ING

ING Insurance Annual Report

2011

ING Verzekeringen N.V.
2011 Annual Report

Contents

Management

COMPOSITION OF THE BOARDS

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

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

MANAGEMENT BOARD INSURANCE
Composition on 31 December 2011
Jan H.M. Hommen (68), chairman
Patrick G. Flynn (51), chief financial officer
Wilfred F. Nagel [1] (55), chief risk officer
[1] Appointed to the Management Board as of 5 October 2011.

SUPERVISORY BOARD
Composition on 31 December 2011
Jeroen van der Veer (64), chairman
Peter A.F.W. Elverding (63), vice-chairman
J.P. (Tineke) Bahlmann (61)
Henk W. Breukink (61)
Sjoerd van Keulen (65)
Piet C. Klaver (66)
Joost Ch.L. Kuiper (64)
Aman Mehta [1] (65)
Luc A.C.P. Vandewalle (67)
Lodewijk J. de Waal (61)
[1] Nominated for reappointment as of 14 May 2012.

COMMITTEES OF THE SUPERVISORY BOARD
Composition on 31 December 2011

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

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

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

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

ING at a glance

ING INSURANCE IS PART OF ING GROUP

ING GROUP

Our mission

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

Our profile

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

Our strategy

To serve the interests of our stakeholders, increase management focus and create value for our shareholders. ING is moving towards separation of its banking and insurance operations. We believe the widespread demand for greater simplicity, reliability and transparency makes this the best course of action. The separation is also part of the restructuring plan submitted to the European Commission in order to get approval for the Dutch state aid received during the financial crisis. On the insurance side, the focus will be on continuing to improve performance in order to optimise returns and value for the business as we prepare for separation. We will focus on earning our customers' trust through transparent products, value for money and superior service. This reflects our universal customer ideal: saving and investing for the future should be easier.

Our customers

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

Our stakeholders

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

Our corporate responsibility

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

CREATING STRONGER STAND-ALONE BUSINESSES

Strategic priorities

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

Strong financial position

Solid earnings and a strong capital and funding position enable ING to support its customers also in uncertain times. ING Insurance/Investment Management's (IM) operating results mostly showed improvement throughout 2011.

Restructuring and streamlining on track

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

Repaying on core Tier 1 securities

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

Building stronger businesses

ING Insurance/IM will continue to focus on its customers and distributors by providing exemplary products and service, as it restructures in preparation for a stand-alone future.

ING INSURANCE

ING's insurance and investment management businesses include its life and non-life insurance, pension and asset management activities.

These activities are divided into six business lines: Insurance Benelux, Insurance Central & Rest of Europe, Insurance US (excluding US Closed Block VA), US Closed Block VA, Insurance Asia/Pacific and ING Investment Management.

Insurance Benelux

Insurance Benelux is a leading regional player in a mature and sizeable market. It sells life, pensions and non-life products via a multi-distribution platform.

Insurance Central and Rest of Europe

Insurance Central and Rest of Europe offers life, pensions and savings products in nine countries: Poland, Romania, Czech Republic, Hungary, Slovakia, Bulgaria, Spain, Turkey and Greece. The region offers growth potential as life insurance and pension penetration is relatively low.

ING at a glance continued

Insurance US (excluding US Closed Block VA)
Insurance US includes ING's retirement services and life insurance operations in the US. In the US, ING is the third-largest provider of defined contribution retirement plans in terms of assets under management and administration.

Insurance US Closed Block VA
Insurance US Closed Block VA consists of ING's Closed Block Variable Annuity business in the US, which has been closed to new business since early 2010 and which is now being managed in run-off.

Insurance Asia/Pacific
Insurance Asia/Pacific is a major international player in Asia with several attractive positions in key markets. It is currently active in seven markets across Asia: China, Hong Kong, Malaysia, Japan, Korea, Thailand and India. It offers life insurance, investment and retirement services products and services to a broad range of retail, corporate and institutional clients.

ING Investment Management
ING Investment Management provides a broad range of investment strategies and advisory services in Europe, the Americas, Asia/Pacific and the Middle East.

Overview

2011 was a year of gradual improvement in operations at ING Insurance/Investment Management (IM). Although the year was marked by difficult economic circumstances such as low interest rates and the European sovereign debt crisis, sales at Insurance/IM remained resilient. ING Insurance/IM proved that it is able to perform in a challenging economic environment by strengthening the business focusing on its customers and distributors, while also making progress on preparing the businesses for a stand-alone future.

FINANCIAL DEVELOPMENTS

Operating conditions were challenging in 2011, as financial markets continued to be volatile and the macroeconomic environment deteriorated.

ING Insurance/IM full-year results improved compared with 2010. The full-year 2011 net result was EUR 1,200 million compared with a net result of EUR –1.574 million in 2010. The 2011 net result includes EUR 995 million gain on divestments attributable to the sale of our Latin American insurance, pension and investment management business. Special items were EUR –249 million in 2011 compared with EUR –824 million in 2010. The 2011 special item include a EUR 71 million net gain from the liability management transaction, i.e., the exchange offer of subordinated debt securities totalling EUR 1.0 billion, offset by costs for various restructuring programmes and separation costs. Result on divestments and discontinued operations recorded in 2010 were EUR 202 million, mainly reflecting the operating segment Latin America. The 2011 net results from divested units and discontinued operations amounted to EUR 1.149 million mainly related to the sale of our Latin American insurance, pension and investment management business. Underlying net result for 2011 was EUR 300 million compared with EUR –952 million in 2010. Underlying net result is derived from total net result by excluding the impact from divestments and discontinued operations and special items.

The underlying result before tax of Insurance/IM was EUR 339 million, up from a loss of EUR 935 million in 2010. The increase was primarily driven by an improvement in market and other impacts as a result of lower deferred acquisition costs (DAC) write downs in the US Closed Block VA business and in Japan’s Single Premium Variable Annuity (SPVA) business. This is, however, partially offset by a charge of EUR 1.1 billion due to the completion of a comprehensive policyholder behaviour assumption review for the US Closed Block VA. Capital losses, reflecting de-risking, and impairments were in line with the previous year. Further, revaluations were lower, largely related to Collateralised Mortgage Obligations (CMOs) in the US. Hence, underlying results per business line diverged, with strong recoveries in the US and Asia/Pacific (excluding Japan variable annuities), compared with lower underlying results in the Benelux and Central and Rest of Europe.

The operating result of Insurance/IM increased to EUR 2,231 million from EUR 1,679 million in 2010, mostly driven by higher investment margins and higher fees and premium-based revenues in the life and the investment management business. The investment spread on life general account assets increased 16 basis points to 106 basis points in 2011 following cautious re-risking of the investment portfolios in the first half of 2011, which was partially offset by de-risking in the second half. The increase in operating income was partly offset by higher expenses. Operating results improved in nearly every business line, with the exception of Central and Rest of Europe given the harsh economic conditions and in US Closed Block VA.

The Life/IM administrative expenses ratio improved from 43.6% in 2010 to 39.7% in 2011 as a result of 6.9% higher Life/IM income and 2.6% lower administrative expenses. Expenses especially in the US were lower as a result of cost savings and pension plan changes.

New life sales (APE) amounted to EUR 4,200 million, an increase of EUR 31 million or 0.7% compared with 2010. Higher sales, mainly in Asia/Pacific, were partly offset by lower sales in the US.

BUSINESS DEVELOPMENTS

The restructuring of ING Group is on track, following the operational separation of Insurance/IM from Banking at the end of 2010. In 2011, Insurance/IM focused on preparing the businesses for a stand-alone future.

In July 2011, ING announced an agreement to sell its Latin American pension, life insurance and investment management businesses to Grupo de Inversiones Suramericana (GrupoSura). The transaction was closed in December 2011. ING has retained its 36% stake in Brazilian insurer SulAmérica SA, which was not part of the transaction.

In 2011, we prepared for two IPOs: one for the US Insurance and IM activities and one for the European and Asian Insurance and IM businesses. On 12 January 2012, ING announced an update on the restructuring of the insurance and investment management businesses. Due to the uncertain economic outlook and volatile markets, especially in Europe, ING has decided to review other strategic options for its Asian insurance and investment management businesses. For the European businesses, ING will continue preparations for a stand-alone future, including the possibility of an IPO. ING will also continue to prepare for the base case IPO for the US insurance/investment management businesses.

Overview continued

LEGAL RESTRUCTURING AND GOVERNANCE
In preparing for the future, Insurance/IM took steps to realign the legal structure and governance of its operations. Regulatory approvals were received to create a new holding company for the European and Asian insurance and investment management activities, called ING Insurance Eurasia, a subsidiary of ING Verzekeringen N.V. The US insurance and investment management operations will continue to be part of a separate, already existing legal entity (ING America Insurance Holdings).

The Management Board Insurance EurAsia consists of the following members: Jan Hommen, Patrick Flynn, Wilfred Nagel, Lard Friese, Matthew Rider and Gilbert Van Hassel.

The Management Board ING America Insurance Holdings Inc consists of the following members: Jan Hommen, Patrick Flynn, Wilfred Nagel, Rodney Martin, Alain Karaoglan, Robert Leary and Ewout Steenbergen.

SOLVENCY II DEVELOPMENTS
Throughout 2011, ING Insurance/IM took an active role in discussions with industry, regulators and institutions on the ongoing development of a new European solvency framework (Solvency II). Notwithstanding the likely delay in implementation until 1 January 2014, internal preparations within the head office and the business units to become Solvency II compliant continue and ING Insurance/IM believes it can meet the relevant Solvency II deadlines.

NET PROMOTER SCORE (NPS)
One of the initiatives to improve customer service levels in the insurance business is the NPS programme which measures customer loyalty. Feedback from customer surveys is used to improve ways of doing business. It is therefore a measurement tool as well as a means of changing business culture and driving growth. NPS is currently used in Insurance Benelux, Insurance Central and Rest of Europe and Insurance Asia/Pacific. The programme has not yet been launched in Insurance US nor ING IM.

TIED AGENCY OVERHAUL PROGRAMME
ING Insurance offers its products and services – often in combination with professional advice – through an extensive network of internal and external sales forces. Its customers are serviced through a variety of channels: tied agent sales forces, independent financial advisers, local and international banks with which commercial cooperation agreements have been concluded (bancassurance), as well as direct marketing channels. ING Insurance has started a Tied Agency Overhaul programme to optimise the current tied agency model by concentrating on the quality, rather than the quantity of agents. The programme was launched in Spain in 2010 and was rolled out in Romania, Hungary, South Korea and Poland in 2011.

BUSINESS LINES
For Insurance Benelux, the first phase of the transformation of the Dutch insurance operations (the One programme) was completed a year ahead of schedule. The programme has resulted in major cost savings and efficiencies.

ING Insurance Asia/Pacific continued to perform very well in 2011. Double digit sales growth was recorded, driven by improved tied agency productivity and strong bank distribution partners.

For Insurance Central and Rest of Europe, business activity continued to be affected by tax and regulatory changes in the major pensions markets such as Hungary and Poland. However, the business in most markets successfully focused on expanding life insurance sales in the region.

Insurance US concentrated on refining its business strategy, containing expenses and developing products and services to help individual and institutional customers accumulate and protect their wealth.

US Closed Block VA revised its assumptions to reflect newly emerging policyholder behaviour, evident in volatile markets. As a result of this assumptions review, ING took a EUR 1.1 billion charge against profits.

In 2011, ING IM continued to focus on delivering best-in-class performance and services for its customers through its strengths in products, distribution, and investment expertise.

CONCLUSIONS AND AMBITIONS
The main priorities for the insurance and investment management businesses are improving performance and optimising returns and value. In 2011, the businesses made good progress on these priorities. Going forward, ING Insurance/IM will continue to focus on its customers and distributors by providing exemplary products and service, as it restructures in preparation for a stand-alone future.

Financial developments business lines

INSURANCE

INSURANCE BENELUX

The underlying result before tax of Insurance Benelux decreased by 4.2%, despite a 51.6% higher life operating result, reflecting the change in provision for guarantees on separate account pension contracts and capital losses and impairments on debt and public equity, mainly as a result of deteriorating financial markets and de-risking.

The operating result before tax increased 43.3%, as a higher investment margin, higher technical margin and a higher non-life result more than offset higher administrative expenses. The 45.2% higher investment margin was mainly driven by lower interest rebates, lower profit sharing and higher non-recurring separate account pension contract results. In addition, the investment margin continued to benefit from the impact of reinvestments in the first half of 2011, and higher dividends on public equity and real estate funds.

The technical margin increased by 29.3% to EUR 315 million from EUR 243 million in the previous year, mainly due to a EUR 70 million positive impact from an early surrender of a contract with a large pension fund.

Life administrative expenses increased 4.5% as a result of releases of incidental expenses in the previous year, incidental expenses in 2011 and the impact of organisational changes which were only partially offset by recurring cost savings.

Non-Life results increased 14.7% due to lower claims and a non-recurring positive effect in the expense provisions, resulting from unifying provision methodologies in the Dutch non-life entities.

New sales (APE) increased by 6.8% in 2011, mainly driven by higher corporate pension sales and renewals.

In 2008, ING's Dutch insurance subsidiaries (ING Verzekeringen Retail, NN and RVS) reached an outline agreement to offer compensation to customers who purchased certain unit-linked policies in the past. Other companies operating in the Dutch insurance market have made similar agreements. In 2011, ING announced additional measures that are aligned with the 'Best-of-class' criteria formulated by the Dutch Ministry of Finance. Implementation has started; our plan is to inform all unit-linked policyholders about compensation by the end of 2012.

INSURANCE CENTRAL AND REST OF EUROPE

The underlying result before tax of Insurance Central and Rest of Europe was a loss of EUR 199 million compared to a EUR 254 million profit in 2010. In addition to a lower operating result, the gains/losses and impairments were EUR –404 million compared to EUR –29 million in 2010. This decrease was mainly caused by EUR 324 million impairments of Greek governments bonds, EUR 34 million capital losses on sales of Italian sovereign bonds and EUR 18 million capital losses on sales of Portuguese bonds of financial institutions.

The operating result before tax declined 29.3% to EUR 206 million from EUR 292 million last year. The decline was mainly driven by lower fees reflecting regulatory changes in the region's major pension markets (Poland, Hungary) and higher administrative expenses, mainly related to project costs.

The investment margin of EUR 76 million was flat compared with EUR 77 million last year.

Fees and premium-based revenues declined 8.6% compared with 2010. This decline was driven by regulatory changes affecting pension funds in Poland and Hungary. In addition the decline reflects a reallocation of health insurance premiums in Greece to the technical margin.

The technical margin increased by 13.0% due to the reallocation of health insurance premiums in Greece from fees and premium-based revenues.

Life administrative expenses rose by 17.7% compared with last year, mainly due to higher project-related costs as Solvency II and building a regional IT organisation. The increase also reflects non-recurring restructuring expenses in Spain, Hungary and Greece.

New sales (APE) increased 1.3% compared to the previous year. Life sales increased 7% compared to 2010, due to successful new product launches. APE growth in Poland was 9%, in Romania 10%, in the Czech Republic 17%, in Slovakia 18% and in Hungary it was 25%, due to a short-term savings-based insurance product with a low margin. The regional increase was offset by 10% lower pension sales compared to 2010, reflecting the regulatory changes for pension funds in Poland and Hungary.

INSURANCE US

The underlying result before tax of Insurance US more than doubled to EUR 618 million from EUR 308 million in 2010. The increase was driven by higher operating results, lower impairments, and favourable DAC unlocking, partially offset by lower revaluations and a non-recurring increase in reserves related to the company's use of the U.S. Social Security Death Master File to identify potential claims.

The operating result for Insurance US increased 18.3%, as higher investment margins and lower operating expenses were partially offset by a lower technical margin. The investment margin increased by 7.8% primarily due to reinvestment of cash balances and a reduction in average interest credited.

The technical margin decreased by 63.1% compared with 2010, in part due to lower amortisation of a gain related to the transfer of the US group reinsurance business in the first quarter of 2010 as well as a non-recurring life insurance reserve reduction in the prior year.

Financial developments business lines continued

Administrative expenses were 17.9% lower than in 2010 due to the implementation and completion of a significant cost reduction programme and due to a one-off benefit from changes in the company's pension plan as well as cost savings.

New sales (APE) in the Full Service Retirement Plans and Individual Life business generated strong growth in 2011. Overall APE declined 5.89%, reflecting the de-emphasis of Stable Value and Fixed Annuities, as Insurance US maintained its disciplined pricing and risk standards.

Insurance US also continued to de-risk its investment portfolio by shedding EUR 1.5 billion of subprime RMBS and CMBS exposure and reducing super senior CDS exposure by 67% in 2011. This was accomplished while Insurance US increased its risk-based capital ratio from 426% to 490% during the year.

US CLOSED BLOCK VA

As previously announced, the completion of a comprehensive policyholder behaviour assumption review for the US Closed Block VA led to a charge of EUR 1.1 billion in the fourth quarter of 2011, which resulted in a loss of EUR 1,273 million on an underlying result before profit basis in the year 2011. The assumptions were updated for lapses, mortality, annuitisation, and utilisation rates, with the most significant revision coming from the adjustments of lapse assumptions. The impact of the assumption adjustments includes a charge to restore the reserve adequacy to the 50% confidence level for the US Closed Block VA business. Since the decision to terminate sales of this product in early 2009, ING has taken actions to reduce risk for this legacy book. These actions include reducing deferred acquisition costs, strengthening reserves, expanding the hedging programmes and increasing transparency by reporting the US Closed Block VA as a separate business alongside the ongoing ING Insurance US businesses.

Furthermore on 1 January 2011, ING moved towards fair value accounting on reserves for the Guaranteed Minimum Withdrawal Benefit (GMWB). The impact of this change in accounting policy is disclosed in the Annual Accounts.

The operating result for the US Closed Block VA was EUR 20 million versus EUR 49 million in 2010.

The investment margin was EUR 28 million compared with EUR –11 million in 2010.

INSURANCE ASIA/PACIFIC

The underlying result before tax of Insurance Asia/Pacific increased by 14.0% to EUR 589 million compared with EUR 516 million in 2010.

The operating result increased by 17.4%, primarily driven by higher fees and premium-based revenue and a higher technical margin.

The investment margin rose by 36.8%, supported by an improved spread between interest earned on general account assets and interest credited to reserves in Japan and Hong Kong. This was partly offset by lower dividend income.

Fees and premium-based revenues increased by 8.5%, driven by growth in premium income, particularly in Japan's COLI business as well as in Hong Kong and KB Life in South Korea. The inclusion of the Malaysian Employee Benefits business (modelled as of the first quarter of 2011), contributed an additional EUR 31 million, with a corresponding reduction in non-modelled income.

The technical margin increased by 13.5% to EUR 178 million from EUR 157 million in the previous year, mainly driven by South Korea and Malaysia.

Life administrative expenses increased 3.2% to support business growth. They also increased due to project expenses. The ratio of administrative expenses to operating income fell from 27.3% in 2010 to 26.3% in 2011. New sales (APE) increased by 6.3% driven by growth in Japan, Malaysia, Hong Kong and China.

ING INVESTMENT MANAGEMENT

Assets under management (AuM) at ING Investment Management (ING IM) increased 3.8% to EUR 321.7 billion from EUR 309.9 billion at year-end 2010. The AuM balance excluded assets managed by ING IM Australia (EUR 22.3 billion) which was sold on 4 October 2011. Inflows in the institutional and proprietary segments were partly offset by outflows in the retail segment.

The underlying result before tax increased 35.7% to EUR 204 million and the operating result before tax increased 34.6% to EUR 193 million. Both increases were largely attributable to higher fee income in line with the increase in assets managed.

Fees and premium-based revenues increased 5.1% to EUR 868 million from EUR 826 million in 2010 supported by an increase in assets managed. The annualised fourth quarter ratio of fees to average AuM decreased to 27 basis points compared with the previous year at 29 basis points partly due to a change in the underlying asset mix. This ratio is calculated using an average of opening and closing AuM balances for the period.

