|---|---|---|---|---|---|
| Investments | 620 | **–3,118** | **148** | **80** | **–85** | **204** | **–2,151** |
| Financial assets and liabilities at fair value through profit and loss | 30 | **–4** | **–2** | **17** | **–4** | **8** | **45** |
| Deferred acquisition costs and VOBA | 3,019 | **778** | **36** | **–632** | **270** | **9** | **3,480** |
| Fiscal equalisation reserve | 9 | | **–3** | **–1** | | **–5** | |
| Depreciation | –26 | **1** | **3** | **22** | **–2** | **1** | **–1** |
| Insurance provisions | –871 | **450** | **–104** | **571** | **–56** | **–484** | **–494** |
| Cash flow hedges | –133 | **454** | | | **8** | **90** | **419** |
| Other provisions | –1,016 | **19** | **–402** | **41** | **–80** | **2** | **–1,436** |
| Receivables | 138 | | **–18** | **–12** | **1** | **–67** | **42** |
| Loans and advances to customers | 9 | | **–10** | **–1** | | **2** | |
| Unused tax losses carried forward | –449 | | **–255** | **105** | **–50** | **–73** | **–722** |
| Other | –187 | **–64** | **43** | **41** | **–72** | **368** | **129** |
| | 1,143 | **–1,484** | **–564** | **231** | **–70** | **55** | **–689** |
| | | | | | | | |
| Comprising: | | | | | | | |
| – deferred tax liabilities | 1,615 | | | | | | **1,275** |
| – deferred tax assets | –472 | | | | | | **–1,964** |
| | 1,143 | | | | | | **–689** |

## Notes to the consolidated balance sheet of ING Insurance (continued)

### Changes in deferred tax

| | Net liability 2006 | Change through equity | Change through net result | Changes in the composition of the group | Exchange rate differences | Other | Net liability 2007 |
|---|---|---|---|---|---|---|---|
| Investments | 1,179 | –686 | 200 | –17 | 11 | –67 | 620 |
| Financial assets and liabilities at fair value through profit and loss | 34 | –4 | 9 | –11 | 1 | 1 | 30 |
| Deferred acquisition costs and VOBA | 3,177 | 3 | 158 | | –312 | –7 | 3,019 |
| Fiscal equalisation reserve | 3 | | 1 | | | 5 | 9 |
| Depreciation | –5 | 3 | –23 | | 1 | –2 | –26 |
| Insurance provisions | –1,490 | 116 | 339 | | 93 | 71 | –871 |
| Cash flow hedges | | | | | | | |
| Pensions | | | | | | | |
| Other provisions | –897 | 209 | –189 | –9 | 108 | –238 | –1,016 |
| Receivables | 122 | | –10 | 1 | –3 | 28 | 138 |
| Loans and advances to customers | 2 | | 7 | | –1 | 1 | 9 |
| Unused tax losses carried forward | –420 | –4 | –32 | 2 | 48 | –43 | –449 |
| Other | –2 | –307 | –44 | 60 | –2 | –25 | –320 |
| | 1,703 | –670 | 416 | 26 | –56 | –276 | 1,143 |
| | | | | | | | |
| Comprising: | | | | | | | |
| – deferred tax liabilities | 1,822 | | | | | | 1,615 |
| – deferred tax assets | –119 | | | | | | –472 |
| | 1,703 | | | | | | 1,143 |

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 | **2,694** | 1,907 |
| Unused tax losses carried forward not recognised as a deferred tax asset | **–396** | –487 |
| Unused tax losses carried forward recognised as a deferred tax asset | **2,298** | 1,420 |
| | | |
| Average tax rate | **31.4%** | 31.6% |
| Deferred tax asset | **722** | 449 |

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. The uncertainty of the recoverability of the tax losses and tax credits is taken into account in establishing the deferred tax assets. The following tax loss carry forwards and tax credits will expire as follows as at 31 December:

### Total unused tax losses carried forward analysed by expiry terms

| | No deferred tax asset recognised | | Deferred tax asset recognised | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Within 1 year | **2** | 21 | **30** | 16 |
| More than 1 year but less than 5 years | **50** | 94 | **41** | 51 |
| More than 5 years but less than 10 years | **201** | 205 | **860** | 552 |
| More than 10 years but less than 20 years | **131** | 66 | **1,095** | 707 |
| Unlimited | **12** | 101 | **272** | 94 |
| | **396** | 487 | **2,298** | 1,420 |

### Changes in reorganisation provisions

| | Reorganisations 2008 | 2007 |
|---|---|---|
| Opening balance | **36** | 47 |
| Changes in the composition of the group | **–3** | |
| Additions | **14** | 26 |
| Releases | **–7** | –15 |
| Charges | **–7** | –20 |
| Exchange rate differences | | –1 |
| Other changes | **–2** | –1 |
| Closing balance | **31** | 36 |

### Changes in other provisions

| | Litigation 2008 | Other 2008 | 2008 | Total 2007 |
|---|---|---|---|---|
| Opening balance | | **288** | **288** | 310 |
| Changes in the composition of the group | | **3** | **3** | 31 |
| Additions | **1** | **302** | **303** | 180 |
| Releases | | **–13** | **–13** | –149 |
| Charges | **–7** | **–162** | **–169** | –79 |
| Exchange rate differences | **–1** | **–2** | **–3** | –5 |
| Other changes | **25** | **–25** | | |
| Closing balance | **18** | **391** | **409** | 288 |

Included in Other provisions in 2008 is a provision for a loss of EUR 292 million relating to the agreed disposal of ING Life Taiwan as disclosed in Note 25 ‘Companies acquired and companies disposed’.

Included in Other provisions in 2007 is a provision for a loss of EUR 129 million relating to the disposal of NRG as disclosed in Note 25 ‘Companies acquired and companies disposed’.

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

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

**Pension and post-employment benefits**

### Summary of pension benefits

| | 2008 | 2007 | Pension benefits 2006 | 2005 |
|---|---|---|---|---|
| Defined benefit obligation | **5,223** | 5,245 | 5,699 | 5,910 |
| Fair value of plan assets | **4,697** | 5,245 | 5,063 | 4,684 |
| | **526** | | 636 | 1,226 |
| | | | | |
| Unrecognised past service costs | **–5** | –3 | | |
| Unrecognised actuarial gains/(losses) | **–955** | –62 | –426 | –780 |
| Amount included in Other liabilities | **–434** | –65 | 210 | 446 |
| | | | | |
| Presented as: | | | | |
| – Other liabilities | **236** | | | |
| – Other assets | **670** | | | |
| | **–434** | | | |

## Notes to the consolidated balance sheet of ING Insurance (continued)

### Summary of post-employment benefits

| | Post-employment benefits | | | |
|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 |
| Defined benefit obligation | **112** | 126 | 176 | 247 |
| | **112** | 126 | 176 | 247 |
| | | | | |
| Unrecognised past service costs | **1** | 3 | 8 | –5 |
| Unrecognised actuarial gains/(losses) | **7** | 7 | –2 | –14 |
| | **120** | 136 | 182 | 228 |

ING Insurance 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. This indexation is in some cases at the discretion of management, in other cases it is dependent upon the sufficiency of plan assets.

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

ING Insurance provides other post-employment employee benefits to certain employees and former employees. These are primarily post-employment healthcare benefits and post-employment defined benefit early-retirement plans provided to employees and former employees.

Certain group companies sponsor defined contribution pension plans. The assets of all ING Insurance'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. The amount incurred in 2008 was EUR 25 million (2007: EUR 26 million)

Actuarial gains and losses related to pension and post-employment benefits for the year ended 31 December 2008 include EUR –969 million (2007: EUR –306 million) experience gain adjustments for assets and EUR 3 million (2006: EUR 72 million) experience gain adjustments for liabilities.

### Changes in defined benefit obligations

| | Pension benefits | | Post-employment benefits other than pensions | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Opening balance | **5,245** | 5,699 | **126** | 176 |
| Current service cost | **144** | 156 | **1** | 1 |
| Interest cost | **286** | 273 | **8** | 10 |
| Participants contributions | **4** | | | |
| Benefits paid | **–230** | –214 | **–7** | –11 |
| Actuarial gains and losses | **–66** | –658 | | –7 |
| Past service cost | **1** | –24 | **1** | |
| Changes in the composition of the group and other changes | **–168** | 128 | **–18** | –33 |
| Effect of curtailment or settlement | | –7 | | |
| Exchange rate differences | **7** | –108 | **1** | –10 |
| Closing balance | **5,223** | 5,245 | **112** | 126 |
| | | | | |
| Relating to: | | | | |
| – funded plans | **5,171** | 5,199 | | |
| – unfunded plans | **52** | 46 | **112** | 126 |
| | **5,223** | 5,245 | **112** | 126 |

The estimated unrecognised past service cost and unrecognised actuarial gains/losses for the defined benefit related liability plans to be amortised to pension and other staff costs during 2009 are nil and EUR 29 million respectively.

## Changes in fair value of plan assets

| | Pension benefits | |
|---|---|---|
| | **2008** | 2007 |
| Opening balance | **5,245** | 5,063 |
| Expected return on plan assets | **321** | 326 |
| Employer's contribution | **460** | 246 |
| Participants contributions | **4** | 4 |
| Benefits paid | **–224** | –209 |
| Actuarial gains and losses | **–970** | –306 |
| Changes in the composition of the group and other changes | **–132** | 197 |
| Exchange rate differences | **–7** | –76 |
| Closing balance | **4,697** | 5,245 |

The actual return on the plan assets amounted to EUR –649 million (2007: EUR 20 million; 2006: EUR 388 million).

No plan assets are expected to be returned to ING Insurance 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' portfolios 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 | **38** | **38** | 35 | **8.3** | 8.2 |
| Debt securities | **53** | **53** | 51 | **4.9** | 5.0 |
| Other | **9** | **9** | 14 | **7.0** | 6.7 |
| | **100** | **100** | 100 | **6.4** | 6.4 |

Equity securities include ING Group ordinary shares of EUR 1 million (0.1% of total plan assets) as at 31 December 2008 (2007: EUR 2 million, 0.1% of total plan assets).Other includes mainly real estate. Real estate occupied by ING Insurance as at 31 December 2008 which is included in Other includes nil (0.0% of total plan assets)(2007: 0.0% of total plan assets).

*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 allocations, 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 that the long term asset mixes will be consistent with the current mixes. Changes in the asset mixes could have an impact on 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 | **5.80** | 5.60 | **5.90** | 6.00 |
| Mortality rates | **1.60** | 1.60 | **1.60** | 1.60 |
| Expected rates of salary increases (excluding promotion increases) | **2.90** | 2.90 | **3.60** | 3.70 |
| Medical cost trend rates | **0.00** | | **6.60** | 7.00 |
| Consumer price inflation | **2.10** | 2.20 | **2.20** | 2.50 |

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 1 million as at 31 December 2008 (2007: EUR 2 million) and no increase in the charge for the year (2007: no increase). A decrease of 1% in the medical cost trend rate for each future year would have resulted in lower defined benefit obligation of EUR 1 million as at 31 December 2008 (2007: EUR 2 million) and no decrease in the charge for the year (2007: no decrease).

*Expected cash flows*
During 2009 the expected contributions to pension plans is EUR 351 million (2008: EUR 262 million). Additionally ING Insurance has committed to make an additional contribution of EUR 293 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 plan:

**Benefit payments**

| | **Pension benefits** | **Post-employment benefits other than pensions** |
|---|---|---|
| 2009 | **204** | **9** |
| 2010 | **217** | **10** |
| 2011 | **229** | **11** |
| 2012 | **235** | **11** |
| 2013 | **241** | **11** |
| Years 2014 – 2018 | **1,395** | **58** |

**Taiwan – liabilities held for sale**

| | **2008** |
|---|---|
| Insurance and investment contracts | **14,294** |
| Financial liabilities at fair value through profit and loss | **126** |
| Other liabilities | **600** |
| Taiwan – liabilities held for sale | **15,020** |

Reference is made to Note 25 ‘Companies acquired and disposed’. As at 31 December 2008 ING Life Taiwan is classified as held for sale in the consolidated balance sheet. Amounts as at 31 December 2007 are presented in the relevant balance sheet lines.

Additional information to the consolidated balance sheet of ING Insurance, 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 cash equivalents | 14,440 | | | | | | 14,440 |
| – trading assets | 1 | | 3 | 27 | | 506 | 537 |
| – investments for risk of policyholders[(1)] | | | | | | 95,366 | 95,366 |
| – non-trading derivatives | 293 | 658 | 325 | 840 | 4,181 | 47 | 6,344 |
| – designated as at fair value through profit and loss | 95 | 14 | 226 | 641 | 523 | 2,290 | 3,789 |
| Available-for-sale investments | 457 | 3,171 | 6,648 | 21,328 | 45,915 | 31,968 | 109,487 |
| Loans and advances to customers | 1,439 | 1,941 | 1,105 | 2,836 | 15,780 | 2,534 | 25,635 |
| Reinsurance contracts | 30 | 46 | 204 | 886 | 1,148 | 3,483 | 5,797 |
| Intangible assets | 3 | 7 | 89 | 337 | 2,268 | 2,027 | 4,731 |
| Deferred acquisition costs | | | | | | 11,843 | 11,843 |
| Other assets | 865 | 17,145 | 4,593 | 2,333 | 1,978 | 2,786 | 29,700 |
| Remaining assets (where maturities are not applicable)[(2)] | | | | | | 4,551 | 4,551 |
| Total assets | 17,623 | 22,982 | 13,193 | 29,228 | 71,793 | 157,401 | 312,220 |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Subordinated loans | | | | | | 6,928 | 6,928 |
| Debt securities in issue | 111 | 512 | 26 | 3,534 | 545 | | 4,728 |
| Other borrowed funds | 3,356 | 4,226 | 2,607 | 1,597 | 1,367 | | 13,153 |
| Insurance and investment contracts | 2,345 | 2,485 | 9,289 | 33,569 | 93,538 | 99,564 | 240,790 |
| – trading liabilities | | | | 1 | | 3 | 4 |
| – non-trading derivatives | 314 | 421 | 176 | 2,040 | 2,227 | 35 | 5,213 |
| Other liabilities | 774 | 17,476 | 3,890 | 3,680 | 1,869 | 1,302 | 28,991 |
| Total liabilities | 6,900 | 25,120 | 15,988 | 44,421 | 99,546 | 107,832 | 299,807 |

(1) Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of ING.
(2) Included in remaining assets where maturities are not applicable are:
- property and equipment;
- real estate investments;
- 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 Insurance (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 cash equivalents | 3,115 | | | | | | 3,115 |
| Financial assets at fair value through profit and loss | | | | | | | |
| – trading assets | 3 | 9 | 3 | 9 | 1 | 983 | 1,008 |
| – investments for risk of policyholders [(1)] | | | | | | 114,827 | 114,827 |
| – non-trading derivatives | 92 | 45 | 167 | 214 | 713 | 1 | 1,232 |
| – designated as at fair value through profit and loss | | | 181 | 741 | 1,052 | 1,831 | 3,805 |
| Available-for-sale investments | 839 | 395 | 3,141 | 22,183 | 65,002 | 40,706 | 132,266 |
| Loans and advances to customers | 208 | 150 | 951 | 6,487 | 14,542 | 5,191 | 27,529 |
| Reinsurance contracts | 21 | 36 | 308 | 307 | 2,725 | 2,477 | 5,874 |
| Intangible assets | 2 | 4 | 13 | 195 | 1,120 | 2,608 | 3,942 |
| Deferred acquisition costs | | | | | | 10,692 | 10,692 |
| Other assets | | | | | | 12,395 | 12,395 |
| Remaining assets (where maturities are not applicable)[(2)] | | | | | | 5,398 | 5,398 |
| Total assets | 4,280 | 639 | 4,764 | 30,136 | 85,155 | 197,109 | 322,083 |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Subordinated loans | | | | | | 4,493 | 4,493 |
| Debt securities in issue | 14 | | 62 | 2,087 | 2,473 | | 4,636 |
| Other borrowed funds | 380 | 4,902 | 874 | 3,162 | 2,037 | | 11,355 |
| Insurance and investment contracts | 1,855 | 3,907 | 10,712 | 33,854 | 99,425 | 115,959 | 265,712 |
| Financial liabilities as at fair value through profit and loss | | | | | | | |
| – trading liabilities | 4 | 3 | 4 | 12 | 6 | 72 | 101 |
| – non-trading derivatives | 20 | 27 | 103 | 773 | 780 | 1 | 1,704 |
| Other liabilities | 1,260 | 1,189 | 5,805 | 2,404 | 1,505 | 3,118 | 15,281 |
| Remaining liabilities (where maturities are not applicable) | | | | | | | |
| Total liabilities | 3,533 | 10,028 | 17,560 | 42,292 | 106,226 | 123,643 | 303,282 |

[(1)] Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of ING.
[(2)] included in remaining assets where maturities are not applicable are:
- property and equipment;
- real estate investments;
- 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 Insurance 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 Insurance's hedging activities is to optimise the overall cost to the Group 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 on '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, ING Insurance 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 is possible 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 Insurance 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 Insurance'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 Insurance recognised EUR –193 million (2007: EUR –227 million) of fair value losses on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was offset by EUR –164 million (2007: EUR –223 million) fair value changes recognised on hedged items. This resulted in EUR –29 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 –498 million (2007: EUR –112 million), presented in the balance sheet as EUR 33 million (2007: EUR 31 million) positive fair values under assets and EUR 531 million (2007: EUR 143 million) negative fair values under liabilities.

**Cash flow hedge accounting**
ING Insurance'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 across 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 Insurance recognised EUR 1,350 million (2007: EUR –692 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 is EUR 1,777 million (2007: EUR –28 million) gross and EUR 1,360 million (2007: EUR 10 million) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value of the underlying derivatives and will be reflected in the profit and loss account under Interest income/expense over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities up to 40 years with the largest concentrations in the range of 20 years to 30 years and in the range of 35 to 40 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting of EUR 22 million (2007: EUR –5 million) was recognised in the profit and loss account.

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

As at 31 December 2008, the fair values of outstanding derivatives designated under cash flow hedge accounting was EUR 1,674 million (2007: EUR –137 million), presented in the balance sheet as EUR 2,232 million (2007: EUR 264 million) positive fair values under assets and EUR 558 million (2007: EUR 401 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 288 million (2007: EUR 192 million) and EUR 216 million (2007: EUR 159 million), respectively, relating to derivatives used in cash flow hedges.

**Hedges of net investments in foreign operations**
ING Insurance'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 225 million (2007: EUR –9 million), presented in the balance sheet as EUR 331 million (2007: EUR 258 million) positive fair values under assets and EUR 106 million (2007: EUR 267 million) negative fair values under liabilities.

As at 31 December 2008, the fair values of outstanding non-derivatives designated under net investment hedge accounting was EUR –881 million (2007: EUR –1,318 million), presented in the balance sheet as negative fair values under liabilities. Non-derivatives designated as hedging instruments consist mainly of loan agreements.

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 EUR –6 million (2007: EUR –14 million).

### 20 MAXIMUM CREDIT EXPOSURE
ING Insurance's maximum credit exposure as at 31 December 2008 and 2007 is represented as follows:

**Maximum credit exposure**

| | 2008 | 2007 |
|---|---|---|
| Cash and cash equivalents | **14,440** | 3,115 |
| Trading assets: | | |
| – debt securities | **26** | 15 |
| – derivatives | **5** | 10 |
| Non-trading derivatives | **6,344** | 1,232 |
| Designated as at fair value through profit and loss | **3,789** | 3,805 |
| Available-for-sale debt securities | **102,528** | 115,944 |
| Loans and advances to customers: | | |
| – policy loans | **2,960** | 3,468 |
| – secured by mortgages | **15,559** | 17,304 |
| – personal loans | **5,197** | 5,406 |
| – other | **1,919** | 1,351 |
| Reinsurance contracts | **5,797** | 5,874 |
| Reinsurance and insurance receivables | **3,683** | 3,664 |
| Other receivables | **3,237** | 4,041 |
| Maximum credit exposure on balance sheet | **165,484** | 165,229 |
| | | |
| Off-balance sheet credit commitments: | | |
| – commitments | **4,220** | 4,477 |
| – guarantees | **3,548** | 1,692 |
| Maximum credit exposure off balance sheet | **7,768** | 6,169 |
| | | |
| Maximum credit risk | **173,252** | 171,398 |

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. Collateral received is not taken into account.