Administrative expenses were 0.8% lower than the previous year mainly due to staff reduction and a non-recurring expense reduction from a change to the IM US pension plan.

Corporate governance

CORPORATE GOVERNANCE STATEMENT

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

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

FINANCIAL REPORTING PROCESS

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

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

Our internal control over financial reporting includes those policies and procedures that:

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

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

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

EXTERNAL AUDITOR

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

DUTCH INSURERS' CODE

The Insurers' Code is applicable to the Dutch subsidiaries of ING Insurance Eurasia N.V. pursuing insurance business and not to ING Verzekeringen N.V. or ING Insurance Eurasia N.V. The Insurers' Code can be downloaded from the website of the Dutch Association of Insurers (www.verzekeraars.nl). However, insurance companies that are part of a group ('concern') can decide to apply all or parts of the Insurers' Code at group level. ING Insurance Eurasia N.V. voluntarily adheres to the corporate governance related principles of the Insurers' Code. ING Insurance Eurasia N.V.'s remuneration policy for its Management Board and Senior Management is in agreement with these principles. The remaining principles of the Insurers' Code are applied by the subsidiaries of ING Insurance Eurasia N.V. The application of the Insurers' Code principles is described in the publication 'Application of the Insurers' Code by ING Insurance Eurasia' available on the website of the Company (www.ing.com).

AMSTERDAM, 12 MARCH 2012
THE MANAGEMENT BOARD INSURANCE

Conformity statement

The Management 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 International Financial Reporting Standards (IFRS) as adopted by the European Union.

Conformity statement pursuant to section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act (Wet op het financieel toezicht).
The Management Board is responsible for maintaining proper accounting records, for safeguarding assets and for taking reasonable steps to prevent and detect fraud and other irregularities. It is responsible for selecting suitable accounting policies and applying them on a consistent basis, making judgments and estimates that are prudent and reasonable. It is also responsible for establishing and maintaining internal procedures which ensure that all major financial information is known to the Management Board, so that the timeliness, completeness and correctness of the external financial reporting are assured.

As required by section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act, each of the signatories hereby confirms that to the best of his or her knowledge:
- the ING Verzekeringen N.V. 2011 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 entities included in the consolidation taken as a whole;
- the ING Verzekeringen N.V. 2011 Annual Report gives a true and fair view of the position at the balance sheet date, the development and performance of the business during the financial year 2011 of ING Verzekeringen N.V. and the entities included in the consolidation taken as a whole, together with a description of the principal risks ING Verzekeringen N.V. is confronted with.

AMSTERDAM, 12 MARCH 2012

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

Patrick G. Flynn
CFO, member of the Management Board

Wilfred F. Nagel
CRO, member of the Management Board

Report of the Supervisory Board

TO SHAREHOLDERS

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

ANNUAL ACCOUNTS AND DIVIDEND

The Annual Accounts have been prepared by the Management Board and have been discussed by the Supervisory Board. They are presented to you for adoption. No dividend will be paid over 2011.

MEETINGS

The Supervisory Board met nine times in 2011 of which eight meetings were regular meetings. On average, 94% of the Supervisory Board members were present at the scheduled meetings. Apart from closely monitoring the financial results in 2011, the Supervisory Board also frequently discussed the strategy, the progress in executing the restructuring plan of the European Commission (EC) including the preparation of the Initial Public Offerings (IPOs) for Insurance Eurasia and Insurance US. In the second half of 2011 the euro crisis and the impact on the insurance business were also important topics on the agenda.

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

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

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

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

COMPOSITION OF THE BOARDS

Composition of the Management Board Insurance

Koos Timmermans stepped down from his roles as chief risk officer and member of the Management Board Insurance as of 1 October 2011. He was succeeded by Wilfred Nagel, who was appointed chief risk officer and member of the Management Board Insurance per 5 October 2011. Lard Friese, Matthew Rider and Gilbert Van Hassel stepped down as members of the Management Board Insurance per 3 November 2011.

Composition of the Supervisory Board

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

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

Report of the Supervisory Board continued

APPRECIATION FOR THE MANAGEMENT BOARD AND ING EMPLOYEES

The Supervisory Board would like to thank the members of the Executive Board and the Management Board Insurance for their continued commitment in 2011. The Supervisory Board would also like to thank all employees of ING Insurance who have continued to serve customers with their best efforts and made a large contribution to ING's results in the past year.

AMSTERDAM, 12 MARCH 2012
THE SUPERVISORY BOARD

Consolidated balance sheet of ING Insurance

as at 31 December

amounts in millions of euros	2011	2010
Assets		
Cash and cash equivalents 1	11,577	8,646
Financial assets at fair value through profit and loss: 2		
– trading assets	534	622
– investments for risk of policyholders	116,438	120,481
– non-trading derivatives	7,285	4,440
– designated as at fair value through profit and loss	2,616	2,960
Available-for-sale investments 3	133,604	123,347
Loans and advances to customers 4	32,928	31,020
Reinsurance contracts 16	5,870	5,789
Investments in associates 5	1,526	2,428
Real estate investments 6	954	1,063
Property and equipment 7	469	517
Intangible assets 8	1,972	3,256
Deferred acquisition costs 9	10,204	10,499
Assets held for sale 10		381
Other assets 11	9,410	10,210
Total assets	335,387	325,659
Equity		
Shareholders' equity (parent) 12	23,475	20,159
Minority interests	62	111
Total equity	23,537	20,270
Liabilities		
Subordinated loans 13	4,367	4,407
Debt securities in issue 14	3,436	3,967
Other borrowed funds 15	7,307	8,589
Insurance and investment contracts 16	278,833	271,128
Financial liabilities at fair value through profit and loss: 17		
– non-trading derivatives	4,404	3,677
Liabilities held for sale 10		279
Other liabilities 18	13,503	13,342
Total liabilities	311,850	305,389
Total equity and liabilities	335,387	325,659

Amounts for 2010 are restated for the change in accounting policy as disclosed in the section 'Changes in accounting policies' on page 21.

References relate to the notes starting on page 39. These form an integral part of the consolidated annual accounts.

Consolidated profit and loss account of ING Insurance

for the year ended 31 December

amounts in millions of euros	2011	2011	2010	2010	2009	2009
Continuing operations						
Gross premium income 32		27,199		27,786		30,248
Investment income 33		7,716		7,293		6,297
Net result on disposals of group companies 34		50		–3		301
Gross commission income	2,575		2,352		2,998	
Commission expense	–1,034		–837		–1,436	
Commission income 35		1,541		1,515		1,562
Valuation results on non-trading derivatives 36		1,454		165		–3,813
Net trading income 37		–117		–477		337
Share of result from associates 5		194		214		–82
Other income 38		227		257		244
Total income		38,264		36,750		35,094
Gross underwriting expenditure 39	33,716		45,015		50,129	
Investment result for risk of policyholders	1,246		–10,492		–17,736	
Reinsurance recoveries	–1,875		–1,721		–1,700	
Underwriting expenditure 39		33,087		32,802		30,693
Intangible amortisation and other impairments 40		58		665		28
Staff expenses 41		2,072		2,146		2,070
Interest expenses 42		905		1,022		945
Other operating expenses 43		2,064		1,980		2,134
Total expenses		38,186		38,615		35,870
Result before tax from continuing operations		78		–1,865		–776
Taxation 44		–33		–109		–92
Net result from continuing operations		111		–1,756		–684
Discontinued operations						
Net result from discontinued operations 22		114		216		100
Net result from disposal of discontinued operations 22		995				
Total net result from discontinued operations 22		1,109		216		100
Net result from continuing and discontinued operations (before minority interests)		1,220		–1,540		–584
Net result attributable to:						
Shareholders of the parent		1,200		–1,574		–621
Minority interests		20		34		37
		1,220		–1,540		–584
Net result from continuing operations attributable to:						
Shareholders of the parent		97		–1,783		–714
Minority interests		14		27		30
		111		–1,756		–684
Total net result from discontinued operations attributable to:						
Shareholders of the parent		1,103		209		93
Minority interests		6		7		7
		1,109		216		100

	2011	2010	2009
Dividend per ordinary share (in euros)	0.00	0.00	2.27
Total amount of dividend paid (in millions of euros)	0	0	350

Amounts for 2010 and 2009 are restated for the change in accounting policy as disclosed in the section ‘Changes in accounting policies’ on page 21.

References relate to the notes starting on page 39. These form an integral part of the consolidated annual accounts.

Consolidated statement of comprehensive income of ING Insurance

for the year ended 31 December

amounts in millions of euros	2011	2010	2009
Net result	**1,220**	–1,540	–584
Unrealised revaluations after taxation [1]	**2,034**	3,395	6,415
Realised gains/losses transferred to profit and loss	**473**	379	677
Changes in cash flow hedge reserve	**1,316**	641	–434
Transfer to insurance liabilities/DAC	**–2,004**	–1,644	–2,079
Exchange rate differences	**240**	1,760	–275
Other revaluations		–3	–10
Total amount recognised directly in equity (other comprehensive income)	**2,059**	4,528	4,294
Total comprehensive income	**3,279**	2,988	3,710
Comprehensive income attributable to:			
Shareholders of the parent	**3,261**	2,951	3,680
Minority interests	**18**	37	30
	3,279	2,988	3,710

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

Amounts for 2010 and 2009 are restated for the change in accounting policy as disclosed in the section ‘Changes in accounting policies’ on page 21.

The Unrealised revaluations after taxation comprises EUR –12 million (2010: EUR 8 million; 2009: EUR 13 million) related to the share of other comprehensive income of associates.

The Exchange rate differences comprises EUR –22 million (2010: EUR 70 million; 2009: EUR 60 million) related to the share of other comprehensive income of associates.

Reference is made to Note 44 ‘Taxation’ for the disclosure on the income tax effects on each component of the other comprehensive income.

Consolidated statement of cash flows of ING Insurance

for the year ended 31 December

amounts in millions of euros		2011	2010	2009
Result before tax		**1,217**	–1,598	–573
Adjusted for:	– depreciation	**176**	188	210
	– deferred acquisition costs and value of business acquired	**277**	1,159	223
	– increase in provisions for insurance and investment contracts	**4,239**	4,278	2,585
	– other	**–2,408**	2,331	2,425
Taxation paid		**–206**	–155	–68
Changes in:	– trading assets	**87**	–147	63
	– non-trading derivatives	**1,142**	351	–296
	– other financial assets at fair value through profit and loss	**42**	–206	318
	– loans and advances to customers	**–1,268**	–641	4,449
	– other assets	**1,164**	133	4,566
	– other financial liabilities at fair value through profit and loss	**–280**	–1,061	–2,968
	– other liabilities	**–2,113**	–1,775	–7,058
Net cash flow from operating activities		**2,069**	2,857	3,876
Investments and advances:	– associates	**–105**	–60	–121
	– available-for-sale investments	**–68,540**	–73,424	–107,820
	– real estate investments	**–23**	–16	–15
	– property and equipment	**–77**	–77	–99
	– investments for risk of policyholders	**–57,130**	–52,370	–65,362
	– other investments	**–77**	–131	–63
Disposals and redemptions:	– group companies	**2,736**	94	2,643
	– associates	**120**	329	186
	– available-for-sale investments	**63,616**	66,307	104,878
	– real estate investments	**35**	6	8
	– property and equipment	**15**	56	17
	– investments for risk of policyholders	**61,898**	54,817	64,158
	– other investments	**9**	3	
Net cash flow from investing activities 47		**2,477**	–4,466	–1,590
Proceeds from issuance of subordinated loans		**450**		
Repayments of subordinated loans		**–455**	–1,514	–1,038
Proceeds from borrowed funds and debt securities		**41,920**	98,378	18,345
Repayments of borrowed funds and debt securities		**–43,471**	–97,223	–24,793
Capital injection			1,500	550
Payments to acquire treasury shares		**–13**	–19	–10
Sales of treasury shares		**11**	18	6
Dividends paid				–363
Net cash flow from financing activities		**–1,558**	1,140	–7,303
Net cash flow 48		**2,988**	–469	–5,017
Cash and cash equivalents at beginning of year		**8,646**	9,425	14,440
Effect of exchange rate changes on cash and cash equivalents		**–57**	–310	2
Cash and cash equivalents at end of year		**11,577**	8,646	9,425

References relate to the notes starting on page 39. These form an integral part of the consolidated annual accounts.

Consolidated statement of changes in equity of ING Insurance

for the year ended 31 December

amounts in millions of euros	Share capital	Share premium	Reserves	Total share-holders' equity (parent)	Minority interest	Total equity
Balance as at 1 January 2009 (before change in accounting policy)	174	9,824	1,895	11,893	520	12,413
Effect of change in accounting policy 49 [1]			–145	–145		–145
Balance as at 1 January 2009 (restated)	174	9,824	1,750	11,748	520	12,268
Unrealised revaluations after taxation			6,415	6,415		6,415
Realised gains/losses transferred to profit and loss			677	677		677
Changes in cash flow hedge reserve			–434	–434		–434
Transfer to insurance liabilities/DAC			–2,079	–2,079		–2,079
Exchange rate difference			–278	–278	3	–275
Other revaluations					–10	–10
Total amount recognised directly in equity			4,301	4,301	–7	4,294
Net result			–621	–621	37	–584
Total comprehensive income			3,680	3,680	30	3,710
Employee stock option and share plans			39	39		39
Changes in composition of the group					–457	–457
Dividends			–350	–350	–13	–363
Capital injection		550		550		550
Balance as at 31 December 2009	174	10,374	5,119	15,667	80	15,747
Unrealised revaluations after taxation			3,394	3,394	1	3,395
Realised gains/losses transferred to profit and loss			379	379		379
Changes in cash flow hedge reserve			641	641		641
Transfer to insurance liabilities/DAC			–1,644	–1,644		–1,644
Exchange rate difference			1,755	1,755	5	1,760
Other revaluations					–3	–3
Total amount recognised directly in equity			4,525	4,525	3	4,528
Net result			–1,574	–1,574	34	–1,540
Total comprehensive income			2,951	2,951	37	2,988
Employee stock option and share plans			41	41		41
Dividends					–6	–6
Capital injection		1,500		1,500		1,500
Balance as at 31 December 2010	174	11,874	8,111	20,159	111	20,270
Unrealised revaluations after taxation			**2,033**	**2,033**	**1**	**2,034**
Realised gains/losses transferred to profit and loss			**473**	**473**		**473**
Changes in cash flow hedge reserve			**1,316**	**1,316**		**1,316**
Transfer to insurance liabilities/DAC			**–2,004**	**–2,004**		**–2,004**
Exchange rate difference			**243**	**243**	**–3**	**240**
Total amount recognised directly in equity			**2,061**	**2,061**	**–2**	**2,059**
Net result			**1,200**	**1,200**	**20**	**1,220**
Total comprehensive income			**3,261**	**3,261**	**18**	**3,279**
Employee stock option and share plans			**55**	**55**		**55**
Changes in composition of the group					**–43**	**–43**
Dividends					**–34**	**–34**
Capital injection					**10**	**10**
Balance as at 31 December 2011	**174**	**11,874**	**11,427**	**23,475**	**62**	**23,537**

[1] The change in the accounting policy is disclosed in the section 'Changes in Accounting Policies', on page 21.

Consolidated statement of changes in equity of ING Insurance continued

In 2011, no additional share premium (2010: EUR 1,500 million, 2009: EUR 550 million) was received from ING Group to strengthen solvency.

Reserves include Revaluation reserve of EUR 5,060 million (2010: EUR 3,345 million; 2009: EUR 207 million), Currency translation reserve of EUR 131 million (2010: EUR –178 million; 2009: EUR –1,515 million) and Other reserves of EUR 6,236 million (2010: EUR 4,944 million; 2009: EUR 6,427 million). Changes in individual components are presented in Note 12 ‘Shareholders’ equity (parent)’.

Accounting policies for the consolidated annual accounts of ING Insurance

AUTHORISATION OF ANNUAL ACCOUNTS

The consolidated annual accounts of ING Verzekeringen N.V. ('ING Insurance') for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Management Board on 12 March 2012. The Management Board may decide to amend the annual accounts as long as these are not adopted by the General Meeting of shareholders. The General Meeting of shareholders may decide not to adopt the annual accounts, but may not amend these. ING 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, interpretations and amendments to standards and interpretations became effective for ING Insurance in 2011:

- Amendment to IAS 32, Classification of Rights Issues;
- Amendment to IAS 24 'Related Party Disclosures';
- Amendment to IFRIC 14 'Prepayments of a Minimum Funding Requirement';
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'; and
- 2010 Annual Improvements to IFRS.

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

The following new or revised standards and interpretations were issued by the IASB, which become effective for ING Insurance after 2011, if and when endorsed by the EU:

- Amendments to IFRS 7 'Disclosures – Transfers of Financial Assets', effective as of 2012;
- Amendments to IAS 12, Deferred tax: Recovery of Underlying Assets, effective as of 2012;
- IFRS 10 'Consolidated Financial Statements', effective as of 2013;
- IFRS 11 'Joint Arrangements', effective as of 2013;
- IFRS 12 'Disclosure of Interests in Other Entities', effective as of 2013;
- IFRS 13 'Fair Value Measurement', effective as of 2013;
- IAS 28 'Investments in Associates and Joint Ventures', effective as of 2013;
- Amendments to IAS 1 'Presentation of Financial Statements- Presentation of Items of Other Income', effective as of 2013;
- Amendments to IFRS 7 'Disclosures- Offsetting Financial Assets and Financial Liabilities', effective as of 2013; and
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities', effective as of 2014.

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

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

In June 2011 the revised IAS 19 'Employee Benefits' was issued, which will become effective as of 2013 if endorsed by the EU. At this moment, the revised standard is being analysed and the full impact is not yet known. One of the changes in the revised standard results in immediate recognition in equity of 'unrecognised actuarial gains and losses' as of the effective date. Unrecognised actuarial gains and losses as at 31 December 2011 are disclosed in Note 18 'Other liabilities' and amount to EUR –129 million (pre-tax). The impact of the revised standard will be affected by movements in the unrecognised actuarial gains and losses until the effective date and the impact of other changes in the revised standard.

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

Accounting policies for the consolidated annual accounts of ING Insurance continued

The presentation of, and certain terms used in, the consolidated balance sheet, the consolidated profit and loss account, consolidated statement of cash flows, consolidated statement of changes in equity and certain notes has been changed to provide additional and more relevant information or (for changes in comparative information) to better align with the current period presentation. The impact of these changes is explained in the respective notes when significant.

The comparison of balance sheet items between 31 December 2011 and 31 December 2010 is impacted by the disposed companies as disclosed in Note 27 'Companies acquired and companies disposed'.

CHANGES IN ACCOUNTING POLICIES

ING Insurance changed its accounting policy for the insurance provisions for Guaranteed Minimum Withdrawal Benefits for Life (GMWBL) on the Insurance US Closed Block VA book as of 1 January 2011. The revised accounting better reflects the economic value of these guarantees and more closely aligns accounting practice with peers in the United States. Under the revised accounting policy, the insurance provisions reflect current market interest rates and current estimates for other assumptions, except for volatility and correlation (which remain unchanged). ING substantially increased hedging of interest rate risk in the Insurance US Closed Block VA book; the results from these hedging derivatives are expected to largely mirror the effect of interest changes on the guarantees in future periods. Implementation of the revised accounting for GMWBL represents a change in accounting policy under IFRS-EU, with a transitional impact being reflected in shareholders' equity. Comparative years' results have been restated. Reference is made to Note 49 'Impact of change in accounting policy' for more information on comparative years. The combined impact on shareholders' equity as at 1 January 2011 is EUR 651 million (lower equity).