The manner in which ING Insurance 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 relate primarily to investments of EUR 284 million (2007 EUR 403 million) provided as guarantees for certain contingent liabilities. There are no material terms and conditions relating to the collateral represented by such guarantees.

### 22 CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business ING Insurance is a party to activities whose risks are not reflected in whole or part in the consolidated financial statements. In response to the needs of its customers, ING Insurance offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

**Contingent liabilities and commitments**

| | 2008 | 2007 |
|---|---|---|
| Commitments | **4,220** | 4,477 |
| Guarantees | **3,548** | 1,692 |
| | **7,768** | 6,169 |

Guarantees relate both to credit and non-credit substitute guarantees. Credit substitute guarantees are guarantees given by ING Insurance 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 Insurance 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 third parties for a customer's foreign and domestic trade transactions in order to finance a shipment of goods. ING Insurance'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.

**Future rental commitments for operating lease contracts**

| | |
|---|---|
| 2009 | **47** |
| 2010 | **38** |
| 2011 | **34** |
| 2012 | **31** |
| 2013 | **27** |
| years after 2013 | **102** |

### 23 INVESTMENT FUNDS

#### ING Insurance as fund manager and investor

ING Insurance sets up investment funds for which it acts as a fund manager and sole investor at the inception of the fund. Subsequently, ING Insurance will seek third-party investors to invest in the fund, thereby reducing the interest of ING Insurance. In general, ING Insurance will maintain a small percentage of interest in these funds.

#### ING Insurance as fund manager

ING Insurance acts as fund manager for several funds. Fees related to these management activities are charged on an arm's-length basis. In general, these funds are generally not included in the consolidated financial statement of the Insurance.

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

### 24 PRINCIPAL SUBSIDIARIES

The principal subsidiaries of ING Verzekeringen N.V. are as follows:

| | |
|---|---|
| ING Verzekeringen Nederland N.V. | The Netherlands |
| ING Vastgoed Belegging B.V. | The Netherlands |
| Nationale-Nederlanden Levensverzekering Maatschappij N.V. | The Netherlands |
| Nationale-Nederlanden Schadeverzekering Maatschappij N.V. | The Netherlands |
| Parcom Ventures B.V. | The Netherlands |
| Postbank Levensverzekering N.V. | The Netherlands |
| Postbank Schadeverzekering N.V. | The Netherlands |
| RVS Levensverzekering N.V. | The Netherlands |
| RVS Schadeverzekering N.V. | The Netherlands |
| Movir N.V. | The Netherlands |
| ING Zivotna Poistovna a.s. | Slovakia |
| ING Nationale-Nederlanden Polska S.A. | Poland |
| ING Nationale-Nederlanden Polska Powszechne Towarzystwo Emerytaine S.A | Poland |
| ING Asigurari de Viata S.A. | Romania |
| ING Greek Life Insurance Company S.A. | Greece |
| ING Greek General Insurance Company S.A. | Greece |
| ING Nationale-Nederlanden Magyarorszagi Biztosito Rt. | Hungary |
| Nationale Nederlanden Vida, Compañia de Seguros y Reaseguros S.A. | Spain |
| Nationale Nederlanden Generales, Compañia de Seguros y Reaseguros S.A. | Spain |
| ING Canada Inc. | Canada |
| Belair Insurance Company Inc. | Canada |
| ING Insurance Company of Canada | Canada |
| ING Novex Insurance Company of Canada | Canada |
| ING America Insurance Holdings, Inc. | United States of America |
| ING International Insurance Holdings, Inc. | United States of America |
| ING Life Insurance and Annuity Company | United States of America |
| ING North America Insurance Corporation | United States of America |
| Lion Connecticut Holdings Inc. | United States of America |
| ReliaStar Life Insurance Company | United States of America |
| ReliaStar Life Insurance Company of New York | United States of America |
| Security Life of Denver Insurance Company | United States of America |
| ING USA Annuity and Life Insurance Company | United States of America |
| ING Life Insurance Company of America | United States of America |
| ING Seguros de Vida S.A. | Chile |
| AFP Capital S.A. | Chile |
| ING Afore S.A. de C.V. | Mexico |
| ING Life Insurance Company (Japan) Limited | Japan |
| ING Life Insurance Company (Korea) Limited | South Korea |
| ING Australia Holdings Limited | Australia |
| ING Australia Pty Limited | Australia |
| ING Re (Netherlands) N.V. | The Netherlands |

## 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**

| | Chile Pension Business of Santander | CitiStreet | ING Investment Management België | ING Investment Management Luxemburg | Oyak Emeklilik | Total |
|---|---|---|---|---|---|---|
| **General** | | | | | | |
| Date of acquisition | 16 January 2008 | 01 July 2008 | 01 October 2008 | 01 October 2008 | 01 December 2008 | |
| | | | | | | |
| Percentage of voting shares acquired | 100% | 100% | 100% | 100% | 100% | |
| | | | | | | |
| **Purchase price** | | | | | | |
| Purchase price | 397 | 578 | 159 | 42 | 110 | 1,286 |
| Costs directly attributable to the acquisition | 4 | 5 | | | | 9 |
| Cash purchase price | 401 | 583 | 159 | 42 | 110 | 1,295 |
| | | | | | | |
| Cash in company acquired | | 45 | | | 35 | 80 |
| Cash outflow on acquisition(1) | 401 | 538 | 159 | 42 | 75 | 1,215 |
| | | | | | | |
| **Assets** | | | | | | |
| Cash assets | | 45 | | | 35 | 80 |
| Investments | 8 | | | | | 8 |
| Loans and advances to customers | 6 | | 27 | 34 | | 67 |
| Amounts due from banks | | | 74 | 4 | | 78 |
| Financial assets at fair value through profit and loss | 78 | | | | | 78 |
| Intangible assets | 31 | 73 | | | | 104 |
| Miscellaneous other assets | 2 | 24 | 6 | | 8 | 40 |
| | | | | | | |
| **Liabilities** | | | | | | |
| Insurance and investment contracts | 7 | | | | | 7 |
| Miscellaneous other liabilities | 6 | 26 | 75 | 30 | 2 | 139 |
| Net assets | 112 | 116 | 32 | 8 | 41 | 309 |
| Net assets acquired determined provisionally | 112 | 116 | 32 | 8 | 41 | 309 |
| | | | | | | |
| Goodwill recognised in 2008(2) | 285 | 462 | 127 | 34 | 69 | 977 |
| | | | | | | |
| Profit since date of acquisition | 3 | –7 | –1 | 2 | | –3 |
| Income if acquisition effected at start of year | 17 | 275 | 48 | 9 | 12 | 361 |
| Profit if acquisition effected at start of year | 1 | 8 | 11 | 7 | | 27 |

(1) Cash outflow/inflow on group companies in the cash flow statement includes cash outflows/inflows on individually immaterial acquisitions and real estate portfolios in addition to the cash flows presented herein.
(2) Goodwill recognised in 2008 on immaterial acquisitions and real estate portfolios was EUR 105 million, resulting in total Goodwill recognised in 2008 of EUR 1,082 million as disclosed in Note 8 'Intangible assets'.

### Acquisitions effective in 2008

In December 2008, ING Insurance acquired 100% of the voluntary pension fund Oyak Emeklilik for a total consideration of EUR 110 million. Goodwill of EUR 69 million was recognised on the acquisition and is mainly attributable to the operational synergies and the future business potential resulting from the acquisition.

ING Insurance N.V. has bought ING Investment Management Luxemburg and ING Investment Management België from ING Bank N.V. for EUR 201 million.

In July 2008, ING Insurance acquired 100% of CitiStreet, a leading retirement plan and benefit service and administration organisation in the US defined contribution marketplace for a total consideration of EUR 578 million. Goodwill of EUR 462 million was recognised on the acquisition and is mainly attributable to the operational synergies and the future business potential resulting from the acquisition, making ING one of the largest defined contribution businesses in the US.

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

In January 2008, ING Insurance closed the final transaction to acquire 100% of Banco Santander's Latin American pension and annuity businesses through the acquisition of the pension business in Chile. See Acquisitions effective in 2007 for full details of the entire deal.

**Most significant companies disposed in 2008**

| | NRG | Mexican non-life business | Aconto BV | Total |
|---|---|---|---|---|
| **Sales proceeds** | | | | |
| Sales proceeds | 272 | 950 | 174 | 1,396 |
| Cash proceeds | 272 | 950 | 174 | 1,396 |
| | | | | |
| Cash in company disposed | 12 | 26 | | 38 |
| Cash inflow on disposal[1] | 260 | 924 | 174 | 1,358 |
| | | | | |
| **Assets** | | | | |
| Cash assets | 12 | 26 | | 38 |
| Investments | 461 | 1,146 | | 1,607 |
| Loans and advances to customers | 137 | 65 | 1,714 | 1,916 |
| Amounts due from banks | | | 164 | 164 |
| Financial assets at fair value through profit and loss | | 41 | | 41 |
| Miscellaneous other assets | 26 | 1,261 | 21 | 1,308 |
| | | | | |
| **Liabilities** | | | | |
| Insurance and investment contracts | 210 | 1,497 | | 1,707 |
| Amounts due to banks | | | 1,527 | 1,527 |
| Other borrowed funds | | | 154 | 154 |
| Miscellaneous other liabilities | 10 | 274 | 44 | 328 |
| Net assets | 416 | 768 | 174 | 1,358 |
| % disposed | 100% | 100% | 100% | |
| Net assets disposed | 416 | 768 | 174 | 1,358 |
| Gain/loss on disposal | –144 | 182 | | 38 |

(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 flows 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 the unrealised reserves.

**Disposals effective in 2008**
In December 2007, ING Insurance reached an agreement with Berkshire Hathaway Group to sell its reinsurance unit NRG N.V. for EUR 272 million The sale resulted in a net loss of EUR 144 million. As disclosed in note 17 'Other liabilities' a loss on disposal of EUR 129 million was reported in 2007.In 2008 EUR 15 million additional losses, predominantly relating to currency exchange rate changes were recognised.

In July 2008, ING Insurance announced it had completed the sale of part of its Mexican business, Seguros ING SA de CV and subsidiaries, to AXA as announced in February 2008, for a total consideration of EUR 950 million (USD 1.5 billion). The sale resulted in a gain of EUR 182 million.

In January 2008 ING Insurance completed the sale of its health business in Chile, ING Salud, to Said Group and Linzor Capital Partners, resulting in a gain on disposal of EUR 55 million.

In April 2008, ING Insurance sold Aconto B.V. to ING Bank for EUR 174 million.

**Disposals announced and occurring or expected to occur in 2009**
In October 2008 ING Insurance announced that it had reached agreement to sell its entire Taiwanese life insurance business, ING Life Taiwan, to Furbon Financial Holding Co. Ltd. for approximately EUR 447 million. As at 31 December 2008 ING Life Taiwan qualified as a disposal group held for sale. The sale was completed on 13 February 2009. Consequently ING Life Taiwan will be deconsolidated in the first quarter of 2009. ING Insurance will be paid in a fixed number of shares with the difference between the fair value of those shares at the closing date and the sale price being paid in subordinated debt securities of the acquirer. ING Life Taiwan is included in the segment Insurance Asia/Pacific. This transaction is expected to result in a loss of EUR 292 million. A provision has been recognised for this loss in Other liabilities. The loss has been recognised in 2008 in 'Net gains/losses on disposal of group companies' in the profit and loss account.

As mentioned in Acquisitions effective in 2007 ING Insurance acquired the AFJP Pension (Origenes AFJP S.A.) company in Argentina as part of the Santander transaction. In November 2008 the Government of Argentina passed legislation to nationalise the private pension system (AFJPs). Under the law, all client balances held by the private pension system would be transferred to the Argentina Government and AFJP's pension business would be terminated. The law became effective in December 2008 when the Argentine Social Security Administration (ANSES) took ownership over the affiliate accounts. The nationalisation impacted the pension assets only, thus leaving ING responsible for the ongoing operating costs and liabilities including severance obligations. This resulted in a loss of EUR 188 million being recognised in 2008.

In February 2009, ING Insurance announced that it had agreed to sell its 70% stake in ING Canada for net proceeds of approximately EUR 1,265 million (CAD 2,163 million). The transaction was closed on 19 February 2009 and will be booked in 2009. This transaction will result in a decrease in Total assets of approximately EUR 5,471 million and a decrease of Total liabilities of approximately EUR 3,983 million.

**Most significant companies acquired in 2007**

| | Landmark | Latin American Pension business of Santander | Total |
|---|---|---|---|
| **General** | | | |
| | | | |
| | | | |
| Date of acquisition | 31 July 2007 | 4 December 2007 | |
| | | | |
| Percentage of voting shares acquired | 100% | 100% | |
| | | | |
| **Purchase price** | | | |
| Purchase price | 255 | 692 | 947 |
| Costs directly attributable to the acquisition | 2 | 8 | 10 |
| Cash purchase price | 257 | 700 | 957 |
| | | | |
| Cash in company acquired | 29 | 28 | 57 |
| Cash outflow on acquisition[(1)] | 228 | 672 | 900 |
| | | | |
| **Assets** | | | |
| Cash assets | 29 | 28 | 57 |
| Investments | | 86 | 86 |
| Financial assets at fair value through profit and loss | | 520 | 520 |
| Intangible assets | | 154 | 154 |
| Miscellaneous other assets | 18 | 85 | 103 |
| | | | |
| **Liabilities** | | | |
| Insurance and investment contracts | | 500 | 500 |
| Miscellaneous other liabilities | | 182 | 182 |
| Net assets | 47 | 191 | 238 |
| Net assets acquired | 47 | 191 | 238 |
| Goodwill recognised [(2)] | 208 | 501 | 709 |
| | | | |
| Profit since date of acquisition | 1 | 8 | 9 |
| Income if acquisition effected at start of year | 15 | 209 | 224 |
| Profit if acquisition effected at start of year[(3)] | 4 | 46 | 50 |

(1) Cash outflow/inflow on group companies in the cash flow statement includes cash outflows/inflows on individually immaterial acquisitions and real estate portfolios in addition to the cash flows presented herein.
(2) Goodwill recognised in 2007 on immaterial acquisitions and real estate portfolios was EUR 199 million, resulting in total Goodwill recognised in 2007 of EUR 908 million as disclosed in Note 8 'Intangible assets'.
(3) Estimate of full year profit of acquired company based on local accounting principles.

**Acquisitions effective in 2007**

In September 2007, ING paid EUR 20 million to increase its shareholding in ING Piraeus Life (the joint venture between ING and Piraeus Bank) from 50 to 100%.

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

In April 2007, ING acquired 100% of AZL, an independent Dutch provider of pension fund management services, for EUR 65 million.

In July 2007, ING announced that it had reached agreement to acquire full ownership of Landmark Investment Co Ltd, the twelfth largest asset manager in South Korea. The purchase price paid for Landmark was EUR 255 million. Goodwill of approximately EUR 208 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 November and December 2007, ING acquired the Latin American pension businesses of Banco Santander in Mexico for EUR 349 million, in Columbia for EUR 88 million, in Uruguay for EUR 20 million and in Argentina for EUR 235 million. As mentioned in Acquisitions effective in 2008, the pension business in Chile was acquired in January 2008 for EUR 450 million. The total costs of the entire deal were approximately EUR 1,142 million. Goodwill of approximately EUR 786 million was recognised on acquisition and is mainly attributable to the operational synergies and to the future business potential resulting from the acquisition. The Latin American pension businesses acquired represented the acquisition of leading positions in retirement services in high growth emerging markets, giving ING a sustainable, scalable platform in Latin America. 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. Except for the effect of the nationalisation of the Argentinean pension business as disclosed in Disposals announced and expected to occur in 2009 above, no significant adjustments were made in 2008 to amounts recognised provisionally in 2007.

**Most significant companies disposed in 2007**

| | Belgian Broker & employee benefits | Nationale Neder-landen Hypotheek Bedrijf | Total |
|---|---|---|---|
| **Sales proceeds** | | | |
| Sales proceeds | 777 | 55 | 832 |
| Cash proceeds | 777 | 55 | 832 |
| | | | |
| Cash in company disposed | 11 | | 11 |
| Cash inflow on disposal[1] | 766 | 55 | 821 |
| | | | |
| **Assets** | | | |
| Cash assets | 11 | | 11 |
| Investments | 4,622 | 90 | 4,712 |
| Loans and advances to customers | 301 | 11,388 | 11,689 |
| Financial assets at fair value through profit and loss | 350 | | 350 |
| Miscellaneous other assets | 463 | 28 | 491 |
| | | | |
| **Liabilities** | | | |
| Insurance and investment contracts | 5,075 | | 5,075 |
| Other borrowed funds | | 11,441 | 11,441 |
| Miscellaneous other liabilities | 178 | 10 | 188 |
| Net assets | 494 | 55 | 549 |
| % disposed | 100% | 100% | |
| Net assets disposed | 494 | 55 | 549 |
| Gain/loss on disposal | 418 | | 418 |

[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 flows 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 the unrealised reserves.

**Disposals effective in 2007**

In June 2007, ING sold its investment in Nationale Borg, a specialist provider of guarantee insurance, to HAL Investments BV and Egeria.

In September 2007 ING sold its Belgian broker and employee benefits insurance business to P&V Verzekeringen for EUR 777 million, resulting in a gain of EUR 418 million.

| Most significant companies acquired in 2006 | ABN AMRO Asset Management (Taiwan), Ltd | Total |
|---|---|---|
| **General** | | |
| Date of acquisition | 27 October 2006 | |
| | | |
| Percentage of voting shares acquired | 100% | |
| | | |
| **Purchase price** | | |
| Purchase price | 65 | 65 |
| Cash purchase price | 65 | 65 |
| | | |
| Cash in company acquired | 19 | 19 |
| Cash outflow on acquisition[(1)] | 46 | 46 |
| | | |
| **Assets** | | |
| Cash assets | 23 | 23 |
| Investments | 2 | 2 |
| Amounts due from banks | 1 | 1 |
| Financial assets at fair value through profit and loss | 2 | 2 |
| | | |
| **Liabilities** | | |
| Miscellaneous other liabilities | 4 | 4 |
| | | |
| Net assets | 24 | 24 |
| Net assets acquired | 24 | 24 |
| | | |
| Goodwill recognised[(2)] | 41 | 41 |
| | | |
| Profit since date of acquisition | –1 | –1 |
| Income if acquisition effected at start of year | 2 | 2 |

(1) Cash outflow/inflow on group companies in the cash flow statement includes cash outflows/inflows on individually immaterial acquisitions and real estate portfolios in addition to the cash flows presented herein.
(2) Goodwill recognised in 2006 on immaterial acquisitions was EUR 63 million, resulting in total Goodwill recognised in 2006 of EUR 104 million as disclosed in Note 8 'Intangible assets'.

In October 2006, ING acquired 100% of ABN AMRO Asset Management (Taiwan) Ltd, a registered Securities Investment Trust Enterprise, for EUR 65 million. The purchase will strengthen ING's existing position as the Taiwanese largest overall asset manager.

### Disposals

There were no material disposals of companies in 2006.

## 26 LEGAL PROCEEDINGS

ING Insurance 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.

These proceedings include complaints and lawsuits concerning the performance of certain interest sensitive products that were sold by a former subsidiary of ING in Mexico. These matters are being defended vigorously; however, at this time, we are unable to assess their final outcome. In addition, a subsidiary is a garnishee in proceedings in the United States brought by judgement creditors of the Republic of Argentina who seek to levy on assets that were managed by that subsidiary before the Republic nationalised the private pension business in Argentina. Appropriate steps are being taken to address this matter.