The impact on individual balance sheet line items and previous reporting periods can be specified as follows:

Impact on balance sheet

amounts in millions of euros	31 December 2010	31 December 2009	1 January 2009
Deferred acquisition costs	–105	–190	1,146
Insurance and investment contracts	546	148	1,369
Impact before tax	–651	–338	–223
Tax effect		118	78
Shareholders' equity	–651	–220	–145

The impact on the consolidated profit and loss account can be specified as follows:

Impact on profit and loss account

amounts in millions of euros	2010	2009
Underwriting expenditure	–281	–109
Taxation	128	–38
Result after taxation	–409	–71

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, deferred acquisition costs and value of business acquired, the determination of the fair values of real estate and financial assets and liabilities, impairments and employee benefits. In each case, the determination of these items is fundamental to the financial condition and results of operations, and requires management to make complex judgements based on information and financial data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgements as to future events and are subject to change, as the use of different assumptions or data could produce materially different results. For a further discussion of the application of these accounting policies, reference is made to the applicable notes to the consolidated financial statements and the information below under 'Principles of valuation and determination of results'.

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

The establishment of 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.

Accounting policies for the consolidated annual accounts of ING Insurance continued

The use of different assumptions about these factors could have a material effect on insurance provisions and underwriting expenditure. 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, mortality and morbidity trends and other factors. 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 expenditure.

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

Reference is made to 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. The fair value of real estate investments is based on regular appraisals by independent qualified valuers. The fair values are established using valuation methods such as: comparable market transactions, capitalisation of income methods or discounted cash flow calculations. The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. The discounted cash flow analyses and capitalisation of income method are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values for new leases when leases expire and incentives like rental free periods. The cash flows are discounted using market based interest rates that reflect appropriately the risk characteristics of real estate.

Market conditions in recent years have led to a reduced level of real estate transactions. Transaction values were significantly impacted by low volumes of actual transactions. As a result comparable market transactions have been used less in valuing ING's real estate investments by independent qualified valuers. More emphasis has been placed on discounted cash flow analysis and capitalisation of income method.

The valuation of real estate involves various assumptions and techniques. The use of different assumptions and techniques could produce significantly different valuations. To illustrate the uncertainty of our real estate investment valuations, a sensitivity analysis on the changes in fair value of real estate is provided in the 'Risk management' section.

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings) and customer behaviour are taken into account. All valuation techniques used are subject to internal review and approval. Most data used in these valuation techniques are validated on a daily basis.

Valuation techniques are subjective in nature and significant judgement is involved in establishing fair values for certain financial assets and liabilities. Valuation techniques involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value.

Accounting policies for the consolidated annual accounts of ING Insurance continued

Price testing is performed to assess whether the process of valuation has led to an appropriate fair value of the position and to an appropriate reflection of these valuations in the profit and loss account. Price testing is performed to minimise the potential risks for economic losses due to incorrect or misused models.

Reference is made to Note 31 ‘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 significant impact on 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 and loss) are subject to impairment testing every reporting period. The book value is reviewed in order to determine whether an impairment loss has been incurred. Evaluation for impairment includes both quantitative and qualitative considerations. For debt securities, such considerations include actual and estimated incurred credit losses indicated by payment default, market data on (estimated) incurred losses and other current evidence that the issuer may be unlikely to pay amounts when due. Equity securities are impaired when management believes that, based on (the combination of) a significant or prolonged decline of the fair value below the acquisition price, there is sufficient reason to believe that the acquisition cost may not be recovered. ‘Significant’ and ‘prolonged’ are interpreted on a case-by-case basis for specific equity securities. Generally 25% and 6 months are used as triggers. Upon impairment, the full difference between the acquisition cost and fair value is removed from equity and recognised in net result. Impairments on debt securities may be reversed if there is a decrease in the amount of the impairment which can be objectively related to an observable event. Impairments on equity securities cannot be reversed.

Impairments on other debt instruments (Loans and advances to customers) are part of the loan loss provision as described below.

Impairment reviews with respect to goodwill and intangible assets are performed at least annually, and more frequently if events indicate that impairment may have occurred. Goodwill is tested for impairment by comparing the carrying value (including goodwill) of the reporting unit to the best estimate of the recoverable amount of that reporting unit. The carrying value is determined as the IFRS-EU net asset value including goodwill. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount. A reporting unit is the lowest level at which goodwill is monitored. Intangible assets are tested for impairment by comparing the carrying value with the best estimate of the recoverable amount.

The identification of impairment is an inherently uncertain process involving various assumptions and factors, including financial condition of the counterparty, expected future cash flows, statistical loss data, discount rates, observable market prices, etc. Estimates and assumptions are based on management’s judgement and other information available prior to the issuance of the financial statements. Significantly different results can occur as circumstances change and additional information becomes known.

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. If such is the case the excess is then amortised over the employees’ expected average remaining working lives. Reference is made to Note 18 ‘Other liabilities’ for the weighted averages of basic actuarial assumptions in connection with pension and other post-employment benefits.

Accounting policies for the consolidated annual accounts of ING Insurance continued

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 26 '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 Insurance'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.

All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies are eliminated. Where necessary, the accounting policies used by subsidiaries are 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.

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.

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 result from the joint venture that results from the purchase of assets by ING Insurance from the joint venture until it resells the assets to a third party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

Disposal groups held for sale and discontinued operations

Disposal groups held for sale are measured at the lower of their carrying amount or fair value less cost to sell. Disposal groups (and groups of non-current assets) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is only the case when the sale is highly probable and the disposal group (or group of asset) is available for immediate sale in its present condition; management must be committed to the sale, which is expected to occur within one year from the date of classification as held for sale. When a group of assets that is classified as held for sale represents a major line of business or geographical area the disposal group classifies as a discontinued operation. In the consolidated profit and loss account, the income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of result after tax for both the current year and also for comparative years.

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.

Accounting policies for the consolidated annual accounts of ING Insurance continued

The process of setting assumptions is subject to internal control procedures and approvals, and takes into account internal and external studies, industry statistics, environmental factors and trends, and regulatory requirements.

SEGMENT REPORTING

An operating segment is a distinguishable component of ING Insurance, engaged in providing products or services, subject to risks and returns that are different from those of other operating segments. A geographical area is a distinguishable component of ING 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.

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 ING Insurance's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Exchange rate 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. Reference is made to Note 37 'Net trading income', which discloses the amounts included in the profit and loss account. Exchange rate differences relating to the disposal of available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in Investment income. As mentioned below in Group companies relating to the disposals of group companies, any exchange rate difference deferred in equity is recognised in the profit and loss account in Net result on disposals of group companies. Reference is also made to Note 12 'Shareholders equity (parent)', which discloses the amounts included in the profit and loss account.

Group companies

The results and financial positions of all group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities included in each balance sheet are translated at the closing rate at the date of that balance sheet;
- Income and expenses included in each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange rate differences are recognised in a separate component of equity.

On consolidation exchange rate differences arising from the translation of a monetary item that forms part of the net investment in a foreign operation, and of borrowings and other instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold the corresponding exchange rate differences are recognised in the profit and loss account as part of the gain or loss on sale.

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

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair 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.

Accounting policies for the consolidated annual accounts of ING Insurance continued

The fair value 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.

Reference is made to Note 31 '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 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 designated by management as such. Management will make this designation only if this eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis.

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.

Available-for sale investments
Investments (including loans quoted in active markets) are classified as available-for-sale and are initially recognised at fair value plus transaction costs. 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 include available-for-sale debt securities and available-for-sale equity securities. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. For available-for-sale debt securities, the difference between cost and redemption value is amortised. Interest income is recognised using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available-for-sale is recognised in 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.

Accounting policies for the consolidated annual accounts of ING Insurance continued

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.

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 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 Insurance grants a loan to a customer, or issues guarantees on behalf of a customer and mainly relates to the balance sheet classification Loans and advances to customers and off balance sheet items e.g. obligations under financial guarantees and letters of credit;
- Investment risk comprises the credit default and migration risk that is associated with ING Insurance's investment portfolio and mainly relates to the balance sheet classification Investments (available-for-sale);
- Money market risk arises when ING Insurance places short term deposits with a counterparty in order to manage excess liquidity and among others relates to the balance sheet classifications Cash and cash equivalents and Loans and advances to customers;
- Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING Insurance has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk classification mainly relates to the balance sheet classification Financial assets at fair value through profit and loss (trading assets and non-trading derivatives); and
- 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 Insurance has paid or delivered its side of the trade. Settlement risk mainly relates to the risk arising on disposal of financial instruments that are classified in the balance sheet as Financial assets at fair value through profit and loss (trading assets and non-trading derivatives) and Investments (available-for-sale).

Maximum credit risk exposure
The maximum credit risk exposure for items on the balance sheet is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Collateral received is not taken into account when determining the maximum credit risk exposure.

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

DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently 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.

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

Accounting policies for the consolidated annual accounts of ING Insurance continued

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.

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

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

Net investment hedges
Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity 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.

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 current legally enforceable right to set off the recognised amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

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.

Accounting policies for the consolidated annual accounts of ING Insurance continued

The following circumstances, among others, are considered objective evidence that a financial asset or group of assets is impaired:

- The borrower has sought or has been placed in bankruptcy or similar protection and this leads to the avoidance of or delays in repayment of the financial asset;
- The borrower has failed in the repayment of principal, interest or fees and the payment failure has remained unsolved for a certain period;
- The borrower has demonstrated significant financial difficulty, to the extent that it will have a negative impact on the expected future cash flows of the financial asset;
- The credit obligation has been restructured for non-commercial reasons. ING Insurance 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 recognised.

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 'Investment income'. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The collective evaluation of impairment includes the application of a 'loss confirmation period' to default probabilities. The loss confirmation period is a concept which recognises that there is a period of time between the emergence of impairment triggers and the point in time at which those events are captured by ING 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 ING Insurance's loan loss provision. Although the loss confirmation periods are inherently uncertain, ING Insurance 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 annual accounts of 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, (the combination of) a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities; generally 25% and 6 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 and 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 result 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 recognised at fair value at the balance sheet date. Changes in the carrying amount resulting from revaluations are recognised in the profit and loss account. On disposal the difference between the sale proceeds and carrying value is recognised in the profit and loss account.

The fair value of real estate investments is based on regular appraisals by independent qualified valuers. For each reporting period every property is valued either by an independent valuer or internally. Indexation is used when a property is valued internally. The index is based on the results of the independent valuations carried out in that period. Market transactions and disposals made by ING Insurance are monitored as part of the validation procedures to test the indexation methodology. Valuations performed earlier in the year are updated if necessary to reflect the situation at the year-end. All properties are valued independently at least every five years and more frequently if necessary.

The fair values represent the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and willing seller in an at-arm's-length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. Fair values are based on appraisals using valuation methods such as: comparable market transactions, capitalisation of income methods or discounted cash flow calculations. The underlying assumption used in the valuation is that the properties are let or sold to third parties based on the actual letting status. The discounted cash flow analyses and capitalisation of income method are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values for new leases when leases expire and incentives like rental free periods. The cash flows are discounted using market based interest rates that reflect appropriately the risk characteristics of real estate.

Accounting policies for the consolidated annual accounts of ING Insurance continued

ING Group owns a large real estate portfolio, widely diversified by region, by investment segment (Office, Retail and Residential) and by investment type (Core, Value Add and Opportunistic). The valuation of different investments is performed using different discount rates ('yields'), dependent on specific characteristics of each property, including occupancy, quality of rent payments and specific local market circumstances. For ING's main direct properties in its main locations, the yields applied in the 2011 year-end valuation generally are in the range of 5% to 8%.

The valuation of real estate investments takes (expected) vacancies into account. Occupancy rates differ significantly from investment to investment.

For real estate investments held through (minority shares in) real estate investment funds, the valuations are performed under the responsibility of the funds' asset manager.

Subsequent expenditures are recognised as part of the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to ING Insurance and the cost of an item can be measured reliably. All other repairs and maintenance costs are recognised in the profit and loss account.

PROPERTY AND EQUIPMENT

Property in own use

Land and buildings held for own use are stated at fair value at the balance sheet date. Increases in the carrying amount arising on revaluation of land and buildings held for own use are credited to the revaluation reserve in shareholders' equity. Decreases in the carrying amount that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the profit and loss account. Increases that reverse a revaluation decrease on the same asset previously recognised in net result are recognised in the profit and loss account. Depreciation is recognised based on the fair value and the estimated useful life (in general 20-50 years). Depreciation is calculated on a straight-line basis. On disposal the related revaluation reserve is transferred to retained earnings.

The fair values of land and buildings are based on regular appraisals by independently qualified valuers or internally, similar to appraisals of real estate investments. Subsequent expenditure is included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to ING Insurance and the cost of the item can be measured reliably.

Property obtained from foreclosures

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

Property under development

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

Property developed and under development for which ING Insurance has the intention to sell the property under development after its completion and where there is not yet a specifically negotiated contract is measured at direct construction cost incurred up to the balance sheet date, including borrowing costs incurred during construction and ING 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). Impairment is recognised if the estimated selling price in the ordinary course of business, less applicable variable selling expenses is lower than book value.

Property under development for which ING Insurance has the intention to sell the property under development after its completion and where there is a specifically negotiated contract, is valued using the percentage of completion method (pro rata profit recognition). Stage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs for each contract.

Property under development is stated at fair value (with changes in fair value recognised in the profit and loss account) if ING Insurance has the intention to recognise the property under development after completion as real estate investments.

Equipment

Equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight-line basis over their estimated useful lives, which are generally as follows: for data processing equipment two to five years, and four to ten years for fixtures and fittings. Expenditure incurred on maintenance and repairs is recognised in the profit and loss account as incurred. Expenditure incurred on major improvements is capitalised and depreciated.

Accounting policies for the consolidated annual accounts of ING Insurance continued

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

Borrowing costs
Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Borrowing costs are determined at the weighted average cost of capital of the project.

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

ING 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.

ACQUISITIONS, GOODWILL AND OTHER INTANGIBLE ASSETS
Acquisitions and goodwill
ING Insurance's acquisitions are accounted for using the acquisition method of accounting. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. Goodwill, being the difference between the cost of the acquisition (including assumed debt) and ING 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.

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

Where a business combination is achieved in stages, ING Insurance's previously held interests in the assets and liabilities of the acquired entity are remeasured to fair value at the acquisition date (i.e. the date ING Insurance attains control) and the resulting gain or loss, if any, is recognised in the profit or loss account. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of. Acquisition-related costs are recognised in the profit or loss account as incurred and presented as Other operating expenses.

Until 2009, before IFRS 3 'Business Combinations' was revised the accounting of previously held interests in the assets and liabilities of the acquired entity were not remeasured at the acquisition date and the acquisition-related costs were considered to be part of the total consideration.

The initial accounting for the fair value of the net assets of the companies acquired during the year may be determined only provisionally as the determination of the fair value can be complex and the time between the acquisition and the preparation of the Annual Accounts can be limited. The initial accounting shall be completed within a year after acquisition.

Goodwill is only capitalised on acquisitions after the implementation date of IFRS-EU (1 January 2004). Accounting for acquisitions before that date has not been restated; goodwill and internally generated intangibles on these acquisitions were recognised directly in shareholders' equity. Goodwill is allocated to reporting units for the purpose of impairment testing. These reporting units represent the lowest level 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. On disposal of group companies, the difference between the sale proceeds and carrying value (including goodwill) and the unrealised results (including the currency translation reserve in equity) is included in the profit and loss account.

Accounting policies for the consolidated annual accounts of ING Insurance continued

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 carrying 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. 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 balance 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. Effective as of 2011, the estimate for the short-term equity growth assumption used to calculate the amortisation of DAC in the United States (Insurance US) was changed to a mean reversion assumption.

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'.

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

TAXATION
Income tax on the result for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account but is recognised directly in equity if the tax relates to items that are recognised directly in equity.

Deferred income tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by ING 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 recognised directly in equity, is also recognised directly in equity and is subsequently recognised in the profit and loss account together with the deferred gain or loss.

Accounting policies for the consolidated annual accounts of ING Insurance continued

FINANCIAL LIABILITIES

Financial liabilities at amortised cost

Financial liabilities at amortised cost include the following sub-categories: Other borrowed funds, debt securities in issue and subordinated loans. 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

Provisions for liabilities under insurance contracts are established in accordance with IFRS 4 ‘Insurance Contracts’. Under IFRS 4, an insurer may continue its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS-EU in 2005, ING Insurance decided to continue the then existing accounting principles for insurance contracts. ING Insurance operates in many different countries and the accounting principles for insurance contracts follow local practice in these countries. ING’s businesses in the Netherlands apply accounting standards generally accepted in the Netherlands (Dutch GAAP) for its provisions for liabilities under insurance contracts; similarly, ING’s businesses in the United States apply accounting standards generally accepted in the United States (US GAAP).

Changes in those local accounting standards (including Dutch GAAP and US GAAP) subsequent to the adoption of IFRS-EU are considered for adoption on a case-by-case basis. If adopted, the impact thereof is accounted for as a change in accounting policy under IFRS-EU.

In addition, for certain specific products or components thereof, ING applies the option in IFRS 4 to measure (components of) the provisions for liabilities under insurance contracts using market consistent interest rates and other current estimates and assumptions. This relates mainly to Guaranteed Minimum Withdrawal Benefits for Life on the Insurance US Closed Block VA book and certain guarantees embedded in insurance contracts in Japan.

Insurance contracts

Insurance policies which bear significant insurance risk and/or contain discretionary participation features 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. Unless indicated otherwise below changes in the insurance provisions are recognised in the profit and loss account.

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.

Accounting policies for the consolidated annual accounts of ING Insurance continued

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 (IBNR) and 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.

Deferred profit sharing
For insurance contracts with discretionary participation features a deferred profit sharing amount 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 amount is recognised for the share of realised results on allocated investments that is expected to be shared with policyholders. The deferred profit sharing amount is reduced by the actual allocation of profit sharing to individual policyholders.

The change in the deferred profit sharing amount on unrealised revaluation (net of deferred tax) is recognised in equity in the revaluation reserve.

Provisions for life insurance for risk of policyholders
For investment contracts for risk of policyholders the provisions are generally shown at the balance sheet value of the related 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. If the reinsurers are unable to meet their obligations, ING Insurance 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 for the business originated in that 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.

Accounting policies for the consolidated annual accounts of ING Insurance continued

As at 31 December 2009, the Closed Block Variable Annuity business in the United States was inadequate at the 90% confidence level. As there were offsetting amounts within other Group business units, the Group remained adequate at the 90% confidence level. In line with the above policy, specific measures were defined to mitigate the inadequacy in the Closed Block Variable Annuity business in the United States. These specific measures are effective as of 2010 and result in a limitation of additions to DAC that would otherwise result from negative amortisation and unlocking. This limitation of DAC is applied on a quarterly basis and in any year if and when a reserve inadequacy existed at the start of the year. The impact on 2010 was EUR 610 million lower DAC and consequently lower result before tax. Net result in 2011 includes a charge to restore the adequacy of the Insurance US Closed Block VA segment to the 50% confidence level. Reference is made to Note 39 ‘Underwriting expenditure’.

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

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 recognised in 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.

Accounting policies for the consolidated annual accounts of ING Insurance continued

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 loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

All interest income and expenses from trading positions and non-trading derivatives are classified as interest income and interest expenses in the profit and loss account. Changes in the 'clean fair value' are included in Net trading income and Valuation results on non-trading derivatives.

Fees and commissions

Fees and commissions are generally recognised as the service is provided. 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 a staff expense over the vesting period. A corresponding increase in equity is recognised if for equity-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions is measured at the grant date. Rights granted will remain valid until the expiry date, even if the share based payment scheme is discontinued. The rights are subject to certain conditions, including a pre-determined continuous period of service.

GOVERNMENT GRANTS

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, the grant is recognised over the period necessary to match the grant on a systematic basis to the expense that it is intended to compensate. In such case, the grant is deducted from the related expense in the profit and loss account.

FIDUCIARY ACTIVITIES

ING 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 annual accounts of ING Insurance continued

STATEMENT OF CASH FLOWS

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

For the purposes of the statement of cash flows, Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition. 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 annual accounts of ING Insurance

amounts in millions of euros, unless stated otherwise

ASSETS

1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents		
	2011	2010
Cash and bank balances	**3,230**	4,057
Short term deposits	**8,347**	4,589
	11,577	8,646

2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial assets at fair value through profit and loss		
	2011	2010
Trading assets	**534**	622
Investments for risk of policyholders	**116,438**	120,481
Non-trading derivatives	**7,285**	4,440
Designated as at fair value through profit and loss	**2,616**	2,960
	126,873	128,503

Trading assets by type		
	2011	2010
Equity securities	**490**	568
Debt securities	**44**	54
	534	622

Investments for risk of policyholders by type		
	2011	2010
Equity securities	**105,580**	109,191
Debt securities	**9,612**	8,944
Loans or receivables	**1,246**	2,346
	116,438	120,481

The cost of investments for risk of policyholders as at 31 December 2011 was EUR 113,267 million (2010: EUR 113,879 million).