Further, litigation commenced in February 2009, purportedly on behalf of classes, challenges the adequacy of the disclosures made in connection with the 2007 and 2008 issuance and sale of the ING's Perpetual Hybrid Capital Securities, and additional purported class litigation challenges the operation of the ING's American Savings, ESOP and 401(k) Plans. These matters are at very preliminary stages, and while we are not able to assess their final outcome, we intend to vigorously defend against them.

In November 2006, the issue of amongst others, the costs charged by the insurance industry to customers in respect of unit-linked products (commonly referred to as 'beleggingsverzekeringen') has received attention both in the Dutch public media and from the Dutch regulator for the insurance industry and consumer protection organisations. Mid November 2008 ING reached an outline agreement with consumer organisations in the Netherlands to resolve a dispute regarding individual unit-linked products sold to customers in the Netherlands by ING's Dutch insurance subsidiaries. It was agreed ING's Dutch insurance subsidiaries will offer compensation to policy holders where individual unit-linked policies have a cost charge in excess of an agreed maximum. The costs of the settlement have been valued at EUR 365 million. Although the agreement is not binding for policyholders, ING believes a significant step was set towards resolving the issue.

Like many other companies in the mutual funds, brokerage, investment, and insurance industries, several of our companies have received informal and formal requests for information from various governmental and self-regulatory agencies or have otherwise identified issues arising in connection with fund trading, compensation, conflicts of interest, anti-competitive practices, insurance risk transfer and sales practices. ING is responding to the requests and working to resolve issues with regulators. We believe that any issues that have been identified thus far do not represent a systemic problem in the ING businesses involved and in addition that the outcome of the investigations will not have a material effect on ING Group.

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** |
|---|---|---|---|---|---|
| ING Australia Ltd | **51** | **6,690** | **6,218** | **406** | **317** |
| KB Life Insurance Company | **49** | **498** | **462** | **254** | **257** |
| ING (NZ) Holdings Ltd | **51** | **95** | **3** | **38** | **34** |
| Capital Life Insurance Company Ltd | **50** | **200** | **186** | **94** | **105** |
| Total | | **7,483** | **6,869** | **792** | **713** |

**Most significant joint ventures**

| 2007 | Interest held (%) | Assets | Liabilities | Income | Expenses |
|---|---|---|---|---|---|
| ING Australia Ltd | 51 | 9,735 | 9,252 | 474 | 348 |
| KB Life Insurance Company | 49 | 412 | 394 | 231 | 228 |
| ING (NZ) Holdings Ltd | 51 | 128 | 14 | 44 | 33 |
| Capital Life Insurance Company Ltd | 50 | 150 | 117 | 42 | 36 |
| Total | | 10,425 | 9,777 | 791 | 645 |

## 28 RELATED PARTIES

In the normal course of business, ING Insurance 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 includes rendering and 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 | **98** | 120 | **74** | 107 |
| Liabilities | | | **84** | 17 |
| | | | | |
| Income received | **26** | 11 | | |
| Expenses paid | | | **26** | 31 |

**Transactions with ING Groep N.V. and ING Bank N.V.**

| | ING Groep N.V. | | ING Bank N.V. | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Receivables | **2** | | **13,616** | 1,675 |
| Liabilities | **4,564** | 2,315 | **625** | 243 |
| Guarantees issued in favour of | | | **1,087** | 1,519 |
| | | | | |
| Income received | | | **238** | 163 |
| Expenses paid | **248** | 112 | **253** | 259 |

Receivables on ING Bank N.V. mainly include short term deposits. Liabilities to ING Groep N.V. mainly include long term funding.

In 2008 EUR 4.4 billion (2007: EUR 11.8 billion) mortgages were transferred from ING Insurance to ING Bank. Related funding with related parties was repaid. These transactions were concluded on market consistent terms. The overall result for ING Insurance was not significant.

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'. There are no significant provisions for doubtful debts nor individually significant bad debt expenses.

**Key management personnel compensation**

| | Executive Board | | Supervisory Board | | Total | |
|---|---|---|---|---|---|---|
| amounts in thousands of euros | **2008** | 2007 | **2008** | 2007 | **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 long-term incentives | | 9,072 | | | | 9,072 |
| Total compensation | **10,632** | 30,526 | **986** | 673 | **11,618** | 31,199 |

**Loans and advances to key management personnel**

| | Amount outstanding 31 December | | Average interest rate | | Repayments | |
|---|---|---|---|---|---|---|
| amounts in thousands of euros | **2008** | 2007 | **2008** | 2007 | **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 the Supervisory Board. The remuneration costs allocated to ING Insurance 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 Insurance'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 Insurance.

**Fair value of financial assets and liabilities**

| | Estimated fair value | | Balance sheet value | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| **Financial assets** | | | | |
| Cash and cash equivalents | **14,440** | 3,115 | **14,440** | 3,115 |
| Financial assets at fair value through profit and loss: | | | | |
| – trading assets | **537** | 1,008 | **537** | 1,008 |
| – investments for risk of policyholders | **95,366** | 114,827 | **95,366** | 114,827 |
| – non-trading derivatives | **6,344** | 1,232 | **6,344** | 1,232 |
| – designated as at fair value through profit and loss | **3,789** | 3,805 | **3,789** | 3,805 |
| Available-for-sale investments | **109,487** | 132,266 | **109,487** | 132,266 |
| Loans and advances to customers | **25,411** | 26,528 | **25,635** | 27,529 |
| Other assets[(1)] | **26,159** | 11,024 | **26,159** | 11,024 |
| | **281,533** | 293,805 | **281,757** | 294,806 |
| | | | | |
| **Financial liabilities** | | | | |
| Subordinated loans | **4,748** | 4,493 | **6,928** | 4,493 |
| Debt securities in issue | **4,533** | 4,547 | **4,728** | 4,636 |
| Other borrowed funds | **13,168** | 9,169 | **13,153** | 11,355 |
| Investment contracts for risk of company | **9,804** | 9,520 | **9,804** | 9,520 |
| Investment contracts for risk of policyholders | **11,281** | 14,132 | **11,281** | 14,132 |
| Financial liabilities at fair value through profit and loss: | | | | |
| – trading liabilities | **4** | 101 | **4** | 101 |
| – non-trading derivatives | **5,213** | 1,704 | **5,213** | 1,704 |
| Other liabilities[(2)] | **26,192** | 12,495 | **26,198** | 12,495 |
| | **74,943** | 56,161 | **77,309** | 58,436 |

(1) Other assets does not include (deferred) tax assets, property held for sale, property under development for third parties, deferred charges and pension assets.
(2) Other liabilities does not include (deferred) tax liabilities, pension liabilities, insurance provisions, 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 Insurance to estimate the fair value of the financial instruments:

**Financial assets**
*Cash and cash equivalents*
The carrying amount of cash and cash equivalents approximates its fair value.

*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 taking into account prepayment behaviour and discounting future cash flows using interest rates currently being offered for similar loans to borrowers with similar credit ratings. The fair values of fixed-rate policy loans are estimated by discounting cash flows at the interest rates charged on policy loans of similar policies currently being issued. Loans with similar characteristics are aggregated calculations purposes. The carrying values of variable rate policy loans approximate their fair value.

*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.

*Investment contracts*
For investment contracts for risk of company the fair values have been estimated using a discounted cash flow approach based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For investment contracts for risk of policyholder the fair value generally equals the fair value of the underlying assets. For other investment-type contracts, fair values are estimated based on the cash surrender values.

*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 amounts of other liabilities are stated at their book value which is not materially different to fair value.

ING Insurance 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 | 141 | 5 | 391 | 537 |
| Investments for risk of policyholders | 94,170 | 893 | 303 | 95,366 |
| Non-trading derivatives | 6,344 | | | 6,344 |
| Financial assets designated at fair value through profit and loss | 2,189 | 31 | 1,569 | 3,789 |
| Available-for-sale investments | 90,244 | 14,543 | 4,700 | 109,487 |
| | 193,088 | 15,472 | 6,963 | 215,523 |
| | | | | |
| **Liabilities** | | | | |
| Trading liabilities | | 4 | | 4 |
| Non-trading derivatives | 5,116 | 57 | 40 | 5,213 |
| Investment contracts (for contracts carried at fair value) | 11,182 | | 99 | 11,281 |
| | 16,298 | 61 | 139 | 16,498 |

**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 | 593 | 9 | 406 | 1,008 |
| Investments for risk of policyholders | 111,723 | 2,976 | 128 | 114,827 |
| Non-trading derivatives | 1,225 | 7 | | 1,232 |
| Financial assets designated at fair value through profit and loss | 1,605 | 461 | 1,739 | 3,805 |
| Available-for-sale investments | 115,132 | 16,546 | 588 | 132,266 |
| | 230,278 | 19,999 | 2,861 | 253,138 |
| | | | | |
| **Liabilities** | | | | |
| Trading liabilities | 63 | 38 | | 101 |
| Financial liabilities designated at fair value through profit and loss | 1,489 | 212 | 3 | 1,704 |
| Investment contracts (for contracts carried at fair value) | 12,066 | 2,058 | 8 | 14,132 |
| | 13,618 | 2,308 | 11 | 15,937 |

*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 4,122 million in assets and EUR 3,200 million in liabilities.

*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 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 –296 million (2007: EUR 89 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 87%) 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 5 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 the ING Group, 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

Reference is made to section ‘Risk management’ 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.

# Notes to the consolidated profit and loss account of ING Insurance, amounts in millions of euros, unless stated otherwise

## 30 GROSS PREMIUM INCOME

### Gross premium income

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Gross premium income from life insurance policies | **38,869** | 40,732 | 40,502 |
| Gross premium income from non-life insurance policies | **4,943** | 6,086 | 6,333 |
| | **43,812** | 46,818 | 46,835 |

Gross premium income has been presented before deduction of reinsurance and retrocession premiums granted. Gross premium income excludes premium received for investment contracts, for which deposit accounting is applied.

### Effect of reinsurance on premiums written

| | | | Non-life | | | Life | | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | **2008** | 2007 | 2006 | **2008** | 2007 | 2006 |
| Direct gross premiums written | **4,920** | 6,062 | 6,279 | **37,487** | 39,170 | 38,838 | **42,407** | 45,232 | 45,117 |
| Reinsurance assumed gross premiums written | **23** | 24 | 54 | **1,382** | 1,562 | 1,664 | **1,405** | 1,586 | 1,718 |
| Total gross premiums written | **4,943** | 6,086 | 6,333 | **38,869** | 40,732 | 40,502 | **43,812** | 46,818 | 46,835 |
| | | | | | | | | | |
| Reinsurance ceded | **–196** | –306 | –339 | **–1,802** | –1,968 | –2,004 | **–1,998** | –2,274 | –2,343 |
| | **4,747** | 5,780 | 5,994 | **37,067** | 38,764 | 38,498 | **41,814** | 44,544 | 44,492 |

### Effect of reinsurance on non–life premiums earned

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Direct premiums earned gross | **4,889** | 6,005 | 6,248 |
| Reinsurance assumed premiums earned gross | **20** | 22 | 58 |
| Total gross premiums earned | **4,909** | 6,027 | 6,306 |
| | | | |
| Reinsurance ceded | **–190** | –326 | –377 |
| | **4,719** | 5,701 | 5,929 |

## 31 INVESTMENT INCOME

**Investment income**

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Income from real estate investments | **75** | 80 | 184 |
| Dividend income | **646** | 750 | 604 |
| | **721** | 830 | 788 |
| | | | |
| Income from investment in debt securities | **6,534** | 6,857 | 6,359 |
| Income from loans | | | |
| – personal loans | **393** | 242 | 200 |
| – mortgage loans | **850** | 1,427 | 1,659 |
| – policy loans | **200** | 215 | 212 |
| – other | **159** | 327 | 420 |
| Income from investment in debt securities and loans | **8,136** | 9,068 | 8,850 |
| | | | |
| Realised gains/losses on disposal of debt securities | **48** | –9 | –56 |
| Reversals/Impairments of available-for-sale debt securities | **–776** | –76 | 36 |
| Realised gains/losses and impairments of debt securities | **–728** | –85 | –20 |
| | | | |
| Realised gains/losses on disposal of equity securities | **685** | 2,975 | 772 |
| Impairments of available-for-sale equity securities | **–1,587** | –36 | –25 |
| Realised gains/losses and impairments of equity securities | **–902** | 2,939 | 747 |
| | | | |
| Change in fair value of real estate investments | **–50** | 75 | 108 |
| Investment income | **7,177** | 12,827 | 10,473 |

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

## 32 COMMISSION INCOME

**Gross fee and commission income**

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Insurance broking | **87** | 124 | 92 |
| Asset management fees | **2,129** | 2,025 | 1.760 |
| Brokerage and advisory fees | **763** | 1,014 | 951 |
| Other | **531** | 364 | 270 |
| | **3,510** | 3,527 | 3,073 |

Asset management fees related to the management of investments held for the risk of policyholders of EUR 1,174 million (2007: EUR 1,261 million; 2006: EUR 1,069 million) are included in Commission Income

**Fee and commission expenses**

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Insurance broking | **574** | 687 | 551 |
| Management fees | **217** | 182 | 188 |
| Brokerage and advisory fees | **573** | 672 | 624 |
| Other | **76** | 85 | 75 |
| | **1,440** | 1,626 | 1,438 |

## 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 | –193 | –227 | –162 |
| – cash-flow hedges (ineffective portion) | 22 | –5 | |
| – hedges of net investment in foreign entities (ineffective portion) | –6 | –14 | –12 |
| – other non-trading derivatives | 2,422 | –753 | –85 |
| Net result on non-trading derivatives | 2,245 | –999 | –259 |
| | | | |
| Change in fair value of assets and liabilities (hedged items) | 164 | 223 | 211 |
| Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading) | –432 | 89 | |
| Net valuation results | 1,977 | –687 | –48 |

## 34 NET TRADING INCOME

**Net trading income**

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Securities trading results | –239 | 246 | 159 |
| Foreign exchange transactions results | –97 | 174 | 120 |
| Derivatives trading results | 80 | 30 | –8 |
| Other | –94 | –80 | 1 |
| | –350 | 370 | 272 |

Securities trading results include the results of making markets in instruments such as government securities, equity securities, corporate debt securities, money-market instruments, and interest rate derivatives such as swaps, options, futures and forward contracts. Foreign currency 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 –1 million (2007: EUR 80 million; 2006: EUR 26 million).

## 35 OTHER INCOME

There are no individually significant items within Other income.

## 36 UNDERWRITING EXPENDITURE

**Underwriting expenditure**

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Gross underwriting expenditure: | | | |
| – before effect of investment result for risk of policyholder | 51,239 | 50,739 | 50,363 |
| – effect of investment result for risk of policyholder | –32,408 | 1,079 | 2,702 |
| | 18,831 | 51,818 | 53,065 |
| Investment result for risk of policyholders | 32,408 | –1,079 | –2,702 |
| Reinsurance recoveries | –1,754 | –1,906 | –2,175 |
| Underwriting expenditure | 49,485 | 48,833 | 48,188 |

The investment and valuation results regarding investment results for risk of policyholders of EUR –32,408 million (2007: EUR 1,079 million; 2006: EUR 2,702 million) have not been recognised in investment income and valuation results on assets and liabilities designated as at fair value through profit and loss but are recognised in Underwriting expenditure together with the equal amount of related change in insurance provisions for risk of policyholders.

## Underwriting expenditure by class

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| **Expenditure from life underwriting** | | | |
| Reinsurance and retrocession premiums | **1,802** | 1,968 | 2,004 |
| Gross benefits | **27,159** | 28,877 | 26,234 |
| Reinsurance recoveries | **–1,662** | –1,749 | –1,705 |
| Changes in life insurance provisions for risk of company | **17,407** | 11,979 | 13,420 |
| Costs of acquiring insurance business | **1,877** | 1,098 | 1,083 |
| Other underwriting expenditure | **462** | 457 | 439 |
| Profit sharing and rebates | **–416** | 424 | 801 |
| | **46,629** | 43,054 | 42,276 |
| | | | |
| **Expenditure from non-life underwriting** | | | |
| Reinsurance and retrocession premiums | **196** | 306 | 339 |
| Gross claims | **2,846** | 3,589 | 3,848 |
| Reinsurance recoveries | **–92** | –157 | –470 |
| Changes in the provision for unearned premiums | **28** | 79 | 65 |
| Changes in the claims provision | **54** | 13 | –209 |
| Costs of acquiring insurance business | **742** | 979 | 1,043 |
| Other underwriting expenditure | **–22** | –50 | –71 |
| | **3,752** | 4,759 | 4,545 |
| | | | |
| **Expenditure from investment contracts** | | | |
| Costs of acquiring investment contracts | **9** | 19 | 31 |
| Profit sharing and rebates | | 16 | 64 |
| Other changes in investment contract liabilities | **–905** | 985 | 1,272 |
| | **–896** | 1,020 | 1,367 |
| | | | |
| | **49,485** | 48,833 | 48,188 |

## Profit sharing and rebates

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Distributions on account of interest or underwriting results | **–576** | –133 | 458 |
| Bonuses added to policies | **131** | 411 | 369 |
| Deferred profit sharing expense | **29** | 146 | –26 |
| | **–416** | 424 | 801 |

Underwriting expenditure includes an amount of EUR 3,804 million in 2008 (2007: EUR 4,275 million; 2006: EUR 4,141 million) in respect of commission paid and payable with regard to the insurance operations. Amortisation of deferred acquisition costs amounted to EUR 2,026 million in 2008 (2007: EUR 1,552 million; 2006: EUR 1,444 million).

Expenditure from Life underwriting includes an amount of EUR 136 million in 2008 (2007: EUR 110 million; 2006: EUR 181 million) in relation to reserve strengthening for Insurance Asia/Pacific as described in further detail under Segment reporting.

ING Insurance transferred part of its life insurance business to Scottish Re in 2004 by means of a co-insurance contract. A loss amounting to EUR 160 million was recognised in Underwriting expenditure in 2004 on this transaction. This loss represented the reduction of the related deferred acquisition costs. In addition, an amount of EUR 240 million is being amortised over the life of the underlying business, starting in 2005 and gradually decreasing in subsequent years as the business tails off. The amount amortised in 2008 was EUR 12 million (2007: EUR 15 million; 2006: EUR 32 million). The cumulative amortisation as at 31 December 2008 was EUR 96 million (2007: EUR 81 million; 2006: EUR 66 million). On 23 January 2009, Hannover Re and Scottish Re announced that Hannover Re has agreed to assume the ING individual life reinsurance business originally transferred to Scottish Re in 2004.

## 37 INTANGIBLE AMORTISATION AND OTHER IMPAIRMENTS

**Intangible amortisation, and (reversals of) other impairments**

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Property and equipment | **7** | | |
| Property under development for third parties | | | 1 |
| Goodwill | **155** | | |
| Software and other intangible assets | **44** | | 10 |
| Other | | 1 | |
| (Reversals of) other impairments | **206** | 1 | 11 |
| | | | |
| Amortisation of intangible assets | **104** | 13 | 7 |
| | **310** | 14 | 18 |

Impairment on loans and advances to customers are presented under Investment income. Reference is made to section 'Risk management' 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.