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

Non-trading derivatives per type		
	2011	2010
Derivatives used in:		
– fair value hedges		180
– cash flow hedges	**2,572**	1,563
– hedges of net investments in foreign operations	**5**	9
Other non-trading derivatives	**4,708**	2,688
	7,285	4,440

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

Designated as at fair value through profit and loss by type		
	2011	2010
Equity securities	**15**	250
Debt securities	**1,159**	1,318
Other	**1,442**	1,392
	2,616	2,960

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

Notes to the consolidated annual accounts of ING Insurance continued

3 AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments by type	2011	2010
Equity securities	**6,839**	7,013
Debt securities	**126,765**	116,334
	133,604	123,347

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

Debt securities	2011	2010
Available-for-sale investments	**126,765**	116,334
Loans and advances to customers	**6,681**	6,385
Available-for-sale investments and Assets at amortised cost	**133,446**	122,719
Trading assets	**44**	54
Investments for risk of policyholders	**9,612**	8,944
Designated as at fair value through profit and loss	**1,159**	1,318
Financial assets at fair value through profit and loss	**10,815**	10,316
	144,261	133,035

Debt securities by type and balance sheet line	Available-for-sale investments		Loans and advances to customers		Total	
	2011	2010	**2011**	2010	**2011**	2010
Government bonds	**54,732**	48,455			**54,732**	48,455
Covered bonds	**1,118**	1,327			**1,118**	1,327
Corporate bonds	**45,260**	38,404			**45,260**	38,404
Financial institution bonds	**11,700**	13,047			**11,700**	13,047
Bond portfolio (excluding ABS)	**112,810**	101,233	**0**	0	**112,810**	101,233
US agency RMBS	**5,228**	4,799			**5,228**	4,799
US prime RMBS	**1,380**	1,625			**1,380**	1,625
US Alt-A RMBS	**295**	358			**295**	358
US subprime RMBS	**752**	1,560			**752**	1,560
NON-US RMBS	**513**	571	**4,515**	4,603	**5,028**	5,174
CDO/CLO	**183**	329	**505**	402	**688**	731
Other ABS	**1,459**	1,317	**1,346**	1,112	**2,805**	2,429
CMBS	**4,145**	4,542	**315**	268	**4,460**	4,810
ABS portfolio	**13,955**	15,101	**6,681**	6,385	**20,636**	21,486
	126,765	116,334	**6,681**	6,385	**133,446**	122,719

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

Notes to the consolidated annual accounts of ING Insurance continued

Exposures, revaluations and losses on pressurised ABS bonds

	31 December 2011		Change in 2011			31 December 2010	
	Balance sheet value [1]	Pre-tax revaluation reserve	Changes through equity (pre-tax)	Changes through profit and loss (pre-tax)	Other changes	Balance sheet value [1]	Pre-tax revaluation reserve
US Subprime RMBS	752	–190	43	–68	–783	1,560	–233
US Alt-A RMBS	295	18	–4	–16	–44	359	22
CDO/CLOs	688	–23	–7		–36	731	–16
CMBS	4,551	–407	–23	–12	–323	4,909	–384
Total pressurised ABS	6,286	–602	9	–96	–1,186	7,559	–611

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

Other changes includes mainly redemptions/prepayments.

Reference is made to Note 31 ‘Fair value of financial assets and liabilities’ for disclosure by fair value hierarchy and Note 33 ‘Investment income’ for impairments on available-for-sale debt securities.

Greece, Italy, Ireland, Portugal and Spain

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

Greece, Italy, Ireland, Portugal and Spain - Government bonds and Unsecured Financial institutions’ bonds [1]

2011	Balance sheet value	Pre-tax revaluation reserve	Pre-tax impairments [2]	Amortised cost value
Greece				
Government bonds available-for-sale	104		–352	456
Italy				
Government bonds available-for-sale	1,207	–219		1,426
Financial institutions available-for-sale	135	–47		182
Ireland				
Government bonds available-for-sale	43	–10		53
Portugal				
Government bonds available-for-sale	95	–88		183
Financial institutions available-for-sale	47	–17		64
Spain				
Government bonds available–for-sale	866	–118		984
Financial institutions available-for-sale	182	–32		214
Total	2,679	–531	–352	3,562

(1) Exposures are included based on the parent country of the issuer.
(2) Pre-tax impairments relate to bonds held at 31 December 2011. In addition, EUR 38 million and EUR 189 million impairments were recognised in 2011 on Greek government bonds and Irish unsecured Financial institutions’ bonds that were no longer held at 31 December 2011. The total amount of impairments recognised on Greek Government bonds and Irish unsecured Financial institutions’ bonds in 2011 is therefore EUR 390 million and EUR 189 million as explained below.

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

Notes to the consolidated annual accounts of ING Insurance continued

On 21 July 2011 a Private Sector Initiative to support Greece was announced. This initiative involves a voluntary exchange of existing Greek government bonds together with a Buyback Facility. Based on this initiative, ING Insurance impaired its Greek government bonds maturing up to 2020 in the second quarter of 2011 (EUR 123 million). The decrease in market value in the third quarter of 2011 of these impaired bonds was recognised as re-impairment (EUR 70 million). Due to the outcome of the EC meeting on 26 October 2011, the Greek government bonds maturing from 2020 were impaired in the third quarter of 2011 (EUR 130 million). ING Insurance impaired all its Greek Government bonds to market value at 31 December 2011. This resulted in a re-impairment in the fourth quarter of 2011 of EUR 67 million, bringing the total impairments on Greek government bonds to EUR 390 million. The total Greek government bond portfolio has now been written down by approximately 80%.

In 2011, ING Insurance recognised a total impairment of EUR 189 million on subordinated debt from Irish banks.

Reference is made to Note 31 ‘Fair value of financial assets and liabilities’ for disclosure by fair value hierarchy and Note 33 ‘Investment income’ for impairments on available-for-sale debt securities.

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

Changes in available-for-sale investments

	Equity securities		Debt securities		Total	
	2011	2010	**2011**	2010	**2011**	2010
Opening balance	**7,013**	5,171	**116,334**	100,350	**123,347**	105,521
Additions	**1,391**	2,219	**67,149**	71,205	**68,540**	73,424
Amortisation			**–395**	–201	**–395**	–201
Transfers and reclassifications	**904**				**904**	0
Changes in the composition of the group and other changes	**–153**	4	**–645**	–24	**–798**	–20
Changes in unrealised revaluations	**–382**	867	**4,309**	4,705	**3,927**	5,572
Impairments	**–188**	–43	**–750**	–589	**–938**	–632
Reversal of impairments			**5**	11	**5**	11
Disposals and redemptions	**–1,765**	–1,322	**–61,851**	–64,988	**–63,616**	–66,310
Exchange rate differences	**19**	117	**2,609**	5,865	**2,628**	5,982
Closing balance	**6,839**	7,013	**126,765**	116,334	**133,604**	123,347

Reference is made to Note 33 ‘Investment income’ for details on impairments.

Transfers and reclassifications of available-for-sale investments

	Equity securities		Debt securities		Total	
	2011	2010	**2011**	2010	**2011**	2010
To/from investments in associates	**904**				**904**	

In 2011, Transfers and reclassifications relates to the reclassification from associates to available-for-sale equity securities as a result of the fact that significant influence ceased to exist for certain real estate funds due to the sale of ING Real Estate Investment Management.

Reclassifications to Loans and advances to customers (2009)

Reclassifications out of available-for-sale investments to loans and receivables are allowed under IFRS-EU as of the third quarter of 2008. In the second quarter of 2009 ING Insurance reclassified certain financial assets from Investments available-for-sale to Loans and advances to customers. ING Insurance identified assets, eligible for reclassification, for which at the reclassification date it had the intention to hold for the foreseeable future. The table below provides information on this reclassification made in second quarter of 2009. Information is provided for this reclassification (see column) as at the date of reclassification and as at the end of the subsequent reporting periods (see rows). This information is disclosed under IFRS-EU as long as the reclassified assets continue to be recognised in the balance sheet.

Notes to the consolidated annual accounts of ING Insurance continued

Reclassifications to Loans and advances to customers

	Q2 2009
As per reclassification date	
Fair value	6,135
Range of effective interest rates (weighted average)	1.4% – 24.8%
Expected recoverable cash flows	7,118
Unrealised fair value losses in shareholders' equity (before tax)	–896
Recognised fair value gains (losses) in shareholders' equity (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	173
Recognised fair value gains (losses) in shareholders' equity (before tax) in the year prior to reclassification	–971
Recognised impairment (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	nil
Recognised impairment (before tax) in the year prior to reclassification	nil
Impact on the financial years after reclassification	
2011	
Carrying value as at 31 December	**6,734**
Fair value as at 31 December	**6,524**
Unrealised fair value losses in shareholders' equity (before tax) as at 31 December	**–307**
Effect on shareholders' equity (before tax) if reclassification had not been made	**–210**
Effect on result (before tax) if reclassification had not been made	**nil**
Effect on result (before tax) for the year (mainly interest income)	**127**
Recognised impairments (before tax)	**nil**
Recognised provision for credit losses (before tax)	**nil**
2010	
Carrying value as at 31 December	6,418
Fair value as at 31 December	6,546
Unrealised fair value losses in shareholders' equity (before tax) as at 31 December	–491
Effect on shareholders' equity (before tax) if reclassification had not been made	128
Effect on result (before tax) if reclassification had not been made	nil
Effect on result (before tax) for the year (mainly interest income)	78
Recognised impairments (before tax)	nil
Recognised provision for credit losses (before tax)	nil
2009	
Carrying value as at 31 December	6,147
Fair value as at 31 December	6,472
Unrealised fair value losses in shareholders' equity (before tax) as at 31 December	–734
Effect on shareholders' equity (before tax) if reclassification had not been made	325
Effect on result (before tax) if reclassification had not been made	nil
Effect on result (before tax) after the reclassification until 31 December (mainly interest income)	54
Recognised impairments (before tax)	nil
Recognised provision for credit losses (before tax)	nil

Available-for-sale equity securities

	2011	2010
Listed	**3,807**	4,437
Unlisted	**3,032**	2,576
	6,839	7,013

As at 31 December 2011, the balance sheet value included debt securities which were lent or sold in repurchase transactions amounting to EUR 8,745 million (2010: EUR 9,529 million) and nil (2010: EUR 342 million), respectively.

Borrowed debt securities are not recognised in the balance sheet and amounted to EUR 466 million as at 31 December 2011 (2010: EUR 817 million).

Investments with a combined carrying value of nil (2010: EUR 6 million) did not produce any income for the year ended 31 December 2011.

Notes to the consolidated annual accounts of ING Insurance continued

4 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers by type

	Netherlands		International		Total	
	2011	2010	**2011**	2010	**2011**	2010
Policy loans	**44**	47	**3,308**	3,180	**3,352**	3,227
Loans secured by mortgages	**6,450**	6,594	**7,692**	7,169	**14,142**	13,763
Unsecured loans	**2,143**	3,001	**5,135**	3,137	**7,278**	6,138
Asset backed securities	**6,681**	6,385			**6,681**	6,385
Other	**355**	442	**1,244**	1,182	**1,599**	1,624
	15,673	16,469	**17,379**	14,668	**33,052**	31,137
Loan loss provisions	**–80**	–71	**–44**	–46	**–124**	–117
	15,593	16,398	**17,335**	14,622	**32,928**	31,020

Changes in loan loss provisions

	2011	2010
Opening balance	**117**	111
Changes in the composition of the group	**–2**	
Write–offs	**–24**	–42
Recoveries	**2**	1
Increase in loan loss provisions	**33**	41
Exchange rate differences	**–2**	6
Closing balance	**124**	117

5 INVESTMENTS IN ASSOCIATES

Investments in associates

2011	Interest held (%)	Fair value of listed invest-ments	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Sul America S.A.	36	641	394	5,353	4,292	3,941	3,662
CBRE Retail Property Fund Iberica LP	29		147	1,666	1,146	96	65
CBRE Lionbrook Property Partnership LP	27		102	604	225	50	17
CBRE Property Fund Central Europe LP	25		90	897	536	87	4
CBRE French Residential Fund C.V.	42		78	249	65	24	8
The Capital (London) Fund	20		77	387	3	14	3
CBRE Retail Property Fund France Belgium C.V.	15		73	1,374	889	117	57
CBRE Nordic Property Fund FGR	14		60	1,079	662	92	67
CBRE Property Fund Central and Eastern Europe	21		51	747	509	122	57
Other investments in associates			454				
			1,526				

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

In the year 2010, significant influence existed for associates in which the interest held is below 20%, based on the combination of ING Insurance's financial interest for own risk and ING's role as investment manager.

As a result of the sale of ING Real Estate Investment Management in 2011, ING is no longer the investment manager of certain funds. Significant influence however remained for certain funds in which the interest held is below 20% based on the combination of ING Insurance's financial interest for own risk and other arrangements, such as participation in the advisory board.

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 Insurance's accounting principles.

Notes to the consolidated annual accounts of ING Insurance continued

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.

Investments in associates

2010	Interest held (%)	Fair value of listed investments	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Sul America S.A.	36	948	388	5,223	4,178	3,749	3,307
CBRE DRET Master Fund C.V. [1]	15		201	1,643	267	146	34
CBRE DOF Master Fund I C.V. [1]	16		195	1,480	268	67	24
CBRE Retail Property Fund Iberica LP [1]	29		144	1,635	1,122	149	86
CBRE DRES Master Fund I C.V. [1]	13		111	1,004	180	52	20
CBRE DOF Master Fund II C.V. [1]	16		101	755	129	45	29
CBRE Lionbrook Property Partnership LP [1]	21		96	620	171	77	19
CBRE Vastgoed Kantoren C.V. [1]	10		90	945	46	75	40
CBRE Vastgoed Winkels C.V. [1]	10		89	900	5	90	20
CBRE French Residential Fund C.V. [1]	45		76	233	63	20	8
CBRE Property Fund Central Europe LP [1]	25		74	806	510	66	37
CBRE Retail Property Fund France Belgium C.V. [1]	15		70	1,382	916	102	56
CBRE DRES Master Fund II C.V. [1]	13		63	612	143	22	18
CBRE Nordic Property Fund FGR [1]	15		61	940	543	81	59
CBRE Retail Property Partnership Southern Europe C.V. [1]	21		52	1,001	759	48	67
CBRE European Industrial Fund C.V. [1]	15		50	647	308	42	28
Other investments in associates			567				
			2,428				

[1] The name of this associate changed in 2011.

Changes in investments in associates

	2011	2010
Opening balance	**2,428**	2,486
Additions	**118**	79
Changes in the composition of the group	**–14**	16
Transfers to and from Investments	**–904**	
Revaluations	**–17**	10
Share of results	**194**	214
Dividends received	**–126**	–100
Disposals	**–131**	–347
Exchange rate differences	**–22**	70
Closing balance	**1,526**	2,428

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

In 2011, the share of results of EUR 194 million (2010: EUR 214 million) is presented in the profit and loss account in the Share of result from associates.

Notes to the consolidated annual accounts of ING Insurance continued

6 REAL ESTATE INVESTMENTS

Changes in real estate investments	2011	2010
Opening balance	**1,063**	1,069
Additions	**23**	16
Changes in the composition of the group	**–93**	
Fair value gains/(losses)	**2**	–48
Disposals	**–35**	–6
Exchange rate differences	**–6**	32
Closing balance	**954**	1,063

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2011 was EUR 73 million (2010: EUR 70 million). The total amount of contingent rent recognised in the profit and loss account for the year ended 31 December 2011 was nil (2010: EUR 14 million).

The total amount of direct operating expenses (including repairs and maintenance) in relation to Real estate investments that generated rental income for the year ended 31 December 2011 was EUR 17 million (2010: EUR 12 million). The total amount of direct operating expenses (including repairs and maintenance) incurred on Real estate investments that did not generate rental income for the year ended 31 December 2011 was EUR 1 million (2010: nil).

The most recent appraisal by independent qualified valuers of all Real estate investments was performed in 2011.

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

Real estate exposure	2011	2010
Real estate investments	**954**	1,063
Investments in associates	**956**	1,775
Other assets – property development and obtained from foreclosures	**72**	65
Property and equipment – property in own use	**292**	313
Investments – available-for-sale	**1,511**	633
	3,785	3,849

Furthermore, the exposure is impacted by third party interests, leverage in funds and off-balance commitments, resulting in an overall exposure of EUR 5.9 billion (2010: EUR 6.0 billion). Reference is made to the section 'Risk management'.

7 PROPERTY AND EQUIPMENT

Property and equipment by type	2011	2010
Property in own use	**292**	313
Equipment	**177**	204
	469	517

Notes to the consolidated annual accounts of ING Insurance continued

Changes in property in own use

	2011	2010
Opening balance	313	322
Additions	3	6
Changes in the composition of the group	–16	
Depreciation	–4	–5
Revaluations	–6	4
Impairments		–1
Disposals	–2	–26
Exchange rate differences	4	13
Closing balance	292	313
Gross carrying amount as at 31 December	327	347
Accumulated depreciation as at 31 December	–32	–31
Accumulated impairments as at 31 December	–3	–3
Net carrying value as at 31 December	292	313
Revaluation surplus		
Opening balance	43	39
Revaluation in year	1	4
Closing balance	44	43

The cost or the purchase price amounted to EUR 283 million (2010: EUR 304 million). Cost or the purchase price less accumulated depreciation and impairments would have been EUR 248 million (2010: EUR 270 million) had property in own use been valued at cost instead of fair value.

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

In percentages	2011
Most recent appraisal in 2011	45
Most recent appraisal in 2010	16
Most recent appraisal in 2008	39
	100

Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2011	2010	2011	2010	2011	2010
Opening balance	67	51	137	179	204	230
Additions	38	45	36	26	74	71
Changes in the composition of the group	–9		–16	–6	–25	–6
Disposals	–1	–4	–12	–26	–13	–30
Depreciation	–29	–29	–36	–44	–65	–73
Impairments			–1		–1	0
Exchange rate differences		4	–1	9	–1	13
Other changes	–1		5	–1	4	–1
Closing balance	65	67	112	137	177	204
Gross carrying amount as at 31 December	256	260	394	414	650	674
Accumulated depreciation as at 31 December	–191	–193	–282	–277	–473	–470
Net carrying value as at 31 December	65	67	112	137	177	204

Notes to the consolidated annual accounts of ING Insurance continued

8 INTANGIBLE ASSETS

Changes in intangible assets

	Value of business acquired		Goodwill		Software		Other		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Opening balance	**1,320**	1,502	**1,425**	1,857	**166**	133	**345**	383	**3,256**	3,875
Additions			**8**		**73**	96	**1**		**82**	96
Capitalised expenses	**81**	90			**2**	34			**83**	124
Amortisation and unlocking	**–244**	–113			**–59**	–46	**–48**	–66	**–351**	–225
Impairments				–637	**–34**	–3			**–34**	–640
Effect of unrealised revaluations in equity	**–250**	–286							**–250**	–286
Changes in the composition of the group	**–43**		**–625**		**–2**	–52	**–111**	–8	**–781**	–60
Exchange rate differences	**7**	127	**–72**	205	**–2**	7	**–10**	36	**–77**	375
Disposals					**–9**	–3			**–9**	–3
Other changes			**50**				**3**		**53**	0
Closing balance	**871**	1,320	**786**	1,425	**135**	166	**180**	345	**1,972**	3,256
Gross carrying amount as at 31 December	**2,244**	2,449	**1,471**	2,127	**818**	758	**369**	656	**4,902**	5,990
Accumulated amortisation as at 31 December	**–1,373**	–1,129			**–646**	–589	**–143**	–265	**–2,162**	–1,983
Accumulated impairments as at 31 December			**–685**	–702	**–37**	–3	**–46**	–46	**–768**	–751
Net carrying value as at 31 December	**871**	1,320	**786**	1,425	**135**	166	**180**	345	**1,972**	3,256

Goodwill

Changes in goodwill

The addition in goodwill 2011 relates to the reporting unit Insurance Benelux. A goodwill impairment of EUR 637 million was recognised in 2010. The impairment relates to the reporting unit Insurance US. In 2011, Changes in composition of the group relates mainly to the disposal of the Latin American pensions, life insurance and investment management operations.

Allocation of Goodwill to reporting units

Goodwill is allocated to reporting units as follows:

Goodwill allocation to reporting units

	2011	2010
Insurance Benelux	**56**	48
Insurance Central & Rest of Europe	**112**	123
Insurance Latin America		680
Insurance Asia/Pacific – South Korea	**192**	192
Insurance Asia/Pacific – Rest of Asia	**44**	2
ING Investment Management	**382**	380
Total Insurance	**786**	1,425

Goodwill impairment testing

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

Notes to the consolidated annual accounts of ING Insurance continued

As a first step of the impairment test, the best estimate of the recoverable amount of reporting units to which goodwill is allocated, determined separately for each relevant reporting unit based on Price to Earnings, Price to Book, and Price to Assets under management ratios. The main assumptions in this valuation are the multiples for Price to Earnings, Price to Book and Price to Assets under management; these are developed internally but are either derived from or corroborated against market information that is related to observable transaction in the market for comparable businesses. Earnings and carrying values are equal to or derived from the relevant measure under IFRS-EU. If the outcome of this first step indicates that the difference between recoverable amount and carrying value may not be sufficient to support the amount of goodwill allocated to the reporting unit, an additional analysis is performed in order to determine a recoverable amount in a manner that better addresses the specific characteristics of the relevant reporting unit.

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

Insurance US
Due to the unfavourable market circumstances for Insurance, including the low interest rate environment, there were indications in the third quarter of 2010 that the recoverable amount of the reporting unit Insurance US had fallen below carrying value. As a result, a full goodwill impairment review was performed for the reporting unit Insurance US in the third quarter of 2010. The reporting unit Insurance US equals the segment Insurance US as disclosed in Note 45 ‘Operating segments’. The 2009 impairment test for Insurance US showed that the recoverable amount based on fair value (using market multiples for Price/Book and Price/Earnings of listed peer companies) was at least equal to carrying value. The outcome of the impairment test performed in the third quarter of 2010 indicated that the fair value has become less than carrying value by an amount that exceeded the goodwill of Insurance US, indicating that the full amount of goodwill relating to Insurance US is impaired. Further analysis of the recoverable amount confirmed the impairment. As a result, the goodwill of EUR 637 million (pre-tax) was written down. The related charge is included in the profit and loss account in the line 'Intangibles amortisation and other impairments'. Goodwill is recognised in the Corporate Line segment and, therefore, this charge is included in the segment reporting in the Corporate Line Insurance segment.

9 DEFERRED ACQUISITION COSTS

Changes in deferred acquisition costs

	Life insurance		Non-life insurance		Total	
	2011	2010	**2011**	2010	**2011**	2010
Opening balance	**10,457**	11,165	**42**	43	**10,499**	11,208
Capitalised	**1,575**	1,550	**12**	12	**1,587**	1,562
Amortisation and unlocking	**–1,689**	–2,684	**–13**	–13	**–1,702**	–2,697
Effect of unrealised revaluations in equity	**–526**	–765			**–526**	–765
Changes in the composition of the group	**44**	–5	**–2**		**42**	–5
Exchange rate differences	**304**	1,194			**304**	1,194
Disposal of portfolios		2				2
Closing balance	**10,165**	10,457	**39**	42	**10,204**	10,499

For flexible life insurance contracts the growth rate assumption used to calculate the amortisation of the deferred acquisition costs for 2011 is 5.7% gross and is 4.5% net of investment management fees (2010: 6.2% gross and 5.1% net of investment management fees).

In 2011, Amortisation and unlocking include EUR 488 million relating to the assumption review for the Insurance US Closed Block Variable Annuity (VA) business. Reference is made to Note 39 ‘Underwriting expenditure’.

Amortisation and unlocking in 2010 includes a EUR 975 million DAC write-off as explained in Note 45 ‘Operating segments’. The remaining amount includes unlocking of EUR –538 million, which mainly relates to Insurance US and amortisation of EUR –1,184 million.

10 ASSETS AND LIABILITIES HELD FOR SALE
Assets and Liabilities held for sale include disposal groups whose carrying amount will be recovered principally through a sale transaction rather than through continuing operations. This relates to businesses for which a sale is agreed upon or a sale is highly probable at the balance sheet date. For 31 December 2010 this relates to Pacific Antai Life Insurance Company Ltd. and ING Arrendadora S.A. de C.V.

Reference is made to Note 27 ‘Companies acquired and companies disposed’ for more details on significant disposals.

Notes to the consolidated annual accounts of ING Insurance continued

Assets held for sale	
	2010
Cash and cash equivalents	28
Financial assets at fair value through profit and loss	11
Available-for-sale investments	144
Loans and advances to customers	144
Property and equipment	3
Deferred acquisition costs	43
Other assets	8
	381

Liabilities held for sale	
	2010
Other borrowed funds	35
Insurance and investments contracts	217
Other liabilities	27
	279

Cumulative other comprehensive income includes nil (2010: EUR 6 million) related to Assets and Liabilities held for sale.

ING is considering potential divestments, including those that are listed under the European Commission Restructuring plan in Note 30 'Related parties'. However, none of these businesses qualify as held for sale as at 31 December 2011 as the potential divestments are not yet available for immediate sale in their present condition and/or a sale is not yet highly probable to occur.

11 OTHER ASSETS

Other assets by type		
	2011	2010
Reinsurance and insurance receivables	**1,971**	2,201
Deferred tax assets	**186**	179
Property development and obtained from foreclosures	**72**	65
Income tax receivable	**82**	126
Accrued interest and rents	**2,999**	3,172
Other accrued assets	**1,670**	1,958
Pension assets	**1,251**	1,192
Other	**1,179**	1,317
	9,410	10,210

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

Accrued interest and rents includes EUR 2,216 million (2010: EUR 2,202 million) accrued interest on assets measured at amortised cost under the IAS 39 classification Loans and receivables.

Reinsurance and insurance receivables		
	2011	2010
Receivables on account of direct insurance from:		
– policyholders	**1,238**	1,272
– intermediaries	**67**	108
Reinsurance receivables	**666**	821
	1,971	2,201

The allowance for uncollectible reinsurance and insurance receivables amounted to EUR 66 million as at 31 December 2011 (2010: EUR 52 million). The allowance is deducted from this receivable.

Notes to the consolidated annual accounts of ING Insurance continued

EQUITY
12 SHAREHOLDERS' EQUITY (PARENT)

Shareholders' equity (parent)

	2011	2010	2009
Share capital	**174**	174	174
Share premium	**11,874**	11,874	10,374
Revaluation reserve	**5,060**	3,345	207
Currency translation reserve	**131**	–178	–1,515
Other reserves	**6,236**	4,944	6,427
Shareholders' equity (parent)	**23,475**	20,159	15,667

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 x 1,000			Amount		
	2011	2010	2009	2011	2010	2009
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 2011, 2010 or 2009.

Ordinary shares
All shares are in registered form. No share certificates have been issued. Shares may be transferred by means of a deed of transfer, subject to the approval of the Management Board of ING 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 2011 154 million have been issued and fully paid. There were no changes in issued share capital during 2011, 2010 or 2009.

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

2011	Property revalu-ation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	**29**	**1,749**	**1,567**	**3,345**
Unrealised revaluations after taxation	**2**	**2,084**		**2,086**
Realised gains/losses transferred to profit and loss		**317**		**317**
Change in cash flow hedge reserve			**1,316**	**1,316**
Transfer to insurance liabilities/DAC		**–2,004**		**–2,004**
Closing balance	**31**	**2,146**	**2,883**	**5,060**

Transfer to insurance liabilities/DAC includes the change in the deferred profit sharing liability (net of deferred tax). Reference is made to Note 16 'Insurance and investment contracts, reinsurance contracts'.

Notes to the consolidated annual accounts of ING Insurance continued

Changes in revaluation reserve

2010	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	24	–743	926	207
Unrealised revaluations after taxation	5	3,757		3,762
Realised gains/losses transferred to profit and loss		379		379
Change in cash flow hedge reserve			641	641
Transfer to insurance liabilities/DAC		–1,644		–1,644
Closing balance	29	1,749	1,567	3,345

Changes in revaluation reserve

2009	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	25	–6,030	1,360	–4,645
Unrealised revaluations after taxation	–1	6,837		6,836
Realised gains/losses transferred to profit and loss		529		529
Change in cash flow hedge reserve			–434	–434
Transfer to insurance liabilities/DAC		–2,079		–2,079
Closing balance	24	–743	926	207

Changes in currency translation reserve

	2011	2010	2009
Opening balance	**–178**	–1,515	–1,191
Unrealised revaluations after taxation	**–90**	–418	–194
Realised gains/losses transferred to profit and loss	**156**		148
Exchange rate differences	**243**	1,755	–278
Closing balance	**131**	–178	–1,515

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

Changes in other reserves

2011	**Retained earnings**	**Share of associates reserve**	**Total**
Opening balance	**4,804**	**140**	**4,944**
Result for the year	**1,200**		**1,200**
Unrealised revaluations after taxation	**37**		**37**
Transfer to share of associates reserve	**–36**	**36**	**0**
Employee stock options and share plans	**55**		**55**
Closing balance	**6,060**	**176**	**6,236**

Changes in other reserves

2010	Retained earnings	Share of associates reserve	Total
Opening balance	6,427		6,427
Result for the year	–1,574		–1,574
Unrealised revaluations after taxation	23	27	50
Transfer to share of associates reserve	–113	113	0
Employee stock options and share plans	41		41
Closing balance	4,804	140	4,944

Notes to the consolidated annual accounts of ING Insurance continued

Changes in other reserves

2009	Retained earnings	Share of associates reserve	Total
Opening balance	7,519	67	7,586
Result for the year	–621		–621
Unrealised revaluations after taxation	–270	43	–227
Transfer to share of associates reserve	110	–110	0
Dividend	–350		–350
Employee stock options and share plans	39		39
Closing balance	6,427	0	6,427

Notes to the consolidated annual accounts of ING Insurance continued

LIABILITIES
13 SUBORDINATED LOANS

Subordinated loans

Interest rate	Year of Issue	Due date		Notional amount in original currency	Balance sheet value 2011	Balance sheet value 2010
Variable	2011	Perpetual	EUR	450	**450**	
Variable	2008	Perpetual	USD	1,100	**850**	822
Variable	2007	Perpetual	USD	1,000	**772**	748
4.176%	2005	Perpetual	EUR	300	**313**	309
Variable	2005	Perpetual	USD	200	**154**	140
Variable	2005	Perpetual	USD	100	**77**	75
6.375%	2002	7 May 2027	EUR	476	**501**	1,060
Variable	2001	21 June 2021	EUR	1,250	**1,250**	1,253
					4,367	4,407

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

On 12 December 2011 ING announced the launch of three separate exchange offers in Europe and tender offers in the United States of America, on a total of seven series of outstanding subordinated securities of ING entities with a total nominal value of approximately EUR 5.8 billion. Of this amount, EUR 1.0 billion relates to securities issued by ING Verzekeringen N.V. All tender and exchange offers announced on 12 December 2011 were successfully completed on 23 December 2011. The participation for ING Verzekeringen N.V. was 52%. The overall transaction resulted in a total gain of EUR 95 million (EUR 71 million after tax) for ING Verzekeringen N.V., including related hedge results and transaction costs. This gain is recognised in Other income.

14 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

	2011	2010
Fixed rate debt securities		
Within 1 year	**849**	46
More than 1 year but less than 2 years	**1,114**	1,341
More than 2 years but less than 3 years		1,109
More than 5 years	**473**	471
Total fixed rate debt securities	**2,436**	2,967
Floating rate debt securities		
More than 1 year but less than 2 years	**1,000**	
More than 2 years but less than 3 years		1,000
Total floating rate debt securities	**1,000**	1,000
Total debt securities	**3,436**	3,967

As of 31 December 2011, ING Insurance had unused lines of credit available totalling EUR 60 million (2010: EUR 56 million).

Notes to the consolidated annual accounts of ING Insurance continued

15 OTHER BORROWED FUNDS

Other borrowed funds by remaining term

2011	2012	2013	2014	2015	2016	Years after 2016	Total
Loans contracted	884		76			617	1,577
Loans from credit institutions	5,088					642	5,730
	5,972	0	76	0	0	1,259	7,307

Other borrowed funds by remaining term

2010	2011	2012	2013	2014	2015	Years after 2015	Total
Loans contracted	3,969	495	23	96	23	523	5,129
Loans from credit institutions	2,640		1		131	688	3,460
	6,609	495	24	96	154	1,211	8,589

16 INSURANCE AND INVESTMENT CONTRACTS, REINSURANCE CONTRACTS

The 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	
	2011	2010	2011	2010	2011	2010
Provision for non-participating life policy liabilities	88,492	80,691	5,534	5,150	94,026	85,841
Provision for participating life policy liabilities	52,753	51,191	102	173	52,855	51,364
Provision for (deferred) profit sharing and rebates	5,623	3,432	2	3	5,625	3,435
Life insurance provisions excluding provisions for risk of policyholders	146,868	135,314	5,638	5,326	152,506	140,640
Provision for life insurance for risk of policyholders	109,487	114,603	136	359	109,623	114,962
Life insurance provisions	256,355	249,917	5,774	5,685	262,129	255,602
Provision for unearned premiums and unexpired risks	297	345	4	4	301	349
Reported claims provision	2,620	2,606	89	97	2,709	2,703
Claims incurred but not reported (IBNR)	493	497	3	3	496	500
Claims provisions	3,113	3,103	92	100	3,205	3,203
Total provisions for insurance contracts	259,765	253,365	5,870	5,789	265,635	259,154
Investment contracts for risk of company	6,259	5,990			6,259	5,990
Investment contracts for risk of policyholders	6,939	5,984			6,939	5,984
Total provisions for investment contracts	13,198	11,974	0	0	13,198	11,974
Total	272,963	265,339	5,870	5,789	278,833	271,128

The deferred profit sharing amount on unrealised revaluation is included in Provision for (deferred) profit sharing and rebates and amounts to EUR 3,721 million as at 31 December 2011 (2010: EUR 1,706 million).

Notes to the consolidated annual accounts of ING Insurance continued

Changes in life insurance provisions

	Provision net of reinsurance (excluding provision for life insurance for risk of policyholder)		Provisions for life insurance for risk of policyholder (net of reinsurance)		Reinsurance contracts		Life insurance provisions	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Opening balance	**135,314**	121,491	**114,603**	99,299	**5,685**	5,376	**255,602**	226,166
Changes in the composition of the group	**–495**	–24	**–267**	–2	**–2**		**–764**	–26
	134,819	121,467	**114,336**	99,297	**5,683**	5,376	**254,838**	226,140
Current year provisions	**13,774**	11,843	**7,623**	7,500	**636**	415	**22,033**	19,758
Change in deferred profit sharing liability	**1,963**	1,422					**1,963**	1,422
Prior year provisions:								
– benefit payments to policyholders	**–13,872**	–11,938	**–12,548**	–10,681	**–700**	–557	**–27,120**	–23,176
– interest accrual and changes in fair value of liabilities	**6,302**	4,884			**35**	35	**6,337**	4,919
– valuation changes for risk of policyholders			**–1,190**	10,468			**–1,190**	10,468
– effect of changes in discount rate assumptions		5					**0**	5
– effect of changes in other assumptions	**635**	356	**–17**	21	**–2**	6	**616**	383
	–6,935	–6,693	**–13,755**	–192	**–667**	–516	**–21,357**	–7,401
Exchange rate differences	**3,087**	7,203	**2,797**	8,488	**185**	374	**6,069**	16,065
Other changes	**160**	72	**–1,514**	–490	**–63**	36	**–1,417**	–382
Closing balance	**146,868**	135,314	**109,487**	114,603	**5,774**	5,685	**262,129**	255,602

Where discounting is used in the calculation of life insurance provision, the rate is within the range of 2.8% to 5.5% (2010: 2.8% to 5.8%) 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 28 'Legal proceedings'.

In 2011, effect of changes in other assumptions includes EUR 611 million relating to the assumption review for the Insurance US Closed Block Variable Annuity (VA) business. Reference is made to Note 39 'Underwriting expenditure'.

In 2011, Other changes with regard to Provision for life insurance for risk of policyholders (net of reinsurance) include the transfers of certain insurance contracts outside ING.

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.

ING Insurance transferred its U.S. group reinsurance business to Reinsurance Group of America Inc. in 2010 by means of a reinsurance agreement. This business continues to be included in Life insurance provisions. The related asset from the reinsurance contract is recognised under Reinsurance contracts.

To the extent that the assuming reinsurers are unable to meet their obligations, ING Insurance is 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, ING Insurance evaluates the financial condition of its reinsurers, monitors concentrations of credit risk arising from similar geographical regions, activities or economic characteristics of the reinsurer and maintains collateral. Reference is also made to section 'Risk management'.

As at 31 December 2011, the total Reinsurance exposure, including Reinsurance contracts and Receivables from reinsurers (presented in Other assets) amounted to EUR 6,536 million (2010: EUR 6,610 million).

Notes to the consolidated annual accounts of ING Insurance continued

Changes in provision for unearned premiums and unexpired risks

	Provision net of reinsurance		Reinsurance contracts		Provision for unearned premiums and unexpired risk	
	2011	2010	**2011**	2010	**2011**	2010
Opening balance	**345**	361	**4**	4	**349**	365
Changes in the composition of the group	**–8**				**–8**	0
	337	361	**4**	4	**341**	365
Premiums written	**1,682**	1,676	**43**	65	**1,725**	1,741
Premiums earned during the year	**–1,708**	–1,702	**–43**	–65	**–1,751**	–1,767
Exchange rate differences	**1**	1			**1**	1
Other changes	**–15**	9			**–15**	9
Closing balance	**297**	345	**4**	4	**301**	349

Changes in claims provisions

	Provision net of reinsurance		Reinsurance contracts		Claims provision	
	2011	2010	**2011**	2010	**2011**	2010
Opening balance	**3,103**	3,073	**100**	101	**3,203**	3,174
Changes in the composition of the group	**–7**			1	**–7**	1
	3,096	3,073	**100**	102	**3,196**	3,175
Additions:						
– for the current year	**1,166**	1,121	**10**	20	**1,176**	1,141
– for prior years	**–71**	–35	**–11**	–11	**–82**	–46
– interest accrual of provision	**40**	46			**40**	46
	1,135	1,132	**–1**	9	**1,134**	1,141
Claim settlements and claim settlement costs:						
– for the current year	**472**	491	**1**	3	**473**	494
– for prior years	**665**	621	**6**	8	**671**	629
	1,137	1,112	**7**	11	**1,144**	1,123
Exchange rate differences	**2**	13			**2**	13
Other changes	**17**	–3			**17**	–3
Closing balance	**3,113**	3,103	**92**	100	**3,205**	3,203

ING Insurance had an outstanding balance of EUR 35 million as at 31 December 2011 (2010: EUR 41 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% (2010: 3.0% to 4.0%).