## 38 STAFF EXPENSES

**Staff expenses**

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Salaries | **2,068** | 2,050 | 2,012 |
| Pension and other staff related benefit costs | **140** | 48 | 101 |
| Social security costs | **205** | 201 | 196 |
| Share-based compensation arrangements | **49** | 53 | 54 |
| External employees | **160** | 160 | 169 |
| Education | **11** | | |
| Other staff costs | **263** | 324 | 278 |
| | **2,896** | 2,836 | 2,810 |

Share-based compensation arrangements includes EUR 43 million (2007: EUR 50 million; 2006: EUR 52 million) relating to equity-settled share-based payment arrangements and EUR 6 million (2007: EUR 3 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 | **144** | 155 | 160 | **1** | 1 | 12 | **5** | 7 | 2 | **150** | 163 | 174 |
| Past service cost | | –24 | | | | | | | 1 | | –24 | 1 |
| Interest cost | **286** | 273 | 251 | **8** | 10 | 8 | **4** | 2 | 1 | **298** | 285 | 260 |
| Expected return on assets | **–321** | –327 | –290 | | | | | | | **–321** | –327 | –290 |
| Amortisation of unrecognised past service cost | | –3 | | **–2** | –5 | –5 | | | | **–2** | –8 | –5 |
| Amortisation of unrecognised actuarial gains/losses | **5** | 8 | 9 | | | | | | | **5** | 8 | 9 |
| Effect of curtailment or settlement | | –7 | | | | –60 | | | 4 | | –7 | –56 |
| Other | **–18** | –62 | | | –7 | | **3** | 1 | | **–15** | –68 | |
| Defined benefit plans | **96** | 13 | 130 | **7** | –1 | –45 | **12** | 10 | 8 | **115** | 22 | 93 |
| Defined contribution plans | | | | | | | | | | **25** | 26 | 8 |
| | | | | | | | | | | **140** | 48 | 101 |

### Stock option and share plans

ING Insurance's parent, ING Group, has granted option rights on ING Group shares and conditional rights on depositary receipts (share awards) for ING Group shares to a number of senior executives (members of the Executive Board, general managers and other officers nominated by the Executive Board), to ING Insurance 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 Insurance, 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; 2006: 52,722,755) were held in connection with the option plan compared to 87,263,381 options outstanding. 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 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 Group shares at the date on which the options are granted.

The entitlement to the share awards for ING Group shares is granted conditionally. If the participant remains in employment for an uninterrupted period of three years from the grant date, the entitlement becomes unconditional. In 2008 211,049 shares (2007: 139,113) have been granted to the members of the Executive Board and 3,380,706 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 as 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 Insurance whereas the information above relates to ING Group as a whole.

### Changes in option rights outstanding

| Outstanding in numbers | Options outstanding (in number) 2008 | 2007 | 2006 | Weighted average exercise price (in euros) 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| Opening balance | **33,383,527** | 31,795,036 | 35,743,649 | **25.90** | 25.94 | 24.10 |
| Granted | **6,037,973** | 5,550,309 | 6,357,773 | **21.65** | 32.14 | 32.79 |
| Exercised and transferred | **–3,540,769** | –3,599,653 | –7,002,953 | **25.89** | 19.74 | 21.98 |
| Forfeited | **–1,523,506** | –362,165 | –670,783 | **28.60** | 28.60 | 24.82 |
| Expired | | | –2,632,650 | | | 28.35 |
| Closing balance | **34,357,225** | 33,383,527 | 31,795,036 | **25.26** | 25.90 | 25.94 |

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) 2008 | 2007 | 2006 | Weighted average grant date fair value (in euros) 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| Opening balance | **17,836,752** | 18,012,343 | 17,416,026 | **6.02** | 4.53 | 3.56 |
| Granted | **6,037,973** | 5,550,309 | 6,357,773 | **5.29** | 6.46 | 6.48 |
| Vested and transferred | **–7,340,514** | –5,104,731 | –5,349,325 | **3.95** | 7.15 | 4.32 |
| Forfeited | **–1,012,887** | –621,169 | –412,131 | **5.62** | 4.80 | 4.10 |
| Closing balance | **15,521,324** | 17,836,752 | 18,012,343 | **6.01** | 6.02 | 4.53 |

### Summary of stock options outstanding and exercisable

| **2008**<br>**Range of exercise price in euros** | **Options outstan-ding as at 31 Decem-ber 2008** | **Weighted average remaining contractual life** | **Weighted average exercise price** | **Options exercis-able as at 31 Decem-ber 2008** | **Weighted average remaining contractual life** | **Weighted average exercise price** |
|---|---|---|---|---|---|---|
| 0.00 – 15.00 | **2,241,922** | **4.20** | **11.53** | **2,241,922** | **4.20** | **11.53** |
| 15.00 – 20.00 | **4,743,789** | **4.40** | **18.69** | **4,634,676** | **4.27** | **18.69** |
| 20.00 – 25.00 | **12,474,163** | **7.24** | **22.51** | **6,583,240** | **5.48** | **23.23** |
| 25.00 – 30.00 | **3,906,379** | **2.43** | **28.58** | **3,906,379** | **2.43** | **28.58** |
| 30.00 – 35.00 | **9,577,988** | **7.69** | **32.48** | **56,700** | **2.68** | **33.26** |
| 35.00 – 40.00 | **1,412,984** | **2.19** | **35.31** | **1,412,984** | **2.19** | **35.31** |
| | **34,357,225** | | | **18,835,901** | | |

### Summary of stock options outstanding and exercisable

| 2007<br>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 | 2,686,303 | 5.21 | 11.39 | 2,686,303 | 5.21 | 11.39 |
| 15.00 – 20.00 | 5,490,369 | 5.33 | 18.39 | 5,490,369 | 5.33 | 18.39 |
| 20.00 – 25.00 | 7,741,201 | 6.55 | 23.03 | 1,327,063 | 3.18 | 21.82 |
| 25.00 – 30.00 | 4,458,381 | 3.46 | 28.62 | 4,367,384 | 3.37 | 28.67 |
| 30.00 – 35.00 | 11,391,817 | 8.66 | 32.49 | 60,200 | 3.68 | 33.26 |
| 35.00 – 40.00 | 1,615,456 | 3.20 | 35.33 | 1,615,456 | 3.20 | 35.33 |
| | 33,383,527 | | | 15,546,775 | | |

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

As at 31 December 2008 unrecognised compensation costs related to stock options amounted to EUR 38 million (2007: EUR 29 million; 2006: EUR 41 million). These costs are expected to be recognised over a weighted average period of 1.8 years (2007: 1.7 years; 2006: 1.9 years).

The fair value of options granted is recognised as an expense under staff 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 model. This model takes the risk free interest rate into account (3.6% to 4.9%), as well as the expected life of the options granted (from 4.5 years to 7.5 years), the exercise price, the current share price (EUR 18.70 EUR 33.92), the expected volatility of the certificates of ING Group shares (25%- 39%) and the expected dividends yield (3.57%-8.99%).

The source for implied volatilities used for the valuation of the stock options is ING's trading system. The implied volatilities in this system are determined by ING's traders and are based on market data implied volatilities, not on historical volatilities.

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

### 39 INTEREST EXPENSES

Interest expenses mainly consist of interest on the subordinated loans.

Total interest income and total interest expense for items not valued at fair value through the profit and loss for 2008 were EUR 8,136 million and EUR 1,121 million respectively (2007: EUR 9,068 million and EUR 1,445 million respectively). Net interest income of EUR 7,015 million is presented in the following lines in the profit and loss account.

**Net interest income**

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Investment income | **8,136** | 9,068 | 8,850 |
| Interest expense | **–1,121** | –1,445 | –1,231 |
| | **7,015** | 7,623 | 7,619 |

### 40 OTHER OPERATING EXPENSES

**Other operating expenses**

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Depreciation of property and equipment | **94** | 97 | 102 |
| Amortisation of software | **70** | 104 | 100 |
| Computer costs | **297** | 289 | 231 |
| Office expenses | **598** | 661 | 629 |
| Travel and accommodation expenses | **101** | 102 | 102 |
| Advertising and public relations | **204** | 210 | 177 |
| External advisory fees | **373** | 456 | 581 |
| Addition/(releases) of provision for reorganisations and relocations | **7** | 11 | –16 |
| Other | **834** | 679 | 558 |
| | **2,578** | 2,609 | 2,464 |

Other operating expenses include lease and sublease payments for the amount of EUR 6 million (2007: EUR 5 million; 2006: EUR 3 million) in respect of operating leases in which ING Insurance is the lessee. Other operating expenses also include EUR 85 million related to the integration costs of CitiStreet and EUR 143 million related to premium taxes.

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

### 41 TAXATION

**Taxation by type**

| | Netherlands | | | International | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | **2008** | 2007 | 2006 | **2008** | 2007 | 2006 |
| Current taxation | **21** | 76 | 84 | **44** | 290 | 319 | **65** | 366 | 403 |
| Deferred taxation | **11** | 126 | 99 | **–575** | 290 | 204 | **–564** | 416 | 303 |
| | **32** | 202 | 183 | **–531** | 580 | 523 | **–499** | 782 | 706 |

## Notes to the consolidated profit and loss account of ING Insurance (continued)

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

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Result before taxation | **–1,726** | 6,615 | 4,957 |
| Weighted average statutory tax rate | **41.2%** | 28.1% | 31.1% |
| Weighted average statutory tax amount | **–711** | 1,859 | 1,542 |
| | | | |
| Associates exemption | | –800 | –276 |
| Other income not subject to tax | **–50** | –251 | –58 |
| Expenses not deductible for tax purposes | **11** | 20 | 12 |
| Impact on deferred tax from change in tax rates | **–25** | –3 | –108 |
| Deferred tax benefit from previously unrecognised amounts | | –7 | |
| Current tax benefit from previously unrecognised amounts | | –25 | –396 |
| Write down/reversal of deferred tax assets | **316** | | |
| Adjustments to prior periods | **–40** | –11 | –10 |
| Effective tax amount | **–499** | 782 | 706 |
| | | | |
| Effective tax rate | **28.9%** | 11.8% | 14.2% |

The weighted average statutory tax rate increased significantly in 2008 compared to 2007 caused by the fact that most of the losses in 2008 were incurred in high tax jurisdictions.

The effective tax rate in 2008 was lower than the weighted average statutory tax rate because for part of the losses no tax benefit could be recognised.

# Segment reporting

amounts in millions of euros, unless stated otherwise

**42 PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS**

ING Insurance's business segments relate to the internal segmentation by business lines. These include the business lines: Insurance Europe, Insurance Americas and Insurance Asia/Pacific. 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.

With regard to investments in equity securities, a fixed return of 3% is allocated to the insurance business lines. The differences between the actual dividend income, capital gains and impairments and the allocated return are included in Other.

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

**Business segments**

| 2008 | Insurance Europe | Insurance Americas | Insurance Asia/Pacific | Other | Total segments | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Income | | | | | | | |
| – external | 13,856 | 27,656 | 13,383 | –231 | 54,664 | | 54,664 |
| – inter-segment | 436 | 82 | 775 | 1,375 | 2,668 | –2,668 | |
| Total income | 14,292 | 27,738 | 14,158 | 1,144 | 57,332 | –2,668 | 54,664 |
| | | | | | | | |
| Segment result before taxation | 456 | –590 | –213 | –1,379 | –1,726 | | –1,726 |
| Divestments | | –265 | 329 | 15 | 79 | | 79 |
| Special items | | 321 | | | 321 | | 321 |
| Underlying result before taxation | 456 | –534 | 116 | –1,364 | –1,326 | | –1,326 |
| | | | | | | | |
| Segment assets | 96,318 | 141,356 | 66,228 | 45,314 | 349,216 | –36,996 | 312,220 |
| Segment liabilities | 88,583 | 138,009 | 61,716 | 31,986 | 320,294 | –20,487 | 299,807 |
| | | | | | | | |
| Share in profit or loss of associates | –228 | 31 | –1 | 11 | –187 | | –187 |
| Book value of associates | 2,086 | 460 | 4 | 173 | 2,723 | | 2,723 |
| | | | | | | | |
| Cost incurred to acquire property, equipment and intangibles | 272 | 1,161 | 58 | 115 | 1,606 | | 1,606 |
| | | | | | | | |
| Significant non-cash expenses | | | | | | | |
| – Depreciation and amortisation | 48 | 98 | 38 | 84 | 268 | | 268 |
| – Other impairments | 2 | 204 | | | 206 | | 206 |
| – Deferred acquisition costs and VOBA | 195 | 1,567 | 562 | | 2,324 | | 2,324 |
| – Increase in provisions for Insurance and investment contracts | 2,113 | 7,098 | 7,339 | –187 | 16,363 | | 16,363 |

Impairments on investments are presented within Investment income, which is part of Total income. In 2008, total impairments of EUR 2,362 million are included in the following segments: EUR 2 million in Insurance Europe, EUR 692 million in Insurance Americas, and EUR 79 million in Insurance Asia/Pacific and EUR 1,589 million in Other.

## Segment reporting (continued)

### Business segments

| 2007 | Insurance Europe | Insurance Americas | Insurance Asia/ Pacific | Other | Total segments | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Income | | | | | | | |
| – external | 16,018 | 29,565 | 14,105 | 2,664 | 62,352 | | 62,352 |
| – inter-segment | 357 | 116 | 278 | 998 | 1,749 | –1,749 | |
| Total income | 16,375 | 29,681 | 14,383 | 3,662 | 64,101 | –1,749 | 62,352 |
| | | | | | | | |
| Segment result before | 2,421 | 2,152 | 576 | 1,466 | 6,615 | | 6,615 |
| Divestments | –460 | –90 | | 130 | –420 | | –420 |
| Underlying result before taxation | 1,961 | 2,062 | 576 | 1,596 | 6,195 | | 6,195 |
| | | | | | | | |
| Segment assets | 98,214 | 159,679 | 61,433 | 36,141 | 355,467 | –33,384 | 322,083 |
| Segment liabilities | 89,436 | 150,769 | 55,996 | 17,878 | 314,079 | –10,797 | 303,282 |
| | | | | | | | |
| Share in profit or loss of associates | 316 | 191 | | 23 | 530 | | 530 |
| Book value of associates | 2,815 | 252 | 1 | 121 | 3,189 | | 3,189 |
| | | | | | | | |
| Cost incurred to acquire property, equipment, and intangibles | 219 | 766 | 122 | 341 | 1,448 | | 1,448 |
| | | | | | | | |
| Significant non-cash expenses | | | | | | | |
| – Depreciation and amortisation | 255 | 1,102 | 573 | | 1,930 | | 1,930 |
| – Impairments | 4 | 114 | 1 | | 119 | | 119 |
| – Reversal of impairments | | 5 | | | 5 | | 5 |
| – Deferred acquisition costs and VOBA | 167 | 1,080 | 562 | | 1,809 | | 1,809 |
| – Increase in provisions for Insurance and investment contracts | 4,339 | 12,036 | 10,060 | 59 | 26,494 | | 26,494 |

As at 31 December 2007, the segment Insurance Asia/Pacific had a net reserve inadequacy using a prudent (90%) confidence level. This inadequacy was offset by reserve adequacies in other segments, so that at Group level there is a net adequacy at the prudent (90%) confidence level. Following the agreement to sell ING Life Taiwan the inadequacy in Insurance Asia/Pacific was eliminated as at 31 December 2008.

**Business segments**

| 2006 | Insurance Europe | Insurance Americas | Insurance Asia/Pacific | Other | Total segments | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Income | | | | | | | |
| – external | 15,918 | 29,775 | 13,310 | 665 | 59,668 | | 59,668 |
| – inter-segment | 278 | 4 | 68 | 794 | 1,144 | –1,144 | |
| Total income | 16,196 | 29,779 | 13,378 | 1,459 | 60,812 | –1,144 | 59,668 |
| | | | | | | | |
| Segment result before | 2,389 | 1,992 | 636 | –60 | 4,957 | | 4,957 |
| Divestments | –113 | | –15 | | –128 | | –128 |
| Underlying result before taxation | 2,276 | 1,992 | 621 | –60 | 4,829 | | 4,829 |
| | | | | | | | |
| Segment assets | 117,303 | 162,229 | 54,454 | 44,413 | 378,399 | –44,628 | 333,771 |
| Segment liabilities | 102,759 | 152,599 | 50,204 | 22,110 | 327,672 | –17,588 | 310,084 |
| | | | | | | | |
| Share in profit or loss of associates | 447 | 8 | | 10 | 465 | | 465 |
| Book value of associates | 2,975 | 14 | 2 | 160 | 3,151 | | 3,151 |
| | | | | | | | |
| Cost incurred to acquire property, equipment, and intangibles | 1,322 | 243 | 90 | | 1,655 | | 1,655 |
| | | | | | | | |
| Significant non-cash expenses | | | | | | | |
| – Depreciation and amortisation | 286 | 915 | 657 | | 1,858 | | 1,858 |
| – Impairments | 1 | | 10 | | 11 | | 11 |

**Interest income (external) and interest expense (external) breakdown by business line**

| **2008** | **Insurance Europe** | **Insurance Americas** | **Insurance Asia/Pacific** | **Other** | **Total segments** |
|---|---|---|---|---|---|
| Investment income | **2,543** | **4,311** | **912** | **370** | **8,136** |
| Interest expense | **87** | **333** | **4** | **697** | **1,121** |
| | **2,456** | **3,978** | **908** | **–327** | **7,015** |

**Interest income (external) and interest expense (external) breakdown by business line**

| 2007 | Insurance Europe | Insurance Americas | Insurance Asia/Pacific | Other | Total segments |
|---|---|---|---|---|---|
| Investment income | 3,025 | 4,603 | 975 | 254 | 8,857 |
| Interest expense | 84 | 376 | 4 | 862 | 1,326 |
| | 2,941 | 4,227 | 971 | –608 | 7,531 |

**Interest income (external) and interest expense (external) breakdown by business line**

| 2006 | Insurance Europe | Insurance Americas | Insurance Asia/Pacific | Other | Total segments |
|---|---|---|---|---|---|
| Investment income | 3,373 | 4,604 | 911 | 223 | 9,111 |
| Interest expense | 32 | 466 | 4 | 729 | 1,231 |
| | 3,341 | 4,138 | 907 | –506 | 7,880 |

## 43 SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

ING Insurance'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.