Notes to the consolidated annual accounts of ING Insurance continued

Changes in investment contracts liabilities		
	2011	2010
Opening balance	**11,974**	11,302
Current year liabilities	**7,867**	4,920
Prior year provisions:		
– payments to contract holders	**–7,709**	–5,184
– interest accrual	**39**	81
– valuation changes investments	**–55**	24
	–7,725	–5,079
Exchange rate differences	**380**	592
Other changes	**702**	239
Closing balance	**13,198**	11,974

Gross claims development table									
							Underwriting Year		
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Estimate of cumulative claims:									
At the end of underwriting year	**1,230**	**1,122**	**1,115**	**1,035**	**1,091**	**1,214**	**1,180**	**1,210**	
1 year later	**1,077**	**1,053**	**1,071**	**936**	**1,072**	**1,226**	**1,208**		
2 years later	**925**	**952**	**992**	**873**	**1,042**	**1,166**			
3 years later	**903**	**922**	**978**	**870**	**1,041**				
4 years later	**904**	**907**	**981**	**850**					
5 years later	**895**	**900**	**966**						
6 years later	**898**	**881**							
7 years later	**892**								
Estimate of cumulative claims	**892**	**881**	**966**	**850**	**1,041**	**1,166**	**1,208**	**1,210**	**8,214**
Cumulative payments	**–783**	**–742**	**–797**	**–630**	**–753**	**–787**	**–748**	**–474**	**–5,714**
	109	**139**	**169**	**220**	**288**	**379**	**460**	**736**	**2,500**
Effect of discounting	**–15**	**–20**	**–22**	**–33**	**–38**	**–41**	**–45**	**–32**	**–246**
Liability recognised	**94**	**119**	**147**	**187**	**250**	**338**	**415**	**704**	**2,254**
Liability relating to underwriting years prior to 2004									**951**
Total amount recognised in the balance sheet									**3,205**

17 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial liabilities at fair value through profit and loss		
	2011	2010
Non-trading derivatives	**4,404**	3,677

Non-trading derivatives by type		
	2011	2010
Derivatives used in:		
– fair value hedges	**264**	265
– cash flow hedges	**302**	344
– hedges of net investments in foreign operations	**12**	60
Other non-trading derivatives	**3,826**	3,008
	4,404	3,677

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

Notes to the consolidated annual accounts of ING Insurance continued

18 OTHER LIABILITIES

Other liabilities by type

	2011	2010
Deferred tax liabilities	**1,911**	1,197
Income tax payable	**53**	143
Post-employment benefits	**74**	74
Pension benefits	**279**	400
Other staff-related liabilities	**502**	583
Other taxation and social security contributions	**148**	161
Deposits from reinsurers	**1,015**	1,007
Accrued interest	**812**	1,201
Costs payable	**1,079**	1,128
Amounts payable to brokers	**72**	111
Amounts payable to policyholders	**2,171**	2,130
Reorganisation provision	**79**	101
Other provisions	**134**	144
Amounts to be settled	**3,874**	3,413
Other	**1,300**	1,549
	13,503	13,342

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

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

Other mainly relates to year-end accruals in the normal course of business.

As of 1 October 2011, the Dutch fiscal unity in which ING Verzekeringen N.V. and its Dutch subsidiaries participate, changed from ING Verzekeringen N.V. to its direct parent ING Insurance Topholding N.V. After the change, all tax payments and receipts are settled through ING Insurance Topholding N.V.

Changes in deferred tax

	Net liability 2010	Change through equity	Change through net result	Changes in the composition of the group	Exchange rate differences	Other	Net liability 2011
Investments	–13	**1,267**	**469**	**–60**	**75**	**–2**	**1,736**
Real estate investments	383		**–10**	**7**		**–2**	**378**
Financial assets and liabilities at fair value through profit and loss	24		**–13**	**–10**	**–1**	**–20**	**–20**
Deferred acquisition costs and VOBA	3,111	**–272**	**–194**	**–57**	**131**	**12**	**2,731**
Fiscal equalisation reserve	1		**–1**				**0**
Depreciation	–2		**2**				**0**
Insurance provisions	–1,866	**–572**	**–773**	**–7**	**–130**	**–2**	**–3,350**
Cash flow hedges	485	**468**			**2**		**955**
Pension and post-employment benefits	83		**21**	**–12**	**–8**	**2**	**86**
Other provisions	–597		**423**	**24**	**10**	**–21**	**–161**
Receivables	–28			**–2**	**1**	**–2**	**–31**
Loans and advances to customers	11		**4**		**–1**		**14**
Unused tax losses carried forward	–670		**20**	**15**	**–9**	**–30**	**–674**
Other	96		**–24**	**–4**	**–16**	**9**	**61**
	1,018	**891**	**–76**	**–106**	**54**	**–56**	**1,725**
Comprising:							
– deferred tax liabilities	1,197						**1,911**
– deferred tax assets	–179						**–186**
	1,018						**1,725**

Notes to the consolidated annual accounts of ING Insurance continued

Changes in deferred tax

	Net liability 2009	Change through equity	Change through net result	Changes in the composition of the group	Exchange rate differences	Other	Net liability 2010
Investments	679	1,168	–1,556		121	–42	370
Financial assets and liabilities at fair value through profit and loss	21		6	–2	2	–3	24
Deferred acquisition costs and VOBA	2,849	–368	301		327	2	3,111
Fiscal equalisation reserve			1				1
Depreciation	–6		3		–1	2	–2
Insurance provisions	–1,446	–390	109		–135	–4	–1,866
Cash flow hedges	267	230			–10	–2	485
Pension and post-employment benefits	274		–197		7	–1	83
Other provisions	–943	–13	438		–103	24	–597
Receivables	39		–72		9	–4	–28
Loans and advances to customers	–3		14				11
Unused tax losses carried forward	–1,366		823	–1	–129	3	–670
Other	–87	31	166	8	–31	9	96
	278	658	36	5	57	–16	1,018
Comprising:							
– deferred tax liabilities	740						1,197
– deferred tax assets	–462						–179
	278						1,018

Deferred tax in connection with unused tax losses carried forward

	2011	2010
Total unused tax losses carried forward	**5,919**	4,440
Unused tax losses carried forward not recognised as a deferred tax asset	**–3,647**	–2,146
Unused tax losses carried forward recognised as a deferred tax asset	**2,272**	2,294
Average tax rate	**29.7%**	29.2%
Deferred tax asset	**674**	670

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	
	2011	2010	**2011**	2010
Within 1 year	**11**	2	**40**	40
More than 1 year but less than 5 years	**229**	217	**404**	384
More than 5 years but less than 10 years	**507**	85	**1,075**	911
More than 10 years but less than 20 years	**2,885**	1,827	**192**	664
Unlimited	**15**	15	**561**	295
	3,647	2,146	**2,272**	2,294

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

The deferred tax asset includes balances for which the utilisation is dependent on future taxable profits whilst the related entities have incurred losses in either the current year or the preceding year. The aggregate amount for the most significant entities where this applies is EUR 209 million (2010: EUR 245 million).

Notes to the consolidated annual accounts of ING Insurance continued

This can be specified by jurisdiction as follows:

Breakdown by jurisdiction

	2011	2010
United States	120	232
Belgium	70	13
Spain	19	
	209	245

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

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

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

Changes in reorganisation provisions

	Reorganisations	
	2011	2010
Opening balance	101	154
Changes in the composition of the group	–2	9
Additions	136	117
Releases	–6	–19
Charges	–144	–157
Exchange rate differences	–1	1
Other changes	–5	–4
Closing balance	79	101

As at 31 December 2011 the provision for reorganisation relates for EUR 72 million (2010: EUR 93 million) to termination benefits.

Changes in other provisions

	Litigation		Other		Total	
	2011	2010	2011	2010	2011	2010
Opening balance	54	36	90	131	144	167
Changes in the composition of the group	–2		–10		–12	0
Additions	7	26	27	23	34	49
Releases	–7	–1	–3	–15	–10	–16
Charges	–8	–9	–34	–40	–42	–49
Exchange rate differences	–2	2	–7		–9	2
Other changes	–1		30	–9	29	–9
Closing balance	41	54	93	90	134	144

The provision for the estimated cost of the agreement with regard to unit-linked policies is included in 'Insurance and investment contracts' as disclosed in Note 16.

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

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

Notes to the consolidated annual accounts of ING Insurance continued

Pension and post-employment benefits

Summary of pension benefits

				Pension benefits	
	2011	2010	2009	2008	2007
Defined benefit obligation	**5,803**	5,758	4,975	5,223	5,245
Fair value of plan assets	**6,644**	5,813	5,102	4,697	5,245
	–841	–55	–127	526	0
Unrecognised past service costs	**–2**	–3	–3	–5	–3
Unrecognised actuarial gains/(losses)	**–129**	–734	–635	–955	–62
Net liability (asset) recognised in the balance sheet	**–972**	–792	–765	–434	–65
Presented as:					
– Other liabilities	**279**	400	348	236	–65
– Other assets	**–1,251**	–1,192	–1,113	–670	
	–972	–792	–765	–434	–65

Summary of post-employment benefits

				Post-employment benefits	
	2011	2010	2009	2008	2007
Defined benefit obligation	**69**	69	69	112	126
	69	69	69	112	126
Unrecognised past service costs	**2**	2	7	1	3
Unrecognised actuarial gains/(losses)	**3**	3	10	7	7
	74	74	86	120	136

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

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

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

ING 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.

Actuarial gains and losses related to pension and post-employment benefits for the year ended 31 December 2011 include EUR 480 million (2010: EUR 410 million; 2009: EUR 104 million; 2008: EUR –969 million; 2007: EUR –306 million) experience gain adjustments for assets and EUR 53 million (2010: EUR 37 million; 2009: EUR 135 million; 2008: EUR 3 million; 2007: EUR 72 million) experience gain adjustments for liabilities.

Notes to the consolidated annual accounts of ING Insurance continued

Changes in defined benefit obligation

	Pension benefits		Post-employment benefits other than pensions	
	2011	2010	**2011**	2010
Opening balance	**5,758**	4,976	**69**	69
Current service cost	**105**	102	**5**	
Interest cost	**303**	285	**3**	4
Benefits paid	**–250**	–228	**–4**	–5
Actuarial gains and losses	**–99**	531	**–4**	–1
Past service cost	**1**			
Changes in the composition of the group and other changes	**–3**	–3	**–1**	–1
Effect of curtailment or settlement	**–64**	–3		
Exchange rate differences	**52**	98	**1**	3
Closing balance	**5,803**	5,758	**69**	69
Relating to:				
– funded plans	**5,757**	5,686		
– unfunded plans	**46**	72	**69**	69
	5,803	5,758	**69**	69

In 2011, effect of curtailment or settlement relates mainly to a curtailment in relation to a change in one of the pension plans in the United States.

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 2012 are nil and EUR 22 million respectively.

Changes in fair value of plan assets

	Pension benefits	
	2011	2010
Opening balance	**5,813**	5,102
Expected return on plan assets	**308**	296
Employer's contribution	**243**	178
Participants contributions	**1**	1
Benefits paid	**–230**	–223
Actuarial gains and losses	**480**	410
Changes in the composition of the group and other changes	**–2**	
Exchange rate differences	**31**	49
Closing balance	**6,644**	5,813

The actual return on the plan assets amounted to EUR 788 million (2010: EUR 706 million) and exceeds the expected return on plan assets. This resulted in a large movement with regard to Actuarial gains and losses. The difference is caused by the decreased market interest rate that has an impact on the valuation of the debt securities in the plan assets.

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

Pension investment strategy

The primary financial objective of ING Employee Benefit Plans (the Plans) is to secure participant retirement benefits. As such, the key objective in the Plans' financial management is to promote stability and, where appropriate, growth in funded status (i.e. the ratio of market value of assets to liabilities). The investment strategy for the Plans' 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.

Notes to the consolidated annual accounts of ING Insurance continued

Categories of plan assets in percentages

	Target allocation	Percentage of plan assets		Weighted average expected long tern rate of return	
	2012	**2011**	2010	**2011**	2010
Equity securities	**34**	**27**	34	**6.9**	7.5
Debt securities	**51**	**60**	54	**3.8**	4.3
Other	**15**	**13**	12	**5.2**	6.0
	100	**100**	100	**4.9**	5.7

Equity securities include ING Groep N.V. ordinary shares of nil as at 31 December 2011 (2010: EUR 1 million, 0.01% of total plan assets). Debt securities include investments in ING Groep N.V. of EUR 14 million (0.20% of total plan assets) as at 31 December 2011 (2010: EUR 21 million, 0.4% of total plan assets). Other includes mainly real estate. Real estate occupied by ING Insurance as at 31 December 2011 which is included in Other includes nil (2010: EUR 2 million, 0.04% 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	
	2011	2010	**2011**	2010
Discount rates	**5.30**	5.40	**4.10**	4.70
Mortality rates	**1.00**	1.00	**1.00**	1.00
Expected rates of salary increases (excluding promotion increases)	**2.50**	2.70	**2.00**	2.70
Medical cost trend rates			**6.10**	6.10
Indexation	**1.80**	1.80	**2.00**	2.00

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

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

An increase of 1% in the assumed medical cost trend rate for each future year would have resulted in an additional accumulated defined benefit obligation of nil as at 31 December 2011 (2010: nil) and no increase in the charge for the year (2010: 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 nil as at 31 December 2011 (2010: nil) and no decrease in the charge for the year (2010: no decrease).

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

Notes to the consolidated annual accounts of ING Insurance continued

Expected cash flows
For 2012, the expected contributions to pension plans are EUR 222 million.

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

Benefit payments

	Pension benefits	Post-employment benefits other than pensions
	2011	**2011**
2012	**229**	**4**
2013	**225**	**3**
2014	**226**	**3**
2015	**232**	**3**
2016	**241**	**2**
Years 2017 – 2021	**1,383**	**10**

Notes to the consolidated annual accounts of ING Insurance continued

19 ASSETS BY CONTRACTUAL MATURITY

Amounts presented in these tables by contractual maturity are the amounts as presented in the balance sheet.

Assets by contractual maturity

2011	Less than 1 month [(1)]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	11,577						11,577
Financial assets at fair value through profit and loss:							
– trading assets			6	24	19	485	534
– investments for risk of policyholders [(2)]						116,438	116,438
– non-trading derivatives	282	304	755	1,600	4,344		7,285
– designated as at fair value through profit and loss			25	191	660	1,740	2,616
Available-for-sale investments	464	1,066	6,580	26,498	79,434	19,562	133,604
Loans and advances to customers	1,166	2,114	2,035	3,008	20,458	4,147	32,928
Reinsurance contracts	17	39	234	1,026	2,656	1,898	5,870
Intangible assets	4	8	81	170	166	1,543	1,972
Deferred acquisition costs	19	22	98	698	3,630	5,737	10,204
Other assets	2,316	855	2,169	2,158	1,417	495	9,410
Remaining assets (where maturities are not applicable) [(3)]						2,949	2,949
Total assets	15,845	4,408	11,983	35,373	112,784	154,994	335,387

(1) Includes assets on demand.
(2) 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 Insurance.
(3) Included in remaining assets where maturities are not applicable are property and equipment, real estate investments and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Assets by contractual maturity

2010	Less than 1 month [(1)]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	8,646						8,646
Financial assets at fair value through profit and loss:							
– trading assets	1	3	4	11	31	572	622
– investments for risk of policyholders [(2)]						120,481	120,481
– non-trading derivatives	186	168	399	898	2,789		4,440
– designated as at fair value through profit and loss	21	7	180	156	883	1,713	2,960
Available-for-sale investments	484	845	5,163	27,251	68,663	20,941	123,347
Loans and advances to customers	1,288	1,600	976	3,233	19,662	4,261	31,020
Reinsurance contracts	17	32	142	727	2,729	2,142	5,789
Intangible assets	6	12	99	306	182	2,651	3,256
Deferred acquisition costs	20	24	109	820	3,149	6,377	10,499
Assets held for sale [(3)]			381				381
Other assets	3,012	1,044	1,379	2,927	1,014	834	10,210
Remaining assets (where maturities are not applicable) [(4)]						4,008	4,008
Total assets	13,681	3,735	8,832	36,329	99,102	163,980	325,659

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

Notes to the consolidated annual accounts of ING Insurance continued

20 LIABILITIES BY MATURITY

The tables below include all financial liabilities by maturity based on contractual, undiscounted cash flows. Furthermore, the undiscounted future coupon interest on financial liabilities payable will be included in a separate line and in the relevant maturity bucket. Derivative liabilities are included on a net basis if cash flows are settled net. For other derivative liabilities the contractual gross cash flow payable is included.

Non-financial liabilities are included based on a breakdown of the balance sheet amounts by expected maturity. Reference is made to the Liquidity Risk paragraph in the 'Risk management' section for a description on how liquidity risk is managed.

Liabilities by maturity

2011	Less than 1 month [1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjust-ment [2]	Total
Liabilities								
Subordinated loans					1,726	2,617	24	4,367
Debt securities in issue	1		847	2,107	479		2	3,436
Other borrowed funds	5,621	93	24	168	1,401			7,307
Financial liabilities at fair value through profit and loss:								
– non-trading derivatives	123	216	494	1,431	2,146	1,131	–1,137	4,404
Financial liabilities	5,745	309	1,365	3,706	5,752	3,748	–1,111	19,514
Insurance and investment contracts	2,787	1,788	10,346	39,034	105,512	119,366		278,833
Other liabilities	1,906	475	4,093	3,891	2,016	1,122		13,503
Non-financial liabilities	4,693	2,263	14,439	42,925	107,528	120,488	0	292,336
Total liabilities	10,438	2,572	15,804	46,631	113,280	124,236	–1,111	311,850
Coupon interest due on financial liabilities		35	123	286	492			936

[1] Includes assets on demand.
[2] This column reconciles the contractual undiscounted cash flow on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented gross basis (unless the cash flows are actually settled net).

Liabilities by maturity

2010	Less than 1 month [1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjust-ment [2]	Total
Liabilities								
Subordinated loans					2,250	2,098	59	4,407
Debt securities in issue	1		527	2,945	476		18	3,967
Other borrowed funds	5,638	905	645	190	1,205		6	8,589
Financial liabilities at fair value through profit and loss:								
– non-trading derivatives	403	244	678	1,559	2,521	1,047	–2,775	3,677
Financial liabilities	6,042	1,149	1,850	4,694	6,452	3,145	–2,692	20,640
Insurance and investment contracts	1,822	2,109	9,118	37,045	97,918	123,116		271,128
Liabilities held for sale [3]			279					279
Other liabilities	2,691	665	2,758	3,893	1,929	1,406		13,342
Non-financial liabilities	4,513	2,774	12,155	40,938	99,847	124,522	0	284,749
Total liabilities	10,555	3,923	14,005	45,632	106,299	127,667	–2,692	305,389
Coupon interest due on financial liabilities	19	40	345	843	1,208			2,455

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

21 DERIVATIVES AND HEDGE ACCOUNTING

Use of derivatives and hedge accounting

As described in the 'Risk management' section, ING 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 ING Insurance of accessing debt capital markets and to mitigate the market risk which would otherwise arise from structural imbalances in the duration and other profiles of its assets and liabilities. In addition, hedging activities are undertaken to hedge against the interest rate risk in the mortgage offer period in relation to retail mortgages and to lock in the interest margin in relation to interest bearing assets and the related funding.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS-EU hedge accounting rules. Derivatives that qualify for hedge accounting under IFRS-EU are classified and accounted in accordance with 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 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 2011, ING Insurance recognised EUR –72 million (2010: EUR –69 million) of fair value changes on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was offset by EUR 58 million (2010: EUR 66 million) fair value changes recognised on hedged items. This resulted in EUR –14 million (2010: EUR –3 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2011, the fair values of outstanding derivatives designated under fair value hedge accounting was EUR –264 million (2010: EUR –85 million), presented in the balance sheet as nil (2010: EUR 180 million) positive fair values under assets and EUR 264 million (2010: EUR 265 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 result consistent with the manner in which the forecast cash flows affect net result. The gains and losses on ineffective portions of such derivatives are recognised immediately in the profit and loss account.

Notes to the consolidated annual accounts of ING Insurance continued

For the year ended 31 December 2011, ING Insurance recognised EUR 1,316 million (2010: EUR 641 million) in equity as effective fair value changes on derivatives under cash flow hedge accounting. The balance of the cash flow hedge reserve in equity as at 31 December 2011 is EUR 3,835 million (2010: EUR 2,052 million) gross and EUR 2,883 million (2010: EUR 1,567 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 45 years with the largest concentrations in the range of 2 year to 9 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in a loss of EUR 16 million (2010: EUR 9 million loss) which was recognised in the profit and loss account.