## Segment reporting (continued)

**Geographical segments of ING Insurance**

| **2008** | **Netherlands** | **Belgium** | **Rest of Europe** | **North America** | **Latin America** | **Asia** | **Australia** | **Other** | **Eliminations** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| Income | | | | | | | | | | |
| – external | **9,285** | **1,466** | **3,105** | **25,210** | **2,445** | **12,834** | **550** | **–231** | | **54,664** |
| – inter-segment | **407** | **8** | **21** | **81** | **1** | **706** | **69** | **1,375** | **–2,668** | |
| Total income | **9,692** | **1,474** | **3,126** | **25,291** | **2,446** | **13,540** | **619** | **1,144** | **–2,668** | **54,664** |
| Segment result before taxation | **47** | **80** | **329** | **–843** | **254** | **–340** | **126** | **–1,379** | | **–1,726** |
| Segment assets | **76,137** | **8,815** | **11,635** | **136,217** | **5,139** | **57,797** | **8,432** | **45,314** | **–37,266** | **312,220** |
| Cost incurred to acquire property, equipment and intangibles | **254** | | **19** | **715** | **446** | **37** | **21** | **114** | | **1,606** |

**Geographical segments of ING Insurance**

| 2007 | Netherlands | Belgium | Rest of Europe | North America | Latin America | Asia | Australia | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Income | | | | | | | | | | |
| – external | 10,506 | 2,450 | 3,062 | 26,480 | 3,085 | 13,507 | 599 | 2,663 | | 62,352 |
| – inter-segment | 314 | 34 | 9 | 115 | 1 | 210 | 68 | 998 | –1,749 | |
| Total income | 10,820 | 2,484 | 3,071 | 26,595 | 3,086 | 13,717 | 667 | 3,661 | –1,749 | 62,352 |
| Segment result before taxation | 1,566 | 523 | 332 | 1,826 | 326 | 361 | 215 | 1,466 | | 6,615 |
| Segment assets | 77,767 | 8,942 | 11,730 | 151,162 | 8,519 | 49,621 | 11,813 | 36,141 | –33,612 | 322,083 |
| Cost incurred to acquire property, equipment and intangibles | 158 | | 61 | 87 | 679 | 73 | 49 | 341 | | 1,448 |

**Geographical segments of ING Insurance**

| 2006 | Netherlands | Belgium | Rest of Europe | North America | Latin America | Asia | Australia | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Income | | | | | | | | | | |
| – external | 11,046 | 2,321 | 2,541 | 26,922 | 2,852 | 12,772 | 538 | 676 | | 59,668 |
| – inter-segment | 243 | 33 | 2 | 4 | | 42 | 26 | 794 | –1,144 | |
| Total income | 11,289 | 2,354 | 2,543 | 26,926 | 2,852 | 12,814 | 564 | 1,470 | –1,144 | 59,668 |
| Segment result before taxation | 1,937 | 137 | 315 | 1,808 | 184 | 460 | 176 | –60 | | 4,957 |
| Segment assets | 91,990 | 14,635 | 10,678 | 155,106 | 7,139 | 44,877 | 9,577 | –231 | | 333,771 |
| Cost incurred to acquire property, equipment and intangibles | 1,286 | 1 | 34 | 204 | 39 | 50 | 41 | | | 1,655 |

**Result before taxation by geographical area**

| | Life | | | Non–life | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | **2008** | 2007 | 2006 | **2008** | 2007 | 2006 |
| Netherlands | **–245** | 1,122 | 1,373 | **292** | 444 | 564 | **47** | 1,566 | 1,937 |
| Belgium | **72** | 504 | 123 | **7** | 19 | 14 | **79** | 523 | 137 |
| Rest of Europe | **323** | 324 | 303 | **6** | 8 | 12 | **329** | 332 | 315 |
| North America | **–1,207** | 1,356 | 1,136 | **364** | 470 | 672 | **–843** | 1,826 | 1,808 |
| Latin America | **152** | 216 | 138 | **102** | 110 | 46 | **254** | 326 | 184 |
| Asia | **–343** | 358 | 456 | **3** | 3 | 4 | **–340** | 361 | 460 |
| Australia | **126** | 215 | 176 | | | | **126** | 215 | 176 |
| Other | **–1,115** | 1,271 | –114 | **–263** | 195 | 54 | **–1,378** | 1,466 | –60 |
| Total | **–2,237** | 5,366 | 3,591 | **511** | 1,249 | 1,366 | **–1,726** | 6,615 | 4,957 |

## Geographical analysis of claims ratio, expense ratio and combined ratio for non–life insurance policies

| | Claims ratio | | | Expense ratio | | | Combined ratio | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | **2008** | 2007 | 2006 | **2008** | 2007 | 2006 |
| Netherlands | **55.8** | 50.2 | 44.7 | **41.8** | 41.2 | 40.3 | **97.6** | 91.4 | 85.0 |
| Belgium | **49.1** | 70.3 | 65.0 | **44.7** | 31.5 | 33.7 | **93.8** | 101.8 | 98.7 |
| Rest of Europe | **49.7** | 44.1 | 46.8 | **44.1** | 44.8 | 41.3 | **93.8** | 88.9 | 88.1 |
| North America | **69.5** | 65.7 | 59.2 | **29.1** | 28.5 | 29.9 | **98.6** | 94.2 | 89.1 |
| Latin America | **70.4** | 81.6 | 74.2 | **16.7** | 27.3 | 26.8 | **87.1** | 108.9 | 101.0 |
| Asia | **53.1** | 50.2 | 50.2 | **38.3** | 42.6 | 40.7 | **91.4** | 92.8 | 90.9 |
| Other | **26.9** | 144.3 | 60.1 | **–46.6** | 18.7 | –36.4 | **–19.7** | 163.0 | 23.7 |
| Total | **64.3** | 65.3 | 58.6 | **32.2** | 31.8 | 31.8 | **96.5** | 97.1 | 90.4 |

The claims ratio relates to claims, including claims handling expenses, expressed as a percentage of net earned premiums. The expense ratio relates to costs expressed as a percentage of net premiums written. The claims ratio and the expense ratio together form the combined ratio. A combined ratio of more than 100% does not necessarily mean that there is a loss on non-life insurance policies, because the result also includes the allocated investment income.

# Notes to the consolidated statement of cash flows of ING Insurance amounts in million of euros, unless stated otherwise

## 44 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'.

## 45 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

**Interest and dividend received and paid**

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Interest received | **8,045** | 8,973 | 9,112 |
| Interest paid | **–1,145** | –1,438 | –1,224 |
| | **6,900** | 7,535 | 7,888 |
| | | | |
| Dividend received | **646** | 750 | 604 |
| Dividend paid | **–2,842** | –4,640 | –1,684 |

# Risk management

amounts in millions of euros, unless stated otherwise

## STRUCTURE OF RISK MANAGEMENT SECTION

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

## RISK MANAGEMENT IN 2008

Taking measured risks is part of ING Insurance's business. As a financial services company active in investments, life insurance and retirement services, ING Insurance is naturally exposed to a variety of risks. To ensure measured risk - taking ING Insurance has integrated risk management in its daily business activities and strategic planning. Risk Management assists with the formulation of risk appetite, strategies, policies and limits and provides a review, oversight and support function throughout ING Insurance on risk-related issues. The main financial risks ING Insurance is exposed to are credit risk (including transfer risk), market risk (including interest rate, equity, real estate, and foreign exchange risks), insurance risk and liquidity risk. In addition, ING Insurance is exposed to non-financial risks, e.g. operational and compliance risks. The way ING Insurance 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:

- *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 has 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 4 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)*
  Direct public equity exposure was reduced from EUR 12.2 billion at the end of 2007 to EUR 3.9 billion at year-end 2008. The reduction in exposure was due to negative revaluations, and sales.

The remaining exposure was partially hedged against further market losses. In addition a temporary hedging programme was put in place to reduce earnings volatility resulting from potential DAC (Deferred Acquisition Cost) unlocking.

- *Reduction of interest rate risk*
  ING Insurance sold ING Life Taiwan which resulted into a significant reduction of its interest rate risk exposure. This divestment was in line with the strategy to allocate capital to those businesses that generate the highest return. In addition, ING Insurance lengthened its asset duration in order to mitigate the impact of declining interest rates, herewith further reducing its interest rate risk exposure.

**Impact of financial crisis**

*Impact on pressurised asset classes*

As a result of the deteriorating market conditions throughout 2008 ING Insurance incurred negative revaluations on its investment portfolio, which impacted shareholders' equity. Furthermore, ING Insurance 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, Alt-A RMBS and CDOs/CLOs exposures, revaluations and losses**

| | 31 December 2008 | Change in 2008 | | | 31 December 2007 | |
|---|---|---|---|---|---|---|
| | Market Value | Revaluation through Equity (pre-tax) | Write downs through P&L (pretax) | Other changes | Market value | Revaluation through Equity (pre-tax) |
| US Subprime RMBS | 1,674 | –761 | –39 | –55 | 2,529 | –254 |
| Alt-A RMBS | 2,121 | –1,094 | –241 | –323 | 3,779 | –110 |
| CDOs/CLOs | 3,419 | –192 | –272 | 3,312 | 571 | –67 |
| Total | 7,214 | –2,047 | –552 | 2,934 | 6,879 | –431 |

- ING Insurance's total EUR 1.7 billion exposure to US sub-prime assets relates to non originated loans acquired as investments in RMBS and represents approximately 0.5% of total ING Insurance assets. At 31 December 2008 approximately 86% of ING's US sub-prime portfolio was rated AA or higher. ING Insurance 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 Insurance's total US Alt-A exposure at 31 December 2008 was EUR 2.1 billion. About 83% 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 1.1% of total ING Insurance assets. The vast majority of the CDOs/CLOs has investment grade corporate credit as underlying assets, only EUR 0.1 million has US subprime mortgages underlying. Other changes includes purchases and sales of CDOs/CLOs, as well as foreign currency effects.

The US Subprime RMBS, US Alt-A RMBS and CDOs/CLOs held by ING Insurance are 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, 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 | **20** | | **1,654** | **1,674** |
| US Alt-A RMBS | | **10** | **2,111** | **2,121** |
| CDOs/CLOs | **3,366** | **53** | | **3,419** |
| Total | **3,386** | **63** | **3,765** | **7,214** |

**Fair value of US Subprime RMBS, 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 | 2,529 | | | 2,529 |
| US Alt-A RMBS | 3,765 | 14 | | 3,779 |
| CDOs/CLOs | 253 | 318 | | 571 |
| Total | 6,547 | 332 | | 6,879 |

An amount of EUR 5 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 Insurance's total exposure to real estate was EUR 6.6 billion of which EUR 4.9 billion was subject to revaluation through the profit and loss account. In 2008, ING recorded EUR 452 million pre-tax negative revaluations and impairments. ING's real estate portfolio benefits from 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 3.9 billion (public) and EUR 0.4 billion (private). During 2008 ING booked EUR 1,376 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 private equity and alternative assets amounted to EUR 399 million. Negative impact on results 2008 (pre-tax) from debt securities other than mentioned above amounted to EUR 229 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 291 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.

**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 Insurance'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 Insurance perspective. This is followed by a more detailed overview, split into the different risk types (credit, market, liquidity, insurance, operational and compliance risk). The section concludes with disclosures on Economic Capital models.

## INTRODUCTION

To ensure measured risk taking throughout the organisation, ING Insurance 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 Insurance's financial strength is safeguarded.

The mission of ING Insurance'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 Insurance'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 Insurance's risk profile is transparent, has 'no surprises', and is 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 Insurance. 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

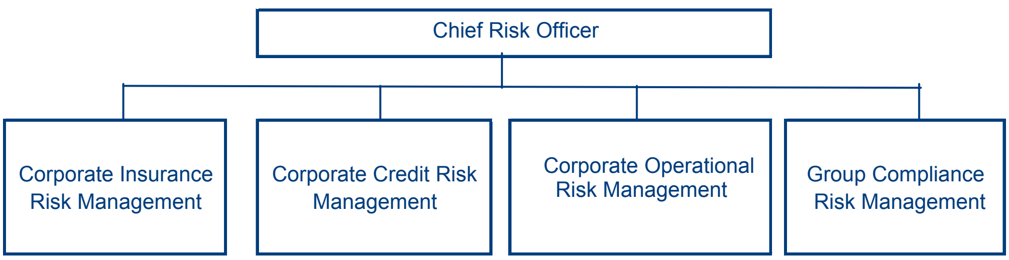
The risk management function is embedded in all levels of the ING Insurance organisation.

*Chief Risk Officer*

The Chief Risk Officer (CRO), who is a member of the Executive Board, bears primary overall responsibility for the Insurance risk management function. The CRO is responsible for the management and control of risk on a consolidated level to ensure that ING's insurance 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 Insurance Risk Organisation*

The organisation chart below illustrates the functional reporting lines within the ING Insurance 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 Insurance;
- Corporate Insurance Risk Management (CIRM) is responsible for the insurance, market and liquidity risk management of ING Insurance.

- Corporate Operational Risk Management (CORM) is responsible for the operational risk management of ING Insurance;
- 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 Insurance.

The heads of these departments (Corporate Risk General Managers) report to the CRO and bear direct responsibility for risk (mitigating) decisions at the Group level. The Corporate Risk General Managers and the CRO are responsible for the harmonisation and standardisation of risk management practices.
In addition, at 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. 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 Insurance 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 Insurance. 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 Insurance (ALCO Insurance): Discusses and approves all risks associated with ING's Insurance activities. This includes volatility (affecting earnings and value), exposure (required capital and market risk) and insurance risks. ALCO Insurance meets six times a year.
- Operational and Residual Risk Committee (ORRC): Discuss and approve issues related to Methods, Models and Parameters related to Operational risk, 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 Insurance 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 ING organisation, there are board committees which oversee risk taking, and have ultimate approval authority. ING Insurance 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 Insurance. Its responsibilities include ensuring that internal risk management and control systems are effective and that ING Insurance 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 ING Insurance'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 Group'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 Group's risk position at all times. Every quarter the CRO reports to the board committees on ING's risk appetite levels and on ING Group's risk profile. In addition the CRO briefs the board committees on developments in internal and external risk related issues and makes sure the board committees understand specific risk concepts.

ING has integrated risk management into the annual strategic planning process. This process aligns strategic goals, business strategies and resources throughout ING Group. 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 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 group 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.

**ING Insurance risk policies**

ING has a framework of risk management policies, procedures and standards in place to create consistency throughout the organisation, and to define minimum requirements that are binding on all business units. The governance framework of the business units aligns with ING Insurance level 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 ING Insurance's 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 measurement**

The overall ING risk appetite is translated into specific limits which are cascaded down into the organisation, e.g.

- Credit risk limits
- Market Value at Risk limits
- Mortality and concentration limits for insurance operations.

## ING INSURANCE RISK PROFILE

ING Insurance is engaged in selling a broad range of life and non-life insurance products. Risks from these products arise with respect to the adequacy of insurance premium rate levels and provisions for insurance liabilities and capital position, as well as uncertainty as to the future returns on investments of the insurance premiums. Risks are classified as insurance risk (actuarial and underwriting), market risk, liquidity risk, credit risk, business risk and operational risk.

The responsibility for measurement and management of credit risk and operational risk resides with Corporate Credit Risk Management (CCRM) and Corporate Operational Risk Management (CORM) respectively. Corporate Insurance Risk Management (CIRM) is responsible for insurance risk (actuarial and underwriting) market risk and liquidity risk measurement and management, business risk measurement, as well as for ensuring that investment mandates adequately address credit portfolio risk.

**Risk management governance**

ING's Insurance Risk Management (IRM) is organised along a functional line comprising three levels within the organisation: the corporate, business line and business unit levels. The General Manager of CIRM, the Chief Insurance Risk Officer, heads the functional line and reports into the Corporate CRO. Each of the business lines and business units has a similar function headed by a Chief Insurance Risk Officer (business line and business unit CIRO). This layered, functional approach ensures consistent application of guidelines and procedures, regular reporting and appropriate communication vertically through the risk management function, as well as providing ongoing support for the business. The scope, roles, responsibilities and authorities of the risk management function at different levels are clearly described in an Insurance Risk Management Governance Framework to which all consolidated business units and business lines must adhere.

The objective of the insurance risk management function is to provide the business a sustainable competitive advantage by fully integrating risk management into the tactical daily business activities as well as ING's broader business strategy. Insurance Risk Management accomplishes this through four core activities. First, the IRM function ensures that products and portfolios are structured, underwritten, priced, approved and managed appropriately in compliance with internal and external rules and guidelines. Second, IRM ensures that the ING Insurance risk profile is transparent and well understood by management and stays within delegated authorities, with a 'no surprises' approach to reporting and monitoring risks. Third, IRM ensures that both risk and reward are adequately considered in the development of business strategy, for example by supporting the planning and allocation of Economic Capital and limits during the strategic planning process. Finally, IRM ensures that these steps are understood by ING's stakeholders, including shareholders, rating agencies, regulators and policy holders.

**Risk management policies and tools**
To ensure appropriate risk management, CIRM in close co-operation with the business line CIRO's, has developed Standards of Practice providing guidelines and tools to manage risks. While these standards are principle based, they include mandatory requirements to which the business unit CIRO must adhere.

A critical aspect of risk management is that all new products are designed, underwritten and priced appropriately. This is explicitly covered by the Standard of Practice for the Product Approval and Review Process (PARP). This standard includes requirements related to risk profile, traditional and value-oriented pricing metrics and targets and documentation. In addition to insurance and market risks, the requirements refer to operational risk, legal and compliance risk etc. For these risks, the IRM network works closely together with the other, relevant risk departments. The PARP also includes requirements to assess sensitivities to changes in financial markets, insurance risk (e.g. mortality and claims development), compliance risks and operational risks, as well as assessment of the administration and accounting aspects of the product.

Other standards prescribe quarterly insurance risk reporting, ALM procedures and reporting, actuarial and economic assumption setting, reserve adequacy testing and embedded value measurement and reporting, amongst others.

ING Insurance has developed an Economic Capital approach similar to that used within ING Bank as one of its core risk measurement tools. More details on the Economic Capital model are described below. In 2007, ING Insurance introduced ECAPS, a new intranet-based Economic Capital reporting system which is based on replicating portfolio techniques. The ECAPS system provides a well controlled and automated basis for Economic Capital and risk reporting, and greatly enhanced market risk analysis tools for business units and corporate reporting purposes. ECAPS relies on an innovative replicating portfolio methodology; CIRM expects this system to be the foundation of its internal fair value and solvency model, including the calculation of capital requirements following the introduction of Solvency II. Through 2008 the system has been enhanced and functionality expanded.

To further manage risk, ING Insurance has implemented several limit structures. Examples include but are not limited to the following:
- Market Value at Risk (MVaR) limits that provide the fundamental framework to manage the market and credit risks resulting from the Insurance operations' asset / liability mismatch;
- Credit risk concentration limits;
- Mortality concentration limits;
- Catastrophe and mortality exposure retention limits for its insurance risk; and
- Investment and derivative guidelines.

More information on some of these limits is included in the sections below.

**Reserve adequacy**
CIRM instructs and supervises all ING entities so as to make sure that the total insurance liabilities of ING Insurance (both reserves and capital) are tested for adequacy taking into account the insurance premium rate levels and the uncertainty of future returns on investments. This is done by evaluating insurance liabilities on current best estimate actuarial assumptions plus a risk margin, ensuring that the reserves remain adequate based on current assumptions. The assumed investment earnings are a combination of the run-off of portfolio yields on existing assets and new money and reinvestment rates. For new money and reinvestments long-term best estimate assumptions are taken into account, although current new money rates are used for the short-term reinvestments. For most products stochastic testing is required, taking the 90% point as the testing outcome. In the case where deterministic testing is used the 90% confidence level is achieved by subtracting risk margins of 20% of the best-estimate rates or 1%, whichever is higher.

ING's policy for reserve adequacy testing is disclosed in the 'Principles of valuation and determination of results' section. As of 31 December 2008 (and 31 December 2007), reserves for ING's insurance businesses in aggregate are adequate at a 90% confidence level. All business lines are adequate on a stand alone basis at a 90% confidence level as well. However, as a result of the severe economic downturn during late 2008 and its effects on products that are sensitive to interest and equity markets movements, the net insurance liabilities for US retail annuity products and ING Life Japan were insufficient at both the 90$^{th}$ percentile and 50$^{th}$ percentile level of the stochastic test. For US retail annuity the inadequacy was EUR 1.6 billion (90$^{th}$ percentile) and EUR 0.6 billion (50$^{th}$ percentile). For ING Life Japan the inadequacy was approximately EUR 0.4 billion at the 90$^{th}$ percentile and less than EUR 0.1 billion at the 50$^{th}$ percentile. In both cases management is investigating various actions to improve the reserve adequacy, including de-risking the variable annuity products.

## ING INSURANCE RISK PROFILE

**Economic Capital ING Insurance**
The objective of the ING Insurance Economic Capital framework is to achieve an advanced risk and capital measurement and management structure that:
- Covers all the risks in the business units and is applied consistently across all risks and business units;
- Facilitates and encourages adequate risk and capital management, including the proper pricing of products and sound capital allocation decisions.

The ING Insurance Economic Capital model is based on a 99.95% one-year Value at Risk framework. It is important to note that since industry practice relating to Economic Capital is still evolving and moreover Solvency II standards are still under discussion, ING Insurance models are expected to evolve as a result. Solvency II currently calls for a 99.5% Value at Risk standard for internal models which is a lower risk threshold than used in ING's model.

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

Economic Capital disclosures relating to ING Insurance include diversification benefits that arise within ING Insurance. The following table provides an Economic Capital break down by risk category with diversification benefits proportionally allocated to the risk types:

**Economic Capital break-down ING Insurance by risk category [1]**

| | 2008 | 2007 |
|---|---|---|
| Credit risk (including Transfer risk) | **891** | 1,021 |
| Market risk | **8,455** | 15,258 |
| Insurance risk | **1,557** | 3,293 |
| Other risks [2] | **2,779** | 3,627 |
| Total insurance operations | **13,682** | 23,199 |

(1) The Economic Capital outcomes do not reflect any potential tax benefit resulting from the loss that occurs under the specified circumstances.
(2) Other risk includes operational risk as well as business risk (covering expense risk and lapse risk).