As at 31 December 2011, the fair values of outstanding derivatives designated under cash flow hedge accounting was EUR 2,270 million (2010: EUR 1,219 million), presented in the balance sheet as EUR 2,572 million (2010: EUR 1,563 million) positive fair values under assets and EUR 302 million (2010: EUR 344 million) negative fair values under liabilities.

As at 31 December 2011 and 31 December 2010, 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 336 million (2010: EUR 354 million) and EUR 138 million (2010: EUR 115 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 2011, the fair values of outstanding derivatives designated under net investment hedge accounting was EUR –7 million (2010: EUR –51 million), presented in the balance sheet as EUR 5 million (2010: EUR 9 million) positive fair values under assets and EUR 12 million (2010: EUR 60 million) negative fair values under liabilities.

As at 31 December 2011, the fair values of outstanding non-derivatives designated under net investment hedge accounting was EUR –1,515 million (2010: EUR –1,543 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 2011 on derivatives and non-derivatives designated under net investment hedge accounting was nil (2010: nil).

22 DISCONTINUED OPERATIONS
The majority of the Latin American pensions, life insurance and investment management operations were disposed of in December 2011. This transaction qualifies under IFRS as a discontinued operation. The results of the Latin American pensions, life insurance and investment management operations that were divested for the year (and comparative years) and the result recognised on disposal are presented below:

Result from discontinued operations

	2011	2010	2009
Total income	711	779	837
Total expenses	567	512	634
Result before tax from discontinued operations	144	267	203
Tax related to current pre-tax gross result	30	51	103
Post-tax result from discontinued operations	114	216	100
Post-tax result on disposal of discontinued operations [1]	995		
Total net result from discontinued operations	1,109	216	100

[1] The tax effect on the result on disposal of discontinued operations is nil.

Reference is made to Note 27 ‘Companies acquired and companies disposed’ for more details on the disposal of the Latin American pensions, life insurance and investment management operations.

Notes to the consolidated annual accounts of ING Insurance continued

The net cash flow incurred by the Latin American pensions, life insurance and investment management operations are as follows:

Net cash flow from discontinued operations

	2011	2010	2009
Operating cash flow	–13	–25	11
Investing cash flow	–68	56	49
Financing cash flow	–25	–6	–25
Net cash flow	–106	25	35

The sales proceeds in cash of EUR 2,572 million is presented in the consolidated statement of cash flows under ‘Net cash flow from investment activities – Disposal and redemptions: group companies’ and is not included in the table above.

23 ASSETS NOT FREELY DISPOSABLE

The assets not freely disposable relate primarily to the loan to the Dutch State in connection with the Illiquid Assets Back-Up Facility agreement as disclosed in Note 30 ‘Related parties’, which is included in Loans and advances to customers, and to investments of EUR 251 million (2010: EUR 227 million) provided as guarantees for certain contingent liabilities. There are no material terms and conditions relating to the collateral represented by such guarantees.

Assets relating to repurchase and stock lending transactions are disclosed in Note 2 ‘Financial assets at fair value through profit and loss’ and Note 3 ‘Available-for-sale investments’.

24 CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business ING Insurance is party to activities whose risks are not reflected in whole or in 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

2011	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not appli-cable	Total
Commitments	1,148	158	174	227	3	115	1,825
Guarantees	250			9	10	5	274
	1,398	158	174	236	13	120	2,099

Contingent liabilities and commitments

2010	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not appli-cable	Total
Commitments	1,515	117	66	200	13	103	2,014
Guarantees	371			8	10	5	394
	1,886	117	66	208	23	108	2,408

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. 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.

Furthermore, ING Insurance leases assets from third parties under operating leases as lessee. The future rental commitments to be paid under non-cancellable operating leases are as follows:

Future rental commitments for operating lease contracts

	2011
2012	70
2013	54
2014	42
2015	31
2016	37
years after 2016	37

Notes to the consolidated annual accounts of ING Insurance continued

25 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. These funds are included in the consolidated financial statements of the ING Insurance if and when control exists, taking into account both ING Insurance's financial interests for own risk and its role as investment manager.

26 PRINCIPAL SUBSIDIARIES

The principal subsidiaries of ING Verzekeringen N.V. and their place of incorporation are as follows:

Nationale-Nederlanden Levensverzekering Maatschappij N.V.	The Netherlands
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	The Netherlands
ING Insurance Eurasia N.V.	The Netherlands
Parcom Capital B.V.	The Netherlands
Nationale-Nederlanden Services N.V.	The Netherlands
Movir N.V.	The Netherlands
ING Re (Netherlands) N.V.	The Netherlands
ING Fund Management B.V.	The Netherlands
ING Vastgoed Belegging B.V.	The Netherlands
ING Zivotna Poistovna a.s.	Slovakia
ING Nationale-Nederlanden Polska S.A.	Poland
ING Nationale-Nederlanden Polska Powszechne Towarzystwo Emerytaine	Poland
ING Asigurari de Viata S.A.	Romania
ING Greek Life 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 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 Investment Management Co.	United States of America
Security Life of Denver International Limited	Cayman Islands
ING Insurance Berhad	Malaysia
ING Life Insurance Company (Japan) Limited	Japan
ING Life Insurance Company (Korea) Limited	South Korea
ING Life Insurance Company (Bermuda) Limited	Hong Kong

27 COMPANIES ACQUIRED AND COMPANIES DISPOSED

Acquisitions effective in 2011
There were no significant acquisitions in 2011.

Disposals effective in 2011
Pacific Antai Life Insurance Company Ltd.
In June 2011 ING completed the sale of its entire stake in China's Pacific Antai Life Insurance Company Ltd. (PALIC) to China Construction Bank for a consideration of EUR 82 million, and a net profit of EUR 28 million. This is the outcome of a strategic review announced in April 2009 as part of ING's Back to Basics program. The stake in PALIC was previously included in the segment Insurance Asia/Pacific. The deal had been announced in 2009 and was presented as held for sale since 2009 until the sale was completed.

Notes to the consolidated annual accounts of ING Insurance continued

ING Investment Management Australia

In October 2011 ING completed the sale of ING Investment Management (ING IM) Australia to UBS AG. ING IM Australia's business provided a number of investment strategies and products directly to the Australian institutional and wholesale markets. This transaction supports ING's objective to actively manage its capital and portfolio of businesses to ensure an attractive and coherent combination for the announced divestment of its insurance and investment management activities. ING IM Australia was previously included in the segment ING Investment Management.

Latin American pensions, life insurance and investment management operations

In December 2011 ING completed the sale of its Latin American pensions, life insurance and investment management operations for a total consideration of EUR 2,637 million to Grupo de Inversiones Suramericana ('GRUPOSURA'). The sale is the first major step in the divestment of ING's insurance and investment management activities. Under the terms of the agreement, ING received EUR 2,572 million in cash and GRUPOSURA will assume EUR 65 million in debt. The sale resulted in a net profit of EUR 995 million. Included in the transaction are the mandatory pension and voluntary savings businesses in Chile, Colombia, Mexico, Uruguay and ING's 80% stake in AFP Integra S.A. in Peru; the life insurance businesses in Chile and Peru. As part of this transaction ING sold its 33.7% stake in Peruvian InVita Seguros de Vida S.A. to the Wiese Family, ING's joint venture partner in InVita. The transaction also includes the local investment management capabilities in these five countries. Not included in the transaction is ING's 36% stake in the leading Brazilian insurer Sul America SA.

The Latin American pensions, life insurance and investment management operations were previously included in the segments Insurance Latin America and ING Investment Management before they classified as discontinued operations. The segment Insurance Latin America has ceased to exist following this transaction as the majority of the assets and activities in this segment have been sold. The net result from discontinued operations is presented separately in the consolidated profit and loss account. Reference is made to Note 22 'Discontinued operations' for more detailed disclosures.

Acquisitions and disposals expected and occurring or expected to occur in 2012

To date, no announcements have been made of significant acquisitions or disposals in 2012.

Most significant companies disposed in 2011

	Pacific Antai Life Insurance Company Ltd.	Latin American pensions, life insurance and investment management operations	Total
Sales proceeds			
Cash proceeds [1]	82	2,572	2,654
Non-cash proceeds		65	65
Sales proceeds	82	2,637	2,719
Assets			
Cash assets	7	80	87
Investments	146	644	790
Loans and advances to customers	54	6	60
Financial assets at fair value through profit and loss	10	679	689
Miscellaneous other assets	48	1,491	1,539
Liabilities			
Insurance and investment contracts	205	715	920
Other borrowed funds		66	66
Miscellaneous other liabilities	14	563	577
Net assets	46	1,556	1,602
% disposed	80%	Various [2]	
Net assets disposed	37	1,478	1,515
Gain/loss on disposal [3]	28	995	1,023

(1) Cash outflow / inflow on group companies in the cash flow statement includes cash outflows / inflows on individually immaterial disposals in addition to the cash flow presented.
(2) Comprises various entities as explained in the description of the disposal.
(3) The gain/loss on disposal comprises the sales proceeds, the net assets disposed, the expenses directly related to the disposal and the realisation of unrealised reserves.

Notes to the consolidated annual accounts of ING Insurance continued

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

Disposals effective in 2010
There were some disposals that did not have a significant impact on ING's balance sheet and profit and loss account. In November 2009 ING reached an agreement to sell three of its United States independent retail broker-dealer units to Lightyear Capital LLC for a total consideration of EUR 96 million. The transaction concerns Financial Network Investment Corporation, based in El Segundo, California, Multi-Financial Securities Corporation, based in Denver, Colorado, PrimeVest Financial Services, Inc., based in St. Cloud, Minnesota, and ING Brokers Network LLC, the holding company and back-office supporting those broker dealers, which collectively do business as ING Advisors Network. The sale was completed in February 2010. The three United States independent retail broker dealer units were previously included in the segment Insurance US.

In December 2009 ING reached an agreement to sell the non-life insurance operations in Greece for a total consideration of EUR 4 million. The sale was completed in July 2010.

Acquisitions effective in 2009
There were no significant acquisitions in 2009.

Disposals effective in 2009
In October 2008 ING reached agreement to sell its entire Taiwanese life insurance business, ING Life Taiwan, to Fubon Financial Holding Co. Ltd. The sale was completed in February 2009 at a final sales price of EUR 466 million (USD 600 million). This differs from the proceeds reported in 2008 of EUR 447 million due to movements in the dollar/euro exchange rate between date of signing the sales agreement and the date of closing. ING was 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. This transaction resulted in a loss of EUR 292 million. This loss includes EUR 214 million loss on disposal (recognised in 2008 in 'Net result on disposal of group companies' in the profit and loss account) and EUR 78 million operating loss in the period that ING Life Taiwan was held for sale. ING Life Taiwan was previously included in the segment Insurance Asia/Pacific.

In February 2009, ING completed the sale of its 70% stake in ING Canada for net proceeds of EUR 1,316 million. This differs from the proceeds presented in the annual accounts of 2008 of EUR 1,265 million due to movements in the Canadian dollar/euro exchange rate between date of signing the sales agreements and the date of closing. The sale was effected through a private placement and a concurrent 'bought deal' public offering in Canada. This transaction resulted in a loss of EUR 38 million. ING Canada was previously included in the segment Insurance Americas.

In July 2009 ING reached an agreement to sell its non-core Annuity and Mortgage businesses in Chile to Corp Group Vida Chile, S.A. for EUR 217 million. This sale does not impact ING's Pension, Life Insurance, and Investment Management businesses in Chile where ING remains committed to developing leadership positions. This sale was completed in November 2009 and resulted in a loss of EUR 23 million. These non-core Annuity and Mortgages businesses were previously included in the segment Insurance Latin America.

In September 2009 ING reached an agreement to sell its life insurance and wealth management venture in Australia and New Zealand to ANZ, its joint venture partner. Under the terms of the agreement, ING sold its 51% equity stakes in ING Australia and ING New Zealand to ANZ for EUR 1,106 million cash proceeds. The transaction is part of ING's Back to Basics strategy. The sale was completed in November 2009 and resulted in a result for ING of EUR 337 million. The joint venture was previously included in the segment Insurance Asia/Pacific.

Notes to the consolidated annual accounts of ING Insurance continued

Most significant companies disposed in 2009

	ING Life Taiwan [5]	ING Canada	Annuity and Mortgage business of Chile	Australia/ New Zealand	Total
Sales proceeds					
Cash proceeds [1]		1,316	217	1,106	2,639
Non-cash proceeds	466				466
Sales proceeds	466	1,316	217	1,106	3,105
Assets					
Cash assets	80	322	2	233	637
Investments	9,801	2,350	1,803	385	14,339
Loans and advances to customers	1,341	79	413		1,833
Financial assets at fair value through profit and loss	1,552	1,075	52	8,370	11,049
Miscellaneous other assets	2,538	2,092	74	639	5,343
Liabilities					
Insurance and investment contracts	14,294	3,761	2,009	8,524	28,588
Miscellaneous other liabilities	260	223	95	334	912
Net assets	758	1,934	240	769	3,701
% disposed	100%	70% [4]	100%	100%	
Net assets disposed	758	1,354	240	769	3,121
Gain/loss on disposal [2]	–292 [3]	–38	–23	337	–16

[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 proceeds, the net assets disposed, the expenses directly related to the disposal and the realisation of the unrealised reserves.
[3] The loss was recognised in 2008.
[4] After disposal of the 70% stake ING has no remaining stake in ING Canada.
[5] Assets and liabilities included in this column were presented as assets/liabilities held for sale as at 31 December 2008.

28 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, the Company's management is of the opinion that neither it nor any of its subsidiaries is aware of any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have in the recent past had a significant effect on the financial position or profitability of the Company.

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

Proceedings in which ING is involved, include complaints and lawsuits concerning the performance of certain interest sensitive products that were sold by a former subsidiary of ING in Mexico. Proceedings also include lawsuits that have been filed by former employees of an Argentina subsidiary, whose employment was terminated as a result the Republic of Argentina's nationalisation of the pension fund system. Litigation has been filed by the purchaser of certain ING Mexican subsidiaries who claims that the financial condition of the subsidiaries was not accurately depicted. Purported class litigation challenges the operation of the ING Americas Savings Plan and ESOP and the ING 401(k) Plan for ILIAC Agents. The District Court has dismissed the latter case and plaintiffs have appealed. Also an administrator of an ERISA plan has filed a lawsuit seeking to represent a class of ERISA plan administrators claiming that an ING subsidiary has breached certain of its ERISA duties. These matters are being defended vigorously; however, at this time, ING is unable to assess their final outcome. Therefore at this moment it is not practicable to provide an estimate of the (potential) financial effect.

Notes to the consolidated annual accounts of ING Insurance continued

Since the end of 2006, unit-linked products (commonly referred to in Dutch as ‘beleggingsverzekeringen’) have received negative attention in the Dutch media, from Dutch Parliament, the AFM and consumer protection organisations. Costs of unit-linked products sold in the past are perceived as too high and insurers are in general being accused of being less transparent in their offering of unit-linked products. The criticism on unit-linked products led to the introduction of compensation schemes by Dutch insurance companies that have offered unit-linked products. In 2008 ING’s Dutch insurance subsidiaries reached an outline agreement with all consumer protection organisations to offer compensation to their unit-linked policyholders where individual unit-linked policies have a cost charge in excess of an agreed maximum and to offer similar compensation for certain hybrid insurance products. At 31 December 2008 a provision was recognised for the costs of the settlement. The costs were valued at EUR 365 million. A full agreement on implementation was reached in 2010 with one of the two main consumer protection organisations. In addition, ING’s Dutch insurance subsidiaries announced additional (so-called ‘flanking’) measures that comply with the ‘Best in Class’ criteria as formulated on 24 November 2011 by the Dutch Minister of Finance. Implementation has started; our plan is to inform all unit-linked policyholders about compensation by the end of 2012. Neither the implementation of the compensation schemes nor these additional measures prevent individual policyholders from initiating legal proceedings against ING’s Dutch insurance subsidiaries. Policyholders have initiated and may continue to initiate legal proceedings claiming further damages. Because of the continuous public and political attention for the unit-linked issue in general and the uncertain outcome of pending and future legal proceedings, it is not feasible to predict or determine the ultimate financial consequences.

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

In July 2011, the Dutch ING Pensioners’ Collective Action Foundation (Stichting Collectieve Actie Pensioengerechtigden ING Nederland), together with two trade unions (FNV Bondgenoten and CNV Dienstenbond) and a number of individual pensioners, instituted legal proceedings against ING’s decision not to provide funding for indexing pensions insured with Stichting Pensioenfonds ING (the Dutch ING Pension Fund) per 1 January 2011. In July 2011, also the Interest Group ING General Managers’ Pensions (Belangenvereniging ING-Directiepensioenen), together with a number of individual retired Dutch General Managers of ING, instituted legal proceedings against ING’s decision not to provide funding for indexing Dutch General Managers’ pensions per 1 January 2011. It is not feasible to predict the ultimate outcome of these legal proceedings although legal proceedings instituted by Stichting Pensioenfonds ING on the same issue were ruled in ING’s favour. The ultimate outcome of these proceedings may result in liabilities and provisions for such liabilities which are different from the amounts recognised. At this moment it is not practicable to provide an estimate of the (potential) financial effect of such proceedings.

In addition, like many other companies in the insurance industry, several of our U.S. companies have received formal requests for information from various governmental and regulatory agencies regarding whether and to what extent they proactively ascertain whether customers have deceased, pay benefits even where no claim has been made, and comply with state laws pertaining to unclaimed or abandoned property. Companies may have to make additional payments to beneficiaries and escheat additional funds deemed abandoned, and regulators may seek fines, penalties and interest. It is currently not practicable to estimate the (potential) financial effect of such information requests.

29 JOINT VENTURES

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

Most significant joint ventures

2011	Interest held (%)	Assets	Liabilities	Income	Expenses
KB Life Insurance Company Ltd [1]	49	1,524	1,390	449	434
ING-BOB Life Insurance Company Ltd	50	433	379	97	101
ING Vysya Life Insurance Company Ltd [1]	26	430	411	117	121
Total		2,387	2,180	663	656

[1] Accounted for as joint venture because of joint control.

Notes to the consolidated annual accounts of ING Insurance continued

Most significant joint ventures

2010	Interest held (%)	Assets	Liabilities	Income	Expenses
KB Life Insurance Company Ltd [1]	49	1,236	1,118	436	425
ING-BOB Life Insurance Company Ltd	50	333	289	87	85
ING Vysya Life Insurance Company Ltd [1]	26	495	466	127	136
Total		2,064	1,873	650	646

[1] Accounted for as joint venture because of joint control.

30 RELATED PARTIES

In the normal course of business, ING Insurance enters into various transactions with related parties. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Transactions have taken place on an arm's length basis, and include rendering and receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral.

Transactions with associates

	Associates	
	2011	2010
Receivables	**47**	47

In 2011 and 2010 there were no transactions with joint ventures.

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

	ING Groep N.V.		ING Bank N.V.	
	2011	2010	**2011**	2010
Receivables			**13,211**	8,541
Liabilities	**2,617**	2,095	**1,888**	3,141
Guarantees in favour of			**250**	371
Income received			**338**	236
Expenses paid	**60**	184	**542**	343

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

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

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

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

The equity and debt securities which were lent or sold in repurchase transactions as disclosed in Note 3 'Available-for-sale investments', relate for EUR 8.0 billion (2010: EUR 8.7 billion) to positions with ING Bank and the borrowed debt securities not recognised in the balance sheet, also disclosed in the same note, relate only to positions with ING Bank.

Transactions with key management personnel (Executive Board, Management Boards and Supervisory Board) and post-employment benefit plans are transactions with related parties. Transactions with post-employment benefit plans are disclosed in Note 18 'Other liabilities'.

In 2011 ING made a number of changes in the structure and composition of the Management Boards for Insurance. As of November 2011 the members of the Management Board Insurance Eurasia and the Management Board Americas Insurance Holdings are also considered to be key management personnel and their compensation is therefore included, from that date, in the tables below. Before November 2011 the members of the Management Board Insurance Eurasia were members of the Management Board Insurance.

Two of the Management Board members of ING Verzekeringen N.V., Insurance Eurasia and Americas Insurance Holdings are also Executive Board members of ING Groep N.V. The total remuneration of the Executive Board of ING Groep N.V. and Supervisory Board is borne by ING Groep N.V. The remuneration of the members and former members of the Executive Board and Supervisory Board are charged in full by ING Group to its subsidiaries, on the basis of a general allocation formula.

Notes to the consolidated annual accounts of ING Insurance continued

Key management personnel compensation (Executive Board and Management Boards) [1]

2011 amounts in thousands of euros	Executive Board of ING Groep N.V. [2]	Management Boards of ING Verzekeringen N.V., Insurance Eurasia and Americas Insurance Holdings [3]	Total
Base salary and variable compensation in cash	**2,666**	**3,714**	**6,380**
Pension costs	**315**	**481**	**796**
Fair market value of variable compensation in stock		**1,286**	**1,286**
Total compensation	**2,981**	**5,481**	**8,462**

[1] In January 2011, two new Board Members joined the Management Board Insurance. In October 2011, a member of the Management Board Insurance stepped down, and his successor joined that same month. Moreover, during 2011 structural changes were made to the ING Insurance organisation in light of the announced preparation of two separate IPO's for our Insurance US and Eurasia activities. As a result of this change in structure, the governance within ING Insurance was adapted. In November 2011, a new Management Board for Americas Insurance Holdings was created, which included four new members.
[2] Includes the compensation earned in the capacity as Executive Board member. One Executive Board member stepped down from the Executive Board as per 1 October 2011, therefore his compensation is included till October 2011.
[3] Excluding members that are also members of the Executive Board of ING Groep N.V.

Key management personnel compensation (Executive Board and Management Board)

2010 amounts in thousands of euros	Executive Board of ING Groep N.V.	Management Board of ING Verzekeringen N.V. [1]	Total
Base salary	2,853	2,260	5,113
Pension costs	292	721	1,013
Termination benefit		980	980
Fair market value of variable compensation in stock		226	226
Total compensation	3,145	4,187	7,332

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

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

In 2011, the total remuneration costs amounted to EUR 3.0 million (2010: EUR 3.1 million) for members and former members of the Executive Board, of these remuneration costs EUR 1.5 million (2010: EUR 1.6 million) was allocated to ING Insurance. The total remuneration costs amounted EUR 0.9 million (2010: EUR 1.0 million) for members and former members of the Supervisory Board, of these remuneration costs EUR 0.4 million (2010: EUR 0.5 million) was allocated to ING Insurance.

Key management personnel compensation (Supervisory Board)

amounts in thousands of euros	2011	2010
Base salary	**857**	1,010
Total compensation	**857**	1,010

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

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
amounts in thousands of euros	**2011**	2010	**2011**	2010	**2011**	2010
Executive Board members [1]	**1,968**	1,968	**3.6%**	3.6%		
Management Board members of ING Verzekeringen N.V., Insurance Eurasia and Americas Insurance Holdings	**2,314**		**3.4%**		**388**	
Supervisory board members	**282**	282	**8.6%**	8.6%		
Total	**4,564**	2,250			**388**	

[1] Includes the Executive Board member that stepped down from the Executive Board as per 1 October 2011.

Notes to the consolidated annual accounts of ING Insurance continued

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

Transactions with the Dutch State

Illiquid Assets Back-up Facility

ING Group and the Dutch State reached an agreement on an Illiquid Assets Back-Up Facility ('IABF') on 26 January 2009. The transaction closed on 31 March 2009. The IABF covers the Alt-A portfolios of ING Insurance US, with a par value of approximately EUR 4 billion. Under the IABF, ING transferred 80% of the economic ownership of its Alt-A portfolio to the Dutch State. As a result, an undivided 80% interest in the risk and rewards on the portfolio was transferred to the Dutch State. ING retained 100% of the legal ownership of its Alt-A portfolio. The transaction price was 90% of the par value with respect to the 80% proportion of the portfolio of which the Dutch State had become the economic owner. The transaction price remains payable by the Dutch State to ING and will be redeemed over the remaining life. Furthermore, under the IABF ING pays a guarantee fee to the State and receives a funding fee and a management fee. As a result of the transaction ING derecognised 80% of the Alt-A portfolio from its balance sheet and recognised a receivable from the Dutch State. The transferred Alt-A portfolio was previously included in Available-for-sale debt securities. The Dutch State also acquired certain consent rights with respect to the sale or transfer of the 20% proportion of the Alt-A portfolio that is retained by ING.

Under the terms of the transaction as agreed on 26 January 2009, the overall sales proceeds amounted to EUR 2.6 billion at the transaction date. The amortised cost (after prior impairments) at the transaction date was also approximately EUR 2.7 billion. The transaction resulted in a loss in the first quarter of 2009 of EUR 154 million after tax (the difference between the sales proceeds and the amortised cost). The fair value under IFRS-EU at the date of the transaction was EUR 1.7 billion.

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

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

The transaction resulted in a reduction of the negative revaluation -and therefore an increase in equity- of EUR 0.7 billion (after tax).

The valuation method of the 20% Alt-A securities in the IFRS balance sheet is not impacted by the IABF. The methodology used to determine the fair value for these assets in the balance sheet under IFRS-EU is disclosed in Note 31 'Fair value of financial assets and liabilities'.

As at 31 December 2011, the remaining outstanding amount from the transaction price, including the unamortised components, that remained payable by the Dutch State is EUR 1.4 billion for ING Insurance (2010: EUR 1.7 billion).

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

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

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

Notes to the consolidated annual accounts of ING Insurance continued

European Commission Restructuring Plan
In 2009, ING Groep N.V. submitted a Restructuring Plan to the European Commission as part of the process to receive approval for the government support measures. The European Commission has, by decision of 18 November 2009, formally approved the Restructuring Plan. The main elements of the Restructuring Plan as announced on 26 October 2009 are as follows:

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

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

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

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

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

Notes to the consolidated annual accounts of ING Insurance continued

31 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	
	2011	2010	**2011**	2010
Financial assets				
Cash and cash equivalents	**11,577**	8,646	**11,577**	8,646
Financial assets at fair value through profit and loss:				
– trading assets	**534**	622	**534**	622
– investments for risk of policyholders	**116,438**	120,481	**116,438**	120,481
– non-trading derivatives	**7,285**	4,440	**7,285**	4,440
– designated as at fair value through profit and loss	**2,616**	2,960	**2,616**	2,960
Available-for-sale investments	**133,604**	123,347	**133,604**	123,347
Loans and advances to customers	**33,385**	31,597	**32,928**	31,020
Other assets (1)	**7,819**	8,649	**7,819**	8,649
	313,258	300,742	**312,801**	300,165
Financial liabilities				
Subordinated loans	**4,098**	4,357	**4,367**	4,407
Debt securities in issue	**3,480**	3,984	**3,436**	3,967
Other borrowed funds	**7,312**	8,605	**7,307**	8,589
Investment contracts for risk of company	**6,717**	6,066	**6,259**	5,990
Investment contracts for risk of policyholders	**6,939**	5,984	**6,939**	5,984
Financial liabilities at fair value through profit and loss:				
– non-trading derivatives	**4,404**	3,677	**4,404**	3,677
Other liabilities (2)	**10,324**	10,540	**10,324**	10,540
	43,274	43,213	**43,036**	43,154

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

The estimated fair values correspond to the amounts at which the financial instruments at our best estimate could have been traded at the balance sheet date between knowledgeable, willing parties in arm's length transactions. The fair value of financial assets and liabilities is based on quoted market prices, where available. Such quoted market prices are primarily obtained from exchange prices for listed instruments. Where an exchange price is not available market prices are obtained from independent market vendors, brokers or market makers. Because substantial trading markets do not exist for all financial instruments various techniques have been developed to estimate the approximate fair values of financial assets and liabilities that are not actively traded. These techniques are subjective in nature and involve various assumptions about the relevant pricing factors, especially for inputs that are not readily available in the market (such as credit spreads for own-originated loans and advances to customers). Changes in these assumptions could significantly affect the estimated fair values. Consequently, the fair values presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of future fair values.

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.

Notes to the consolidated annual accounts of ING Insurance continued

Financial assets at fair value through profit and loss and Investments

Derivatives

Derivatives contracts can either be exchange traded or over the counter (OTC). The fair value of exchange-traded derivatives is determined using quoted market prices in an active market and those derivatives are classified in Level 1 of the fair value hierarchy. For those instruments not actively traded, fair values are estimated based on valuation techniques. OTC derivatives and derivatives trading in an inactive market are valued using valuation techniques because quoted market prices in an active market are not available for such instruments. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instruments. The principal techniques used to value these instruments are based on discounted cash flows, Black-Scholes option models and Monte Carlo simulation. These valuation models calculate the present value of expected future cash flows, based on 'no-arbitrage' principles. These models are commonly used in the industry. Inputs to valuation models are determined from observable market data where possible. Certain inputs may not be observable in the market directly, but can be determined from observable prices via valuation model calibration procedures. The inputs used include prices available from exchanges, dealers, brokers or providers of consensus pricing, yield curves, credit spreads, default rates, recovery rates, dividend rates, volatility of underlying interest rates, equity prices and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes and consensus data, where available.

Equity securities

The fair values of publicly traded equity securities are based on quoted market prices when available. Where no quoted market prices are available, fair value is determined based on quoted prices for similar securities or other valuation techniques. The fair value of private equity is based on quoted market prices, if available. In the absence of quoted prices in an active market, fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects, price, earnings comparisons and revenue multiples and by reference to market valuations for similar entities quoted in an active market.

Debt securities

Fair values for debt securities are based on quoted market prices, where available. Quoted market prices may be obtained from an exchange, dealer, broker, industry group, pricing service or regulatory service. If quoted prices in an active market are not available, fair value is determined by management based on an analysis of available market inputs, which may include values obtained from one or more pricing services or by a valuation technique that discounts expected future cash flows using a market interest rate curves, referenced credit spreads, maturity of the investment and estimated prepayment rates where applicable.

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

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

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

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

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

Loans and receivables

Reference is made to Loans and advances to customers below.

Loans and advances to customers

For loans and advances that are repriced frequently and have had no significant changes in credit risk, carrying amounts represent a reasonable estimate of 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.

Notes to the consolidated annual accounts of ING Insurance continued

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 book values of variable rate policy loans approximate their fair value.

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

Financial Liabilities
Subordinated loans
The fair value of the subordinated loans is estimated using discounted cash flows based on interest rates and credit spreads that apply to similar instruments.

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 discounted cash flow valuation techniques using interest rates and credit spreads that apply to similar instruments. Reference is made to Financial assets at fair value through profit and loss above.

Debt securities in issue and other borrowed funds
The fair value of debt securities in issue and other borrowed funds is generally based on quoted market prices or, if not available, on estimated prices by discounting expected future cash flows using a current market interest rate and credit spreads applicable to the yield, credit quality and maturity.

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

Fair value hierarchy
ING Insurance has categorised its financial instruments that are measured in the balance sheet at fair value into a three level hierarchy based on the priority of the inputs to the valuation. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques based on unobservable inputs. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide reliable pricing information on an ongoing basis.

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

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

Notes to the consolidated annual accounts of ING Insurance continued

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

Methods applied in determining fair values of financial assets and liabilities

2011	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	47	84	403	534
Investments for risk of policyholders	111,203	5,094	141	116,438
Non-trading derivatives	1,430	5,690	165	7,285
Financial assets designated as at fair value through profit and loss	43	1,150	1,423	2,616
Available-for-sale investments	71,327	58,804	3,473	133,604
	184,050	70,822	5,605	260,477
Liabilities				
Non-trading derivatives	1,017	2,071	1,316	4,404
Investment contracts (for contracts carried at fair value)	3,279	3,648	12	6,939
	4,296	5,719	1,328	11,343

Methods applied in determining fair values of financial assets and liabilities

2010	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	125	33	464	622
Investments for risk of policyholders	115,102	5,243	136	120,481
Non-trading derivatives	19	4,276	145	4,440
Financial assets designated as at fair value through profit and loss	584	1,083	1,293	2,960
Available-for-sale investments	66,684	53,157	3,506	123,347
	182,514	63,792	5,544	251,850
Liabilities				
Non-trading derivatives	61	2,474	1,142	3,677
Investment contracts (for contracts carried at fair value)	2,879	3,088	17	5,984
	2,940	5,562	1,159	9,661

Level 1 – Quoted prices in active markets

This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 – Valuation technique supported by observable inputs

This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable. If certain inputs in the model are unobservable the instrument is still classified in this category, provided that the impact of those unobservable inputs 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 modified based on other market observable external data.

Level 3 – Valuation technique supported by unobservable inputs

This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model) for which more than an insignificant part of the inputs in terms of the overall valuation are not market observable. This category also includes financial assets and liabilities whose fair value is determined by reference to price quotes but for which the market is considered inactive. Level 3 Available-for-sale include mainly asset backed securities in the United States as described above under 'Debt Securities'. Level 3 Trading assets, Non-trading derivatives and Assets designated at fair value through profit and loss and Level 3 Financial liabilities at fair value through profit and loss include financial instruments with different characteristics and nature, which are valued on the basis of valuation techniques that feature one or more significant inputs that are unobservable. An instrument in its entirety is classified as valued using significant unobservable inputs if a significant portion of the instrument's fair value is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which the price at which an arm's length transaction would be likely to occur can be derived. More details on the determination of the fair value of these instruments is included above under 'Derivatives', 'Debt securities' and 'Loans and advances to customers'.

Notes to the consolidated annual accounts of ING Insurance continued

Changes in Level 3 Assets

2011	Trading assets	Investment for risk of policyholder	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	464	136	145	1,293	3,506	5,544
Amounts recognised in the profit and loss account during the year	–20		53	38	–117	–46
Revaluation recognised in equity during the year					48	48
Purchase of assets	35	123	41	208	517	924
Sale of assets	–21	–99	–82	–184	–261	–647
Maturity/settlement					–405	–405
Transfers into Level 3		4			729	733
Transfers out of Level 3	–55	–6			–2,045	–2,106
Changes in the composition of the group and other changes				9	1,537	1,546
Exchange rate differences		–17	8	59	–36	14
Closing balance	403	141	165	1,423	3,473	5,605

Main changes in fair value hierarchy (2011 compared to 2010)
The classification was impacted in 2011 by a transfer of available-for-sale investments of EUR 2.0 billion from Level 3 to Level 2, relating to mortgage backed securities in the United States. Previously these were classified in Level 3 because of the dispersion between prices obtained for the same security from different price sources. In 2011 prices supported by market observable inputs became available and were used in determining the fair value.

Changes in the composition of the group and other changes includes the increase of the Level 3 assets in relation to shares in real estate investment funds; this increase includes mainly the reclassification of associates to available-for sale investments as disclosed in Note 5 'Investments in associates', as well as the reclassification of equity securities in certain real estate companies into Level 3.

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

There were no significant transfers between Level 1 and 2.

Changes in Level 3 Assets

2010	Trading assets	Investment for risk of policyholder	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	396	54	215	1,140	5,494	7,299
Amounts recognised in the profit and loss account during the year	109	–5	–8	45	–357	–216
Revaluation recognised in equity during the year					745	745
Purchase of assets	31	134	50	237	607	1,059
Sale of assets	–48	–143	–126	–211	–138	–666
Maturity/settlement				1	–414	–413
Transfers into Level 3	2	87			508	597
Transfers out of Level 3	–26			–2	–3,198	–3,226
Exchange rate differences		9	14	83	259	365
Closing balance	464	136	145	1,293	3,506	5,544

Notes to the consolidated annual accounts of ING Insurance continued

Main changes in fair value hierarchy (2010 compared to 2009)
Amounts in each of the levels of the fair value hierarchy are impacted by changes in the volume of portfolios and fluctuations in pricing levels and foreign currency rates. The amount in Level 3 is impacted by improved market activity in this area leading to increased trading and increases in portfolio volume in financial instruments that qualify for Level 3. Furthermore, Level 3 is impacted by a different presentation (in 2010 and comparatives for 2009) of certain equity exposures in the private equity business.

Level 3 assets increased because certain bonds were transferred to Level 3 in 2010 as a result of reduced market liquidity and/or pricing sources that could no longer be classified as market observable. On the other hand, Level 3 assets decreased in 2010 because of a transfer of available-for-sale investments of EUR 2.9 billion out of Level 3 to Level 2, relating to mortgage backed securities in the US. Previously these were classified in Level 3 because of the dispersion between prices obtained for the same security from different price sources. In 2010 prices supported by market observable inputs became available and were used in determining fair value.

There were no significant transfers between Level 1 and 2.

Changes in Level 3 Liabilities

2011	Trading liabilities	Non-trading deriva-tives	Financial liabilities design-ated as at fair value through profit and loss	Invest-ment contracts (for contracts carried at fair value)	Total
Opening balance		1,142		17	1,159
Amounts recognised in the profit and loss account during the year		128			128
Issue of liabilities				7	7
Early repayment of liabilities		–2		–3	–5
Transfers out of Level 3				–9	–9
Changes in the composition of the group		–16			–16
Exchange rate differences		64			64
Closing balance	0	1,316	0	12	1,328

Changes in Level 3 Liabilities

2010	Trading liabilities	Non-trading deriva-tives	Financial liabilities design-ated as at fair value through profit and loss	Invest-ment contracts (for contracts carried at fair value)	Total
Opening balance		889		39	928
Amounts recognised in the profit and loss account during the year		325		–5	320
Revaluation recognised in equity during the year				9	9
Issue of liabilities		6		10	16
Early repayment of liabilities		–125		–55	–180
Transfers into Level 3				11	11
Transfers out of Level 3		–9			–9
Exchange rate differences		56		8	64
Closing balance	0	1,142	0	17	1,159

Notes to the consolidated annual accounts of ING Insurance continued

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

2011	Held at balance sheet date	Derecog-nised during the year	Total
Assets			
Trading assets	–21	1	–20
Non-trading derivatives	50	3	53
Financial assets designated as at fair value through profit and loss	38		38
Available-for-sale investments	–35	–82	–117
	32	–78	–46
Liabilities			
Non-trading derivatives	139	–11	128
	139	–11	128

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

2010	Held at balance sheet date	Derecog-nised during the year	Total
Assets			
Trading assets	98	11	109
Investments for risk of policyholders		–5	–5
Non-trading derivatives	21	–29	–8
Financial assets designated as at fair value through profit and loss	44	1	45
Available-for-sale investments	–373	16	–357
	–210	–6	–216
Liabilities			
Non-trading derivatives	323	2	325
Investment contracts (for contracts carried at fair value)		–5	–5
	323	–3	320

Sensitivities of fair values in Level 3

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

Asset backed securities in the United States

Level 3 assets include EUR 281 million at 31 December 2011 and EUR 2,484 million at 31 December 2010 for investments in asset backed securities in the United States. These assets are valued using external price sources that are obtained from third party pricing services and brokers. In 2011, these asset backed securities in the United States decreased as a result of a transfer from Level 3 to Level 2. Previously these were classified in Level 3 because of the dispersion between prices obtained for the same security from different price sources. In 2011 prices supported by market observable inputs became available and were used in determining the fair value.

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

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

Notes to the consolidated annual accounts of ING Insurance continued

Asset backed security portfolio

Fair value hierarchy of pressurised ABS bonds

2011	Level 1	Level 2	Level 3	Total
US Subprime RMBS		752		752
US Alt-A RMBS		293	2	295
CDO/CLOs		30	153	183
CMBS		4,139	5	4,144
Total pressurised ABS	0	5,214	160	5,374

Fair value hierarchy of pressurised ABS bonds

2010	Level 1	Level 2	Level 3	Total
US Subprime RMBS			1,560	1,560
US Alt-A RMBS		359	1	360
CDO