Total diversification across these risk types is 34% for 2008 (31% for 2007).
The Economic Capital for ING Insurance is mostly related to market risks, both hedgeable and non-hedgeable. Overall, Economic Capital and risk profile reduced significantly during 2008. The primary change came from selling the Taiwan business (EUR 5.7 billion). In addition there were several changes to the risk profile in various businesses from de-risking, which included selling and hedging equity exposures, closing interest rate positions by investing longer, and entering (forward starting) receiver swaps and swaptions.

Also the EC model has been changed to reflect the illiquidity in the insurance portfolios resulting from current dislocated markets. The change is described in more detail in the model disclosure section.

The following table provides the Economic Capital breakdown by business line with diversification benefits proportionally allocated to the business lines.

**Economic Capital break-down by ING Insurance business line**

| | 2008 | 2007 |
|---|---|---|
| Insurance Americas | **6,049** | 6,541 |
| Insurance Asia/Pacific | **2,817** | 7,033 |
| Insurance Europe | **2,985** | 5,890 |
| Corporate Line Insurance [1] | **1,831** | 3,735 |
| Total insurance operations | **13,682** | 23,199 |

(1) Corporate Line includes funding activities at ING Insurance level, explicit internal transactions between business unit and Corporate Line, managed by Capital Management, and corporate reinsurance. The responsibility (and risk) of free assets located within the business line for which there is no explicit transfer via a Corporate Line transaction remain at the business unit level.

While the figures above are shown by business line, the diversification of risks across ING businesses is calculated across business units. Total diversification between ING Insurance's business units and the Corporate Line Insurance is 39% for 2008 (33% in 2007).

The sale of ING Life Taiwan and recent developments in the financial markets have distorted last years balance between the regions. The Taiwan sale decreases capital needs in both Asia/Pacific (EUR 4.0 billion) and Corporate Line (EUR 1.7 billion). Americas is now the largest user of Economic Capital. De-risking measures brought Americas otherwise increased capital need down by EUR 1 billion. Europe saw some substantial de-risking over the year. Most listed direct equity exposures are now sold or mostly hedged, and interest rate risk was reduced substantially. Economic Capital in Asia/Pacific and Europe has now an equal balance for financial and non-financial risks, while capital in Americas is still primarily driven by interest rate, credit spread and client fund related equity risk. The corporate line risk relates mostly to foreign exchange translation risk related to the potential loss of market value surplus in non-EUR denominated business units.

## ING INSURANCE – MARKET RISKS

ING Insurance is exposed to market risk to the extent to which the market value of surplus can be adversely impacted due to movements in financial markets; these include interest rates, equity prices, implied volatilities of options, foreign exchange rates and real estate prices. Changes in financial market prices impact the market value of ING's current asset portfolio and hedging derivatives directly as well as the calculated market value of ING's insurance liabilities. The following table provides information on Economic Capital split by risk category:

**Economic capital insurance market risks**

| | 2008 | 2007 |
|---|---|---|
| Interest rate risk | **2,739** | 6,021 |
| Credit spread risk | **880** | 1,012 |
| Equity risk | **1,293** | 3,357 |
| Real estate risk | **252** | 669 |
| Implied volatility risk | **1,857** | 2,108 |
| Foreign exchange risk | **1,434** | 2,091 |
| Total | **8,455** | 15,258 |

Interest rate risks are the largest market risks for ING Insurance. Interest rate risks are most significant in the United States and Europe. In general, the primary risk is to falling interest rates. The table shows a notable decrease in the interest rate risk during 2008 as a consequence of the divestment of ING Life Taiwan.

Credit spread risk relates to potential increases in credit spreads from investments in fixed income securities. Real estate risk exists mostly in the Netherlands and relates in a large part to direct real estate investments. Implied volatility risk is the risk that market values of assets or liabilities change due to movements in market option prices. In general, ING is exposed to increases in implied volatility as the guarantees provided to customers become more expensive. Foreign exchange risk is small in the business units. Hence, most of the exposure relates to the risk of change in the market value surplus of non-EUR businesses.

The equity risk has become less dominant due to risk reduction and hedging activities, relating to both direct and indirect exposure. Direct exposure relates to the holding of shares and is most significant for ING in the Netherlands. Indirect exposure relates to the potential loss of fee income from unit linked, variable annuity, and pension fund business across all regions. Direct exposure represents approximately 20% of the equity risk, after taking the hedge positions into account.

ING continued to manage the market and credit risks resulting from its global Insurance operations by setting Market Value at Risk (MVaR) limits. On at least an annual basis, ALCO Insurance sets an aggregate MVaR limit for ING Insurance and sub-limits for each of the business lines, which are ultimately allocated to the business units. The MVaR limit is measured in a manner consistent with the Economic Capital measure, i.e. based on a 99.95% confidence level over a one-year horizon.

The MVaR limits are managed by ALCO Insurance at the relevant organisational level. The Group Insurance ALCO determines the aggregate limit and ensures that the Group stays within the limit and allocates the sub-limits to business lines, with similar roles for the business line and business unit ALCO's. Limit breaches by business lines are reported to ALCO Insurance and resolved in accordance with the policy within the next quarter.

CIRM consolidates and monitors the MVaR exposures of the business lines including diversification effects on a quarterly basis. Together with ING Capital Management, MVaR is managed within the limits. In 2008 and 2007 there were no breaches of the overall ING Insurance MVaR limit.

### Real Estate

Real Estate price risk arises from the possibility that real estate prices will fluctuate affecting the value of real estate assets.

ING Insurance has two different categories of real estate exposure on its insurance books. First, ING Insurance owns buildings it occupies. Second, ING Insurance has invested capital in several real estate funds and direct real estate assets. A decrease in real estate prices will cause the value of this capital to decrease and as such ING Insurance is exposed to real estate price shocks.

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.

The second category can be divided in minority stakes in real estate assets that are revalued through equity and stakes in funds managed by ING and direct real estate revalued through P&L. Only for the last category real estate price shocks will have a direct impact on reported net profit.

As of Q4 2008 ING Insurance has EUR 4.1 billion of real estate related investments. ING Insurance' real estate exposure (i.e. including leverage) is EUR 6.6 billion of which EUR 4.9 billion is revalued through P&L and EUR 1.7 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 | 438 | 1,609 | 2,207 | 522 | 28 | 4,804 |
| Americas | | | | | 93 | 93 |
| Asia | | | | | | |
| Total | 438 | 1,609 | 2,207 | 522 | 121 | 4,897 |

**Real Estate exposure not revalued through P&L**

| 2008 | Residential | Office | Retail | Industrial | Other | Total |
|---|---|---|---|---|---|---|
| Europe | 781 | 250 | 9 | 20 | 469 | 1,529 |
| Americas | | 149 | | | | 149 |
| Asia | | 21 | | | | 21 |
| Total | 781 | 420 | 9 | 20 | 469 | 1,699 |

**Earnings at Risk (EaR)**
Complementing Economic Capital, which is based on a market value analysis, ING Insurance also measures risk based on IFRS earnings. More specifically, using scenario analysis, ING Insurance measures the potential sensitivity of realised pre tax earnings of the insurance operations to an increase/decrease of different risk factors over a full year. These earnings sensitivities are used as input into the ING Group Earnings at Risk measure, where these sensitivities are fully diversified with the Bank. Interpretation of the underlying earnings sensitivities must be done individually as ING does not assume that all of the scenarios presented below will happen concurrently.

Earnings sensitivities are defined on a shock scenario at the 90% confidence level on pre tax IFRS earnings, projected one year forward from the calculation date. Therefore the table below provides earnings sensitivities to an instantaneous shock at the 90% confidence level projected through to 31 December 2009. The EaR information does not include ING Canada which was divested in January.

**Earnings sensitivities for insurance market risks**

| | 2008 | 2007 |
|---|---|---|
| Interest rate (1% up) | -67 | -161 |
| Interest rate (1% down) | 82 | 125 |
| Equity (15% down) | -795 | -613 |
| Real Estate (8% down) | -525 | -570 |
| Foreign Exchange (10% worst case) | -224 | -338 |

The table presents figures before diversification between risks. For interest rate risk, we present the effect of a parallel shock of 1% across all regions and take the sum of the shocks. For the Japan business, a shock of 0.5% is applied since this business operates in a lower interest rate environment. Foreign exchange risk includes the sum of both local business currency risk plus translation risk for earnings of non-Euro business units.

The table shows that real estate fluctuations can have a relatively large impact on earnings since all price volatility is fully reflected in earnings for real estate investments. The impact on earnings of interest rates and equity price changes are normally lower than the economic and shareholder's equity impact given current accounting rules. The sensitivity results do reflect the impacts of asymmetric accounting whereby the hedges must be marked-to-market through the earnings while the liability value is not.

Earnings at Risk is an indicator of future earnings at risk in case markets deteriorate. Earnings can deteriorate significantly when certain thresholds have been reached for impairment and DAC unlocking. At the moment the significant increase in equity Earnings at Risk - despite de-risking - is driven by DAC unlocking and negative revaluations being close to or at hitting impairment triggers. Offset from the hedging programs existing at year end is taken into account. Further hedges have been put in place since 31 December 2008.

**ING Insurance - Liquidity risk**
As with other ING Insurance market risk, liquidity risk falls under the supervision of the ALCO function. Liquidity risk is the risk that ING Insurance or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. ING Insurance monitors structural, tactical and contingency liquidity risk and tests adverse scenarios to measure its resiliency against these risks. The severe economic downturn in late 2008 has caused liquidity risk to increase substantially. To manage these risks, ING Insurance has increased its allocation to liquid assets

## ING INSURANCE – INSURANCE RISKS

**General**
Actuarial and underwriting risks are risks such as mortality, longevity, morbidity, adverse motor or home claims development, etc., which result from the pricing and acceptance of insurance contracts. In general, these risks cannot be hedged directly in the financial markets and tend to be mitigated by diversification across large portfolios. They are therefore primarily managed at the contract level through standard underwriting policies, product design requirements as set by ING's IRM function, independent product approval processes and risk limitations related to insurance policy terms and conditions agreed with the client.

**Measurement**
For portfolio risks which are not mitigated by diversification, the risks are managed primarily through concentration and exposure limits and through reinsurance and/or securitisation. Aggregate portfolio level limits and risk tolerance levels are set in reference to potential losses stemming from adverse claims in ING's insurance portfolios which are reviewed annually by the ING Group Executive Board. ING Group has established actuarial and underwriting risk tolerance levels in specific areas of its insurance operations as described below. For non-life insurance, risk tolerance levels are set by line of business for catastrophic events (e.g. natural perils such as storms, earthquakes and floods) and for individual risks.

For the main non-life units (in the Benelux and Canada) the risk tolerance for property and casualty (P&C) business is generally set at 2.5% of the Group's expected after-tax earnings. For 2008, this translated into an aggregated (pre-tax) risk tolerance level of EUR 265 million for the Benelux (2007: EUR 235 million). For Canada the pre-tax risk tolerance level is set at EUR 244 million (derived from the above mentioned EUR 265 million, but allowing for outside interests) (2007: EUR 214 million). For the first half of 2008 the risk tolerance limit of EUR 265 million also applied to Mexico.

In order to determine how much reinsurance protection is required in each of the regions, these risk tolerance limits are compared to the estimated maximum probable loss resulting from catastrophic events with a 1 in 250 probability of occurrence which is in line with industry practice. The maximum probable loss estimates for Fire business are based on risk assessment models that are widely accepted in the industry.

For the smaller non-life units, the (pre-tax) risk tolerance level for catastrophe related events for 2008 was set at EUR 5 million (2007: EUR 5 million) per event per business unit.

With respect to life business, ING Group's (pre-tax) risk tolerance level for 2008 was set at EUR 22 million (2007: EUR 22 million) per insured life for mortality risk. While life insurance risks are considered to be naturally diversifiable by virtue of each life being a separate risk, group contracts may result in significant exposures. For potential losses, resulting from significant mortality events (e.g. pandemics or events affecting life insurance contracts involving multiple lives), ING applies a separate risk tolerance level which equalled EUR 1,100 million in 2008 (2007: EUR 750 million). The potential impact of pandemics continues to be modelled by ING based on studies published by respected international organisations.

Overall exposures and concentrations are actively managed within limits and risk tolerance levels through the purchase of external reinsurance from approved reinsurers in accordance with ING's reinsurance credit risk policy. Particularly for the property and casualty portfolio, ING purchases protection which substantially mitigates ING's exposure due to natural catastrophes. ING believes that the credit risks to which it is exposed under reinsurance contracts are minor, with exposures being monitored regularly and limited by a reinsurance credit risk policy.

For catastrophic losses arising from events such as terrorism, ING believes that it is not possible to develop models that support inclusion of such events in underwriting in a reliable manner. The very high uncertainty in both the frequency and severity of these events makes them, in ING's opinion, uninsurable. For the non-life business, losses that result from these events are generally not covered unless required by law. In various countries industry pools have been established to mitigate the terrorism risk to which the individual insurers are nevertheless still exposed. ING participates in such pools.

The following table provides an overview of the Economic Capital for insurance risks, split into mortality risk, morbidity risk and risk related to P&C products:

**Economic Capital Insurance risks**

| | 2008 | 2007 |
|---|---|---|
| Mortality | **781** | 803 |
| Morbidity | **483** | 2,141 |
| P&C | **293** | 349 |
| Total | **1,557** | 3,293 |

The mortality risk relates to the potential for increasing deaths (life risk) or decreasing deaths (longevity risk). This risk relates to a potential mortality catastrophe or to changes in long term mortality rates. As noted, ING manages these risks via limits and external reinsurance. Morbidity risk relates to disability products in the Netherlands and some health riders sold in Asia. The decrease in morbidity risk capital relates to the sale of ING Life Taiwan, which had a block of guaranteed health riders providing benefits for 30-60 years into the future. Finally, property and casualty risk exists primarily in Canada and the Benelux

Through scenario analyses, ING Insurance measures the sensitivity of pre-tax earnings of the insurance operations to an increase/decrease of the insurance risk factors over a one year period. These changes to earnings can relate to realised claims or any other profit item that would be affected by these factors. ING assumes that not all the shifts presented below will happen at the same time.

Earnings sensitivities are defined on a shock scenario at the 90% confidence level on pre-tax IFRS earnings, projected one year forward from the calculation. Therefore the table below provides earnings sensitivities to an instantaneous shock at the 90% confidence level projected through to 31 December 2008. The EaR information does not include ING Canada which was divested in January.

**Economic Capital Insurance risks**

| | 2008 | 2007 |
|---|---|---|
| Mortality | **-61** | -54 |
| Morbidity | **-105** | -124 |
| P&C | **-49** | -132 |

The table above presents figures after diversification between insurance risks and diversification across business units of ING Insurance. The largest earnings sensitivity relates to P&C claims in Canada and health and P&C claims in the Netherlands.

## 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. The credit risks are measured and monitored by Corporate Credit Risk Management (CCRM) as well as local credit risk managers within the various locations were credit risk is taken within ING Insurance and ING Investment Management. 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 Group.

Within ING Insurance, the goal is to maintain a low risk, well diversified credit risk portfolio that meets or exceeds market based benchmark returns. 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.

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's credit analysts make use of publicly available information in combination with in-house analysis.

### 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 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 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 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, 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.

### Credit Risk exposure

ING Insurance's credit exposure arises from the investment of insurance premiums in assets subject to credit risk, largely in the form of unsecured bond investments, and smaller amounts of residential mortgages and structured finance products. In addition, credit exposure also arises from derivatives, sell/repurchase transactions, securities lending/borrowing and reinsurance contracts used to hedge the portfolio. ING Insurance has a policy of maintaining a high quality investment grade portfolio.

Overall portfolio credit risk limits are established and integrated into investment mandates by ALCO Insurance based on asset or investment category and risk classes. Individual issuer limits are determined based on the obligor's rating. These limits are managed by the region where the parent company is domiciled but may be sub-allocated to regional or local portfolios. In addition, each Insurance company has one or more investment mandates that may differ by insurance portfolio specify credit risk appetite by issuer type and quality.

The credit risk classification of issuers, debtors and counterparties within the Insurance companies' credit risk portfolios continues its transition to the methodology used by the banking operations. Similar to ING Bank, ING Insurance uses risk classes which are calibrated to the probability of default of the underlying issuer, debtor or counterparty. These ratings are defined based upon the quality of the issuer in terms of creditworthiness, varying from investment grade to problem grade expressed in S&P equivalents.

**Risk classes: ING Insurance portfolio, as % of total outstandings [1]**

| | | Insurance Americas | | Insurance Europe | | Insurance Asia/Pacific | | Total ING Insurance | |
|---|---|---|---|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| 1 | (AAA) | **27.5%** | 27.9% | **34.8%** | 28.8% | **5.3%** | 10.7% | **27.2%** | 25.5% |
| 2-4 | (AA) | **19.6%** | 18.5% | **20.2%** | 26.9% | **29.6%** | 37.3% | **21.1%** | 24.6% |
| 5-7 | (A) | **18.9%** | 22.3% | **23.5%** | 21.7% | **43.1%** | 32.8% | **23.7%** | 23.8% |
| 8-10 | (BBB) | **20.0%** | 18.4% | **9.3%** | 11.1% | **9.6%** | 6.9% | **14.8%** | 13.9% |
| 11-13 | (BB) | **5.2%** | 2.9% | **10.7%** | 10.0% | **0.9%** | 3.4% | **6.6%** | 5.5% |
| 14-16 | (B) | **5.0%** | 5.0% | **1.2%** | 1.0% | **9.4%** | 6.1% | **4.2%** | 3.7% |
| 17-22 | (CCC & Problem Grade) | **3.8%** | 5.0% | **0.3%** | 0.5% | **2.1%** | 2.8% | **2.4%** | 3.0% |
| | | **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 does not take collateral into consideration.

ING Insurance risk class distribution remained fairly stable during 2008. The shift from AA to AAA at Insurance Europe is the result of data quality improvements. The deterioration in Asia/Pacific is due to the divestment of ING Life Taiwan.

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

| | Insurance Americas | | Insurance Europe | | Insurance Asia/Pacific | | Total ING Insurance | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| Non-Bank Financial Institutions | **53.3%** | 52.3% | **26.4%** | 19.6% | **18.7%** | 16.8% | **39.1%** | 34.7% |
| Central Governments | **3.2%** | 1.7% | **33.7%** | 35.8% | **22.7%** | 38.7% | **16.6%** | 20.1% |
| Commercial Banks | **6.2%** | 11.0% | **12.8%** | 8.1% | **23.7%** | 16.2% | **10.8%** | 10.8% |
| Private Individuals | **3.5%** | 3.5% | **10.5%** | 13.9% | **11.8%** | 7.8% | **7.1%** | 7.9% |
| Real Estate | **8.7%** | 7.9% | **1.7%** | 1.6% | **2.0%** | 1.6% | **5.4%** | 4.6% |
| Utilities | **4.0%** | 4.0% | **1.7%** | 1.4% | **4.0%** | 2.9% | **3.2%** | 2.9% |
| Natural Resources | **3.5%** | 3.5% | **0.6%** | 1.1% | **1.6%** | 1.4% | **2.2%** | 2.3% |
| Other | **17.6%** | 16.1% | **12.6%** | 18.5% | **15.5%** | 14.6% | **15.6%** | 16.7% |
| | **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.

Overall risk concentrations remained stable in 2008 for ING Insurance, with a small shift towards Commercial Banks as a result of increased equity derivatives trading business at Insurance Europe. Private Individuals in Europe decreased, due to the sale of EUR 4.5 billion in residential mortgages to ING Bank's Nationale Nederlanden Hypotheek Bedrijf. Food, Beverages and Personal Care accounted for 2.5% in 2007, but fell below the 2.0% threshold in 2008. All other industries not shown in the table above have less than 2.0% concentrations.

## Largest economic exposures: ING Insurance portfolio, by country [1,2]

| amounts in EUR billion | Insurance Americas | | Insurance Europe | | Insurance Asia/Pacific | | Total ING Insurance | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| United States | **58.6** | 56.2 | **2.0** | 1.7 | **1.1** | 2.3 | **61.7** | 60.2 |
| Netherlands | **0.8** | 0.7 | **14.6** | 22.0 | **0.2** | 0.3 | **15.6** | 23.0 |
| France | **0.3** | 0.4 | **6.8** | 5.9 | **0.1** | 0.5 | **7.2** | 6.8 |
| Italy | **0.3** | 0.3 | **5.9** | 6.4 | **0.2** | 0.2 | **6.4** | 6.9 |
| South Korea | **0.1** | 0.1 | | | **6.2** | 6.6 | **6.3** | 6.7 |
| United Kingdom | **1.8** | 1.9 | **3.5** | 3.1 | **0.4** | 0.4 | **5.7** | 5.4 |
| Germany | **0.3** | 0.3 | **5.3** | 6.1 | **0.1** | 0.3 | **5.7** | 6.7 |
| Canada | **5.5** | 6.0 | **0.1** | 0.1 | | | **5.6** | 6.1 |

[1] Only covers total exposures in excess of EUR 5 billion, including intercompany exposure with ING Bank.
[2] Country is based on the country of residence of the obligor.

The portfolio in the Netherlands decreased principally due to the sale of residential mortgages to ING Bank (Nationale Nederlanden Hypotheek Bedrijf). There were no other significant shifts in the portfolio concentration.

### 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.

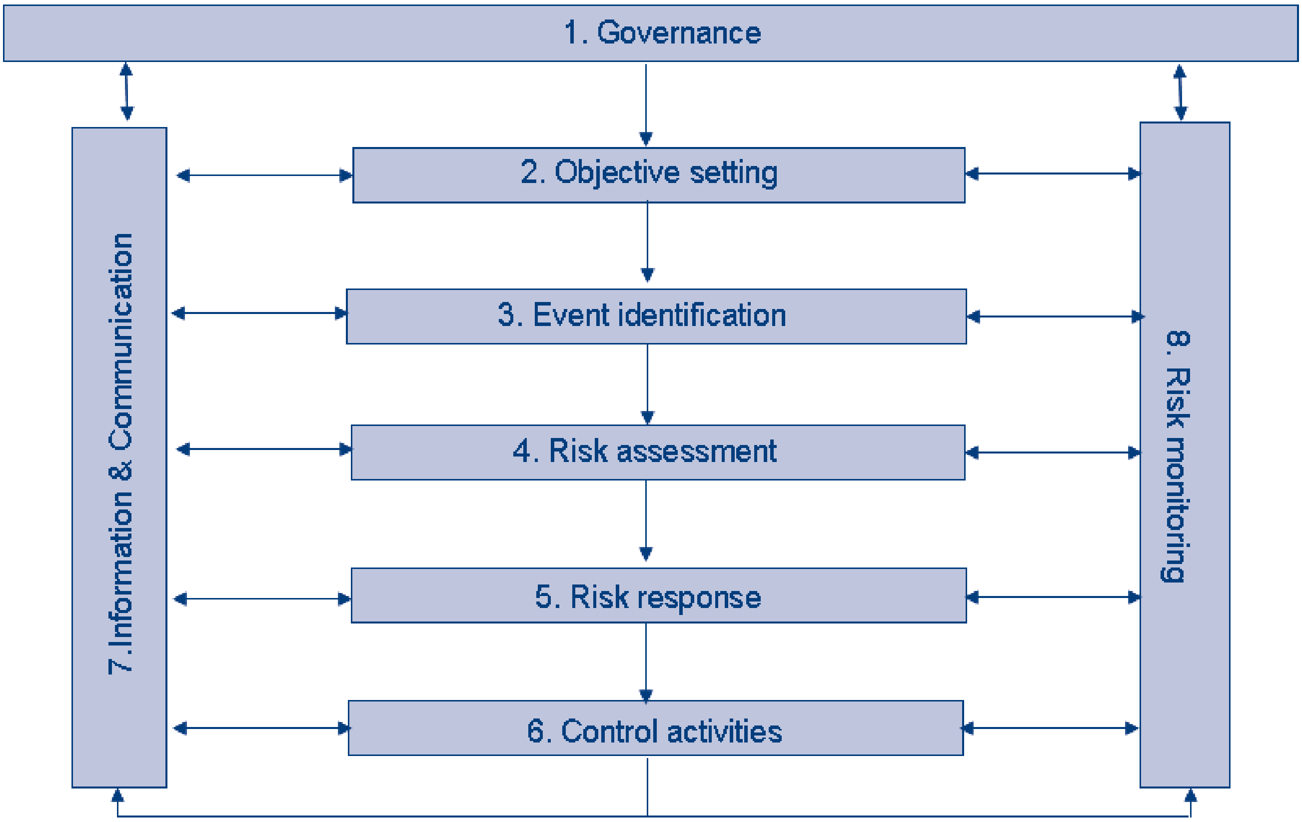
**Organisation of Operational Risk Management**
The General Manager Corporate Operational Risk management (CORM) reports directly to the CRO and is responsible for managing operational risks and developing and establishing the Operational Risk Framework within ING Insurance. The General Manager Corporate 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 and monitors the key risks of ING Group 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.

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.

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

**Developments in 2008**
- **ING Compliance Risk Management's revised Charter and Framework**

In August the Executive Board of ING issued the ING Group 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 Group 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 Group 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.

## MODEL DISCLOSURES

The analyses set out in the risk management section provide a valuable guide to investors as to the risk profile of ING Insurance. 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 Group continues to develop, recalibrate and refine the various models that support risk metrics, which may result in changes to the risk metrics as disclosed.

This model disclosure section explains the models applied in deriving Economic Capital for ING Insurance is described. The risk models used for the ING Insurance Economic Capital calculations are on a periodical basis reviewed and validated by the internal Model Validation department.

## CREDIT AND TRANSFER RISK

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

Economic Capital for credit risk and for transfer risk are calculated using internally developed models with a 99.95% confidence level and a time horizon of one year, which represents ING's desired credit rating.

ING uses a series of credit risk models that can be grouped into three principal categories: Probability of Default (PD) models, which measure the standalone creditworthiness of individual debtors; Exposure at Default models (EAD) which estimate the size of the financial obligation at the moment of default in the future; and Loss Given Default Models (LGD), which estimate the recovery value of the underlying collateral or guarantees received (if any) and the unsecured part. Collectively, ING uses over 100 models for credit risk. The various models can be grouped into three categories: statistical, expert and hybrid. 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.

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.

## 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.

**ECONOMIC CAPITAL ING INSURANCE**
Economic Capital, 'EC', is defined by ING as the amount of assets that needs to be held in addition to the market value of liabilities to assure a non-negative surplus at a 99.95% level of confidence on a 1 year time horizon. ING measures Economic Capital by quantifying the impact on the market value surplus (MVS) as a result of adverse events that occur with a specified probability related to the AA rating. Therefore ING's Economic Capital model is based on a 'Surplus-at-Risk' concept. The confidence level consistent with an AA rating has been defined as the 99.95% one-sided confidence level over a one-year horizon. The change in market value surplus (MVS) is the combined effect of changes in Market Value of Assets (MVA) minus market value of liabilities (MVL) and an adjustment for illiquidity spreads due to current dislocated asset markets. The MVS is adjusted to correct this asymmetry by applying an illiquidity spread to the insurance liability cash flows.

The adjustment of the MVS for the illiquidity of our insurance liabilities impacts the market risk in our Economic Capital model in the following ways:

- Interest Rate Risk: The illiquidity spread applied on our liability cash flows effectively reduces the duration of our liabilities and therefore reduces the duration mismatch between our assets and liabilities resulting in a reduced interest rate risk.
- Credit Spread Risk: The Economic Capital model stresses both the asset spreads and the illiquidity spread on our liabilities. The netting of asset spread risk with illiquidity liability spread risk results in a lower credit spread risk.
- Foreign Exchange Risk: The adjustment of the MVS for illiquidity results in a reduced net exposure to foreign currency movements and in particular US dollar. This results in a lower foreign exchange risk"

The MVL consist of the Financial Component of Liabilities (FCL) and a Market Value Margin (MVM) for non-hedgeable risks (e.g. insurance risk). The MVM is calculated using a Cost-of-Capital approach based on an estimate of required shareholder return on Economic Capital.

The following fundamental principles have been established for the model:
- Economic Capital requirements are calculated to achieve a target AA rating for policyholder liabilities;
- All sources of risk should be considered;
- The best estimate actuarial assumptions should be as objective as possible and based on a proper analysis of economic, industry, and company-specific statistical data. There is one set of best-estimate assumptions per product to be used for all purposes at ING;
- Valuation of assets and liabilities is based on fair value principles. Where complete and efficient markets exist, fair value is equal to market value;
- The Economic Capital and valuation calculations should reflect the embedded options in insurance contracts;
- The Economic Capital and valuation calculations do not consider the effect of local regulatory accounting and solvency requirements on capital levels. Capital is assumed to be fully transferable between legal entities;
- The framework does not include any franchise value of the business. It does, however, include the expense risk associated with the possibility of reduced sales volume in the coming year.

ING quantifies the impact of the following types of risk in its Economic Capital model:
- Market risk for ING Insurance is the change in value based on changes in interest rates, equity prices, real estate prices, credit spreads, implied volatilities (interest rate and equity), and foreign exchange rates. It occurs when there is less than perfect matching between assets and liabilities. Market risk may exist in the insurance activities as a result of selling products with guarantees or options (guaranteed crediting rates, surrender options, profit sharing, etc.) that cannot be hedged given the assets available in a certain market. Market risk may also occur when there is an intentional mismatch between asset and liability cash flows even when it is possible to match or hedge the cash flows;
- Credit risk is the risk of changes in the credit quality of issuers due to defaults or credit migration of securities (in the investment portfolio), counter parties (e.g. on reinsurance contracts, derivative contracts or deposits given) and intermediaries to whom ING has an exposure. In addition to credit risk, ING includes a calculation of transfer risk for the risk of being unable to repatriate funds when required due to government restrictions;
- Business risk is defined as the exposure to the possibility that experience differs from expectations with respect to expenses, the runoff of existing business (persistency) and future premium re-rating;
- Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk capital is difficult to quantify, since it is driven by infrequent events of high severity, and can be significantly mitigated or exacerbated by the quality of internal controls and guidelines. It may be partially managed through the purchase of insurance;

- Life risk relates to deviations in timing and amount of the cash flows (premium payments and benefits) due to the incidence or non-incidence of death. The risk of non-incidence of death is also referred to as longevity risk to distinguish it from the risk associated with death protection products. ING notes risks due to uncertainty of best estimate assumptions concerning level and trend of mortality rates, volatility around best estimates, and potential calamities and recognises external reinsurance;
- Morbidity risk is the risk of variations in claims levels and timing due to fluctuations in policyholder morbidity (sickness or disability) recognising external reinsurance. A wide variety of policy classes are subject to morbidity risk, including disability, accidental death and disability, accelerated death benefits, workers compensation, medical insurance, and long-term care insurance;
- P&C risk comprises the risk of variability of size, frequency and time to payment of future claims, development of outstanding claims and allocated loss adjustment expenses for P&C product lines recognising external reinsurance.

Strategic business risk has been excluded from the EC calculations of ING Insurance.

**Economic Capital Model**
The ING Economic Capital calculation is calculated based on a 'Surplus-at-Risk' concept. 'Surplus-at-Risk' is calculated based on the steps:
- Calculate the complete balance sheet (all assets and liabilities) on a Market Value basis;
- Generate Monte-Carlo shock scenarios for all of the relevant risk factors (market and non-market);
- Recalculate the complete balance sheet (all assets and liabilities) on a Market Value basis for each shock scenario. For practical purposes, the MVM is not recalculated under shock scenarios;
- Calculate the 99.95% worst case decrease in the Market Value Surplus over all the shock scenarios. This value will be the EC. Note that the shock scenario resulting in the Economic Capital will differ by business unit, business line, and at an ING Insurance level.

In 2007, ING Insurance has introduced ECAPS as an intranet-based Economic Capital reporting system utilising replicating portfolio techniques. The ECAPS system provides a well controlled and automated basis for Economic Capital and risk measurement. Each business unit enters the risk characteristics of its assets and liabilities into the ECAPS system on a regular basis. These risk characteristics are then translated to a uniform basis in the form of replicating portfolios of standardised financial instruments. Based on the constellation of replicating portfolios (including representations of non-market risks), the ECAPS system then is capable of calculating Economic Capitals at every level of aggregation.

The following is a brief description of the model.

**1. Market Data and Scenario Generation**

- Automated retrieval of all current and historical market data
- 500 Risk scenarios sent to each business unit to locally develop stochastic asset and liability cash flows
- 20,000 Real World Monte-Carlo scenarios for Economic Capital calculation

**2. Stochastic Cash flows and Non-market Risk Capital**

- Actuarial software used to produce the stochastic cash flows by scenario
- Business units upload stochastic asset and liability cash flows for optimised replicating portfolio
- Non-market risk capitals calculated in accordance with ING Standards of Practice submitted to ECAPS for risk aggregation

**3. Replicating Portfolio**

- Capture the risk profile of the financial component of insurance liabilities by mapping onto a small set of standard financial instruments
- Standard instruments contain discount bond, swaption, callable bonds, equity forward/option and FX option
- Find a replicating portfolio that matches the cash flows as closely as possible for the 500 paths

**4. Economic Capital Calculation**

- Replicating portfolio used to capture the risk profile of Insurance assets and liabilities
- EC market shocks and diversification benefits from Monte-Carlo scenarios
- Non-market risk aggregation
- Total diversified EC

**Further details on Economic Capital model**

*Market Data and Scenario Generation*

ING Insurance uses ING Bank's Global Market Database (GMDB) as a provider of market price and risk data for financial risk drivers. All market data is obtained from reputable data providers such as Reuters and Bloomberg. The GMDB operational team then validates the market data and calculates relevant risk parameters. This validated data is then automatically delivered to the ECAPS system.

Since ING Insurance operates in many developing financial markets, extrapolation algorithms are in place for extending beyond observable market data when this is needed for the calculation of the Market Value Liabilities and the Economic Capital. These algorithms are based on comparable data in mature markets.

Based on the market data from GMDB, ING calibrates two economic scenario generators:

- Risk Neutral Economic Scenario Generator (RN ESG): capable of generating multiple equity indices and exchange rates, consistent with a multi-currency dynamic term structure model. Scenarios are used in the cash flow projection to determine replicating portfolios. RN ESG scenarios are consistent with observed market prices of equity, FX and interest options;

- Real World Economic Scenario Generator (RW ESG): capable of jointly simulating all risk types, i.e. all market risks, credit risk, business risk, operational risk, life risk, morbidity risk and P&C risk. Diversification between risks is taken into account through a Gaussian copula, allowing for different marginal probability distributions at the risk driver level. RW ESG scenarios are consistent with historical time series of the market risk drivers using 5 years of weekly data observations. The volatilities are scaled from weekly to quarterly and the weekly correlations are used directly as estimates of quarterly correlations.

**Stochastic Cash Flows and Non-Market Risk Capital**
The market risks in assets and liabilities are captured in and represented by stochastic cash flows in 500 scenarios. Business Units are responsible for generating these cash flows, the modelling of embedded options and guarantees and a proper mapping of risk drivers in the scenario set to cash flow determinants such as policyholder behaviour and management actions restricted to dynamic hedge programs and setting of crediting rates/profit sharing. To better capture the behaviour in the tails of the distribution, the set of scenarios consist of 300 Risk Neutral scenarios and 200 'Risk Volatile' scenarios with double volatilities. The average of the 300 Risk Neutral scenarios provides a check on the market value of the replicating portfolio. It should be noted that this serves only as a check, and that the actual market value of liabilities is derived directly from the replicating portfolio. The 200 Risk Volatile scenarios ensure that the replicating portfolio is calibrated against enough extreme scenarios such that it can be used safely in Economic Capital calculations.

Non-market risk Economic Capital is calculated by business units, Corporate Credit Risk Management and Corporate Operational, Information and Security Risk Management and inputted into ECAPS at the sub risk level. ECAPS than aggregates 21 sub-risk types (e.g. mortality and trend risk) to 9 non market risk types using a bottom-up Economic Capital diversification approach based on a matrix of tail correlations. The information inputs relate to 9 sub risk types:
- Credit risk;
- Business risk;
- Operational risk;
- Life risk catastrophe;
- Life risk non-catastrophe;
- Morbidity risk catastrophe;
- Morbidity risk non-catastrophe;
- P&C risk catastrophe;
- P&C risk non-catastrophe.

The inputs are used to calibrate marginal distributions for these risk types. These distributions, in combination with the Gaussian copula, are then used in the Economic Capital Calculation to measure diversification between market and non-market risks.

**Replicating Portfolios**
To handle the full complexity of calculating diversification by Monte Carlo simulation, ING maps its assets and liabilities to a set of standard financial instruments. The set of standard instruments consists of zero coupon bonds, market indices, equity forwards, swaptions, callable bonds, F/X options and equity options. Assets and the financial components of the liabilities are represented by a portfolio of this standard set of instruments. A user interface allows the selection of different types of replicating instruments for different cash flow types. Then an optimal replicating portfolio is created that matches the risk profile of the stochastically generated cash flows as good as possible. The resulting replicating portfolio is used in the calculation of Economic Capital.

Through the inclusion of equity options, F/X options and swaptions in the set of replicating instruments, ING is able to incorporate implied volatility risk in the considered risk types. The same holds for the credit spread risk through the inclusion of credit risk bearing zero coupon bonds in the set of replicating instruments.

The quality of the replicating portfolio is monitored by several statistical criteria including R-squared and benchmarked against market value sensitivities such as duration, convexity, and changes in value for larger interest rate and equity shocks. High quality replicating portfolios are important in several ways. First, they ensure a good reflection of the actual risk profile and an accurate calculation of Economic Capital. Second, they assist Business Units in hedging strategies and management of Economic Capital. Third, the process of replicating portfolio calculations increases the understanding of the complex nature of insurance liabilities in a market consistent environment.

Replicating portfolios are currently determined from a single factor RN ESG interest rate model. This limits the ability of the replicating portfolios to pick up sensitivity to non-parallel shifts of the term structure of interest rates. Hence RW ESG interest rate scenarios for the Value at Risk calculations are generated using a single factor model as well. However both RN ESG and RW ESG models are consistent with respectively, the RN ESG and RW ESG volatility structure of interest rates.

**Economic Capital Calculation**
ECAPS uses Monte-Carlo simulation to determine diversification benefits for the complete 'portfolio hierarchy', from business unit level up to an ING Group level. All diversification calculations are done within ECAPS and are driven by the Gaussian copula of all risk drivers using the underlying distributions applicable for each risk type.

For the calculation of Economic Capital ING uses a one- year time horizon. In practice, the model calculates instantaneous quarterly shocks and then annualises the resulting VaR statistic to determine an annualised EC. The quarterly shock is used to stabilise the results, to ensure the shocks are within a range that can be more credibly valued for assets and liabilities, to better capture the impact of dynamic hedge strategies, to more reasonably use weekly correlations of risk factors, and to get closer to actual risk practices and reporting cycles.

Using Monte-Carlo simulation, ING's Economic Capital model generates 20,000 possible 'states-of-the-world', by randomly simulating all risk drivers - simultaneously. For each state-of-the-world, the market value of assets and liabilities are recalculated and the change in value of the Market Value Surplus (MVS) is stored. All these changes in MVS are then sorted, and the 99.95% worst-case change in MVS is identified, to provide the Economic Capital level for the given level of aggregation.

# 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 (EU Solvency and limits for hybrid capital), rating agencies (leverage ratios, Adjusted Equity) 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. The valuation of ING Insurance includes an adjustment for portfolio illiquidity. 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.
- Adjusted Equity – This rating agency concept is defined as shareholders' equity, hybrid capital, prudential filters and an adjustment for Value in Force and Deferred Acquisition Cost. See 'Capital Base' disclosures in this section. This capital definition is applied in comparing available capital to core debt (leverage).

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 Insurance met all key target capital ratios and metrics and regulatory requirements. As at 31 December 2008 and 2007 ING Insurance was adequately capitalised in relation to their risk profile and strategic objectives.

**AVAILABLE FINANCIAL RESOURCES (AFR)**

**ING Insurance**

AFR insurance is computed as follows:

**Available Financial Resources – ING Insurance**

| | 2008 | 2007 |
|---|---|---|
| IFRS Equity [(1)] | **11,888** | 17,911 |
| Plus hybrid capital [(2)] | **2,934** | 2,202 |
| Plus Mark-to-Market, tax adjustments and illiquidity adjustment | **-366** | 2,597 |
| Total AFR ING Insurance | **14,456** | 22,710 |

(1) IFRS Equity 2008 adjusted for EUR 5 million shares of ING Group held by ING Insurance.
(2) Hybrid capital at market value

## Capital management (continued)

ING continues to adjust AFR to reflect the illiquidity in its insurance portfolios as reporting AFR with MVLs discounted at the swap rates results in an asymmetry between the assets and liabilities in terms of reflection of illiquidity premiums. In addition to valuing assets at current market values, total portfolio illiquidity risk profile has been proxied by applying a AAA covered bond spread (128 bps over swaps) to the valuation of insurance liabilities cash flows. This adjustment has been applied to all business (excluding mainly unit-linked/variable business) except for the US and Japanese businesses where the AAA covered bond spread is further adjusted by the differential between local AAA corporate bond spreads and AAA European corporate bond spreads (further +72 bps and -21 bps over swaps for the US and Japan respectively). If a similar methodology had been applied at 31 December 2007, AFR at that time would have been EUR 26.7 billion. At year-end 2007 the swap rate was used.

**AFR/EC RATIOS**

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%. For details regarding the computation of EC see the section entitled 'Risk management'.

**AFR/EC Reconciliation**

| | 2008 | 2007 |
|---|---|---|
| Available Financial Resources (AFR) | **14,456** | 22,710 |
| Required Economic Capital (EC) | **13,681** | 23,199 |
| | | |
| AFR/EC Ratio | **106%** | 98% |
| Surplus/(deficit) | **775** | -489 |

**Capital base**

| | 2008 | 2007 |
|---|---|---|
| Shareholders' equity (parent) | **11,893** | 17,911 |
| Group hybrid capital [(1)] | **4,560** | 2,202 |
| Total capitalisation | **16,453** | 20,113 |
| | | |
| Adjustments to equity: | | |
| Revaluation reserve debt securities | **8,271** | 840 |
| Revaluation reserve crediting to life policyholders | **-2,235** | -42 |
| Revaluation reserve cashflow hedge | **-1,360** | -10 |
| Goodwill | **-1,889** | -1,076 |
| - Revaluation reserves fixed income & other | **2,787** | -289 |
| - Insurance hybrid capital [(2)] | **2,250** | 2,250 |
| - Minorities | **520** | 891 |
| Available capital | **22,010** | 22,965 |
| | | |
| DAC/ViF adjustments (50%) [(3)] | **1,893** | 4,070 |
| Adjusted Equity (a) | **23,903** | 27,035 |
| | | |
| Ratios | | |
| Core debt (b) | **2,301** | 4,267 |
| Debt/Equity ratio (b/(a+b)) | **8.78%** | 13.63% |

(1) Tier-1 instruments issued by ING Group (e.g. perpetual debt securities and preference shares), at nominal value. Group hybrid tier-1 instruments other than preference shares are provided as hybrid capital to ING Insurance or ING Bank.
(2) Dated subordinated debt issued by ING Insurance at nominal value.
(3) Mainly includes 50% of the excess of the present value of future profits generated by policies in force (Value in Force) over the after-tax deferred acquisition costs.

## ING Insurance

European Union directives require insurance companies established in member states of the European Union to maintain minimum capital positions. The ING Insurance companies outside the EU have to comply with their respective local requirements. ING Insurance's companies comply with local regulatory requirements. The table below shows the global required capital position of ING Insurance measured on the basis of the European Union requirement. This requirement is compared with ING Insurance consolidated available capital.

**Capital position of ING Insurance**

| | 2008 | 2007 |
|---|---|---|
| Available capital[1] | **22,010** | 22,965 |
| Required capital | **8,582** | 9,405 |
| Surplus capital | **13,428** | 13,560 |
| | | |
| Ratio of available versus required capital | **256%** | 244% |

[1] For breakdown of available capital see Capital base table

**Main credit ratings of ING at 31/12/2008 [1]**

| | Standard & Poor's | Moody's | Fitch |
|---|---|---|---|
| **ING Insurance** | | | |
| - short term | A-1+ | P-1 | |
| - long term | AA- | A1 | AA- |

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

**Main credit ratings of ING at 16/02/2009 [1]**

| | Standard & Poor's | Moody's | Fitch |
|---|---|---|---|
| **ING Insurance** | | | |
| - short term | A-1+ | P-1 | |
| - long term | AA- | A2 | A+ |

[1] The Standard & Poor's and Fitch ratings have a negative outlook, the Moody's 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 the approval of various regulators.
The Facility covers the Alt-A portfolios of ING Insurance Americas, with a par value of approximately EUR 4 billion. Under the Facility, ING Insurance 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 Insurance 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 3 billion, being 90% 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 1 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 Insurance 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 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 Insurance

## as at 31 December before appropriation of result

| amounts in millions of euros | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| Investments in wholly owned subsidiaries 1 | **16,790** | 22,502 |
| Other assets 2 | **19,116** | 10,512 |
| Total assets | **35,906** | 33,014 |
| | | |
| **EQUITY 3** | | |
| Share capital | **174** | 174 |
| Share premium | **9,824** | 4,374 |
| Legal reserves (1) | **–5,921** | 2,456 |
| Other reserves | **9,081** | 5,257 |
| Unappropriated result | **–1,265** | 5,650 |
| | **11,893** | 17,911 |
| | | |
| **LIABILITIES** | | |
| Subordinated loans 4 | **6,928** | 4,497 |
| Other liabilities 5 | **17,085** | 10,606 |
| Total equity and liabilities | **35,906** | 33,014 |

(1) Legal reserves includes Share of associates reserve of EUR –5,275 million (2007: EUR: 3,481 million) and Currency translation reserve of EUR –646 million (2007: EUR –1,025 million).

References relate to the notes starting on page 126. These form an integral part of the parent company annual accounts.

# Parent company profit and loss account of ING Insurance

## for the years ended 31 December

| amounts in millions of euros | 2008 | 2007 |
|---|---|---|
| Result of group companies after taxation | **–1,291** | 6,021 |
| Other results after taxation | **26** | –371 |
| Net result | **–1,265** | 5,650 |

# Parent company changes in equity of ING Insurance

## for the years ended 31 December

| amounts in millions of euros | Share capital | Share premium | Share of associates reserve | Currency translation reserve | Other reserves[1] | Total |
|---|---|---|---|---|---|---|
| Balance as at 1 January 2007 | 174 | 4,374 | 7,998 | –344 | 9,715 | 21,917 |
| | | | | | | |
| Unrealised revaluations after taxation | | | –1,959 | | 90 | –1,869 |
| Realised gains/losses transferred to profit and loss | | | –2,847 | | | –2,847 |
| Transfer to insurance liabilities/DAC | | | 1,132 | | | 1,132 |
| Change in cash flow hedge reserves | | | –692 | | | –692 |
| Unrealised revaluations from net investment hedges | | | | | | |
| Exchange rate differences | | | –148 | –681 | | –829 |
| Other | | | –3 | | 3 | |
| Employee stock option and share plans | | | | | 49 | 49 |
| Total amount recognised directly in equity | | | –4,517 | –681 | 142 | –5,056 |
| | | | | | | |
| Net result | | | | | 5,650 | 5,650 |
| | | | –4,517 | –681 | 5,792 | 594 |
| | | | | | | |
| Dividend | | | | | –4,600 | –4,600 |
| Balance as at 31 December 2007 | 174 | 4,374 | 3,481 | –1,025 | 10,907 | 17,911 |
| | | | | | | |
| Unrealised revaluations after taxation | | | **–12,415** | | **679** | **–11,736** |
| Realised gains/losses transferred to profit and loss | | | **898** | | | **898** |
| Transfer to insurance liabilities/DAC | | | **2,193** | | | **2,193** |
| Change in cash flow hedge reserves | | | **1,350** | | | **1,350** |
| Unrealised revaluations from net investment hedges | | | | **209** | | **209** |
| Exchange rate differences | | | **–484** | **170** | | **–314** |
| Employee stock option and share plans | | | | | **–3** | **–3** |
| Total amount recognised directly in equity | | | **–8,458** | **379** | **676** | **–7,403** |
| | | | | | | |
| Net result | | | **–187** | | **–1,078** | **–1,265** |
| | | | **–8,645** | **379** | **–402** | **–8,668** |
| | | | | | | |
| Dividend | | | **–111** | | **–2,689** | **–2,800** |
| Capital Injection | | **5,450** | | | | **5,450** |
| Balance as at 31 December 2008 | **174** | **9,824** | **–5,275** | **–646** | **7,816** | **11,893** |

[1] Other reserves includes Retained earnings, Other reserves and Unappropriated result.

In 2008, an amount of EUR 5,450 million (2007: nil) additional share premium was received from ING Group to strengthen solvency.

# Accounting policies for the parent company balance sheet and profit and loss account of ING Insurance

## BASIS OF PRESENTATION

The parent company accounts of ING Insurance 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 with the exception of investments in group companies and investments in associates which are initially recognised at cost and subsequently accounted for using 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 reserves of 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 Insurance 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 the Share of associates reserve.

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, which forms part of Shareholders' equity.

# Notes to the parent company balance sheet of ING Insurance

amounts in millions, unless stated otherwise

## ASSETS

### 1 INVESTMENTS IN WHOLLY OWNED SUBSIDIARIES

**Investments in wholly owned subsidiaries**

| | 2008 | 2007 |
|---|---|---|
| ING Verzekeringen Nederland N.V. | **5,892** | 7,116 |
| ING America Insurance Holding Inc | **1,007** | 4,635 |
| ING Insurance International B.V. | **8,162** | 9,069 |
| ING Continental Europe B.V. | **1,416** | 1,365 |
| Other | **313** | 317 |
| | **16,790** | 22,502 |

**Changes in investments in wholly owned subsidiaries**

| | 2008 | 2007 |
|---|---|---|
| Opening balance | **22,502** | 24,133 |
| Repayments to/from group companies | **–1,276** | –5,069 |
| Disposals of group companies | **–175** | 13 |
| Revaluations | **–7,475** | –5,054 |
| Result of the group companies | **–1,291** | 6,021 |
| Capital contribution | **5,932** | 3,277 |
| Dividend | **–1,427** | –824 |
| | **16,790** | 22,497 |
| Changes in ING Verzekeringen N.V. shares held by group companies | | 5 |
| Closing balance | **16,790** | 22,502 |

### 2 OTHER ASSETS

**Other assets**

| | 2008 | 2007 |
|---|---|---|
| Receivables from group companies | **18,856** | 10,175 |
| Other receivables, prepayments and accruals | **260** | 337 |
| | **19,116** | 10,512 |

## EQUITY

### 3 EQUITY

**Equity**

| | **2008** | 2007 |
|---|---|---|
| Share capital | **174** | 174 |
| Share premium | **9,824** | 4,374 |
| Share of associates reserve | **–5,275** | 3,481 |
| Currency translation reserve | **–646** | –1,025 |
| Other reserves | **7,816** | 10,907 |
| Equity | **11,893** | 17,911 |

The Share of associates reserve includes the following components: Reserve for non-distributable profit of associates of EUR 67 million (2007: EUR 567 million) and Revaluation reserve of associates of EUR -5,342 million (2007: EUR 2,914 million).

**Share capital**

| | Ordinary shares (par value EUR 1.13) | | | |
|---|---|---|---|---|
| | Number x 1,000 | | Amount | |
| | **2008** | 2007 | **2008** | 2007 |
| Authorised share capital | **680,000** | 680,000 | **768** | 768 |
| Unissued share capital | **526,116** | 526,116 | **594** | 594 |
| Issued share capital | **153,884** | 153,884 | **174** | 174 |

**Changes in other reserves and unappropriated result**

| **2008** | **Retained earnings** | **Other reserves** | **Total Other reserves** | **Unappro–priated result** | **Total** |
|---|---|---|---|---|---|
| Opening balance | **5,276** | **–19** | **5,257** | **5,650** | **10,907** |
| Result for the year | | | | **–1,265** | **–1,265** |
| Unrealised revaluations | **679** | | **679** | | **679** |
| Transfer to Share of associates reserve | **298** | | **298** | | **298** |
| Transfer to retained earnings | **2,850** | | **2,850** | **–2,850** | |
| Dividend | | | | **–2,800** | **–2,800** |
| Employee stock options and share plans | **–3** | | **–3** | | **–3** |
| Closing balance | **9,100** | **–19** | **9,081** | **–1,265** | **7,816** |

**Changes in other reserves and unappropriated result**

| 2007 | Retained earnings | Other reserves | Total Other reserves | Unappro-priated result | Total |
|---|---|---|---|---|---|
| Opening balance | 5,774 | –19 | 5,755 | 3,960 | 9,715 |
| Result for the year | | | | 5,650 | 5,650 |
| Unrealised revaluations | 90 | | 90 | | 90 |
| Transfer to Share of associates reserve | –150 | | –150 | | –150 |
| Transfer to retained earnings | 3,960 | | 3,960 | –3,960 | |
| Dividend | –4,600 | | –4,600 | | –4,600 |
| Other | 202 | | 202 | | 202 |
| Closing balance | 5,276 | –19 | 5,257 | 5,650 | 10,907 |

Positive components of the Share of associates reserve and Currency translation reserve cannot be freely distributed. The reserve for cash flow hedges is included in the Share of associates reserve on a net basis.

Retained earnings can be freely distributed, except for an amount equal to the negative balance in each of the components in the Currency translation reserve and Share of associates reserve. Unrealised gains and losses on derivatives, other than those used in cash flow hedges, are presented in the profit and loss account and are therefore part of Retained earnings.

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

The total amount of Equity in the parent company annual accounts equals Shareholders' equity (parent) in the consolidated annual accounts. Certain components within equity are different, as a result of the following presentation differences between the parent company accounts and consolidated accounts:

- Unrealised revaluations within consolidated group companies, presented in the Revaluation reserve in the consolidated accounts, are presented in the Share or associates reserve in the parent company accounts;
- Foreign currency translation on consolidated group companies, presented in the Currency translation reserve in the consolidated accounts, is presented in the Share or associates reserve in the parent company accounts;
- Revaluations on investment property and certain participations recognised in income and consequently presented in Retained earnings in the consolidated accounts, is presented in the Share or associates reserve in the parent company accounts.

The total amount of non-distributable reserves is EUR 6,055 million (2007: EUR 4,506 million).

See Note 11 'Shareholders' equity (parent)' in to the consolidated annual accounts for additional information.

## LIABILITIES

### 4 SUBORDINATED LOANS

**Subordinated loans**

| Interest rate | Year of Issue | Due date | Notional amount in original currency | | Balance sheet value 2008 | Balance sheet value 2007 |
|---|---|---|---|---|---|---|
| 8.500% | 2008 | Perpetual | USD | 1,500 | **1,075** | |
| 8.000% | 2008 | Perpetual | EUR | 750 | **750** | |
| Variable | 2008 | Perpetual | USD | 1,100 | **788** | |
| 7.375% | 2007 | Perpetual | USD | 1,000 | **716** | 680 |
| 5.775% | 2005 | Perpetual | USD | 1,000 | **717** | 680 |
| 4.176% | 2005 | Perpetual | EUR | 300 | **297** | 276 |
| 6.125% | 2005 | Perpetual | USD | 200 | **149** | 130 |
| 6.125% | 2005 | Perpetual | USD | 100 | **75** | 65 |
| 6.375% | 2002 | 7 May 2027 | EUR | 1,000 | **1,077** | 1,048 |
| 7.200% | 2002 | Perpetual | USD | 500 | | 340 |
| 6.250% | 2001 | 21 June 2021 | EUR | 1,250 | **1,284** | 1,274 |
| | | | | | **6,928** | 4,493 |

### 5 OTHER LIABILITIES

**Other liabilities by type**

| | 2008 | 2007 |
|---|---|---|
| Debenture loans | **4,111** | 4,050 |
| Amounts owed to group companies | **11,702** | 3,666 |
| Other amounts owed and accrued liabilities | **1,272** | 2,890 |
| | **17,085** | 10,606 |

**Debenture loans**

| Interest rate | Year of Issue | Due date | Balance sheet value 2008 | Balance sheet value 2007 |
|---|---|---|---|---|
| 2.500% | 2006 | Apr 2012 | **205** | 175 |
| Floating | 2006 | Sep 2013 | **1,000** | 1,000 |
| 4.000% | 2006 | Sep 2013 | **1,018** | 994 |
| 3.500% | 2005 | Nov 2012 | **509** | 497 |
| 4.750% | 2005 | Mar 2010 | **250** | 313 |
| 2.000% | 2005 | Nov 2011 | **211** | 180 |
| 2.000% | 2005 | Nov 2011 | **201** | 180 |
| 3.500% | 2005 | Nov 2012 | **101** | 95 |
| 3.750% | 2004 | Feb 2009 | **506** | 504 |
| 6.250% | 1994 | Jan 2009 | **110** | 112 |
| | | | **4,111** | 4,050 |

**Amounts owed to group companies by remaining term**

| | 2008 | 2007 |
|---|---|---|
| Within 1 year | **11,702** | 3,666 |
| | **11,702** | 3,666 |

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

**Guarantees**
As at 31 December 2008, ING Verzekeringen N.V. had guarantees given on behalf of third parties of EUR 5,775 million (2007: EUR 3,850 million).

ING Verzekeringen 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 OF SENIOR MANAGEMENT, EXECUTIVE BOARD AND SUPERVISORY BOARD
See Note 28 ‘Related parties’ to the consolidated Annual Accounts for additional information.

## 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
Luella Gross Goldberg
Claus Dieter Hoffmann
Piet Hoogendoorn
Piet C. Klaver
Wim Kok
Godfried J.A. van der Lugt
Harish Manwani
Aman Mehta
Joan 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, the Supervisory Board and the Executive Board of ING Verzekeringen N.V.

## REPORT ON THE ANNUAL ACCOUNTS

We have audited the annual accounts 2008 of ING Verzekeringen N.V., Amsterdam (as set out on pages 12 to 130). 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 require 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 Verzekeringen N.V. as at 31 December 2008, and of its result and its cash flows 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 Verzekeringen 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 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 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 21 of the Articles of Association of ING Verzekeringen N.V., the relevant stipulations of which state that the part of the result remaining after the cash dividend to the preference shareholders is made payable, shall be at the disposal of the General Meeting of Shareholders.

**Proposed appropriation of result**

amounts in millions of euros

| | |
|---|---|
| Net result | **–1,265** |
| Deducted from to reserves pursuant to Article 21(2) of the Articles of Association | **–4,065** |
| At the disposal of the General Meeting of Shareholders pursuant to Articles 21(2) and 21(3) of the Articles of Association | **2,800** |

## 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 Verzekeringen Nederland N.V. merged into ING Verzekeringen N.V. on 6 February 2009. This merger did not result in an effect to equity and net result, but will result in a transfer from Investments in wholly owned subsidiaries to the relevant balance sheet lines.

As disclosed in this Annual Report, shareholders' equity and net result of ING Insurance 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.

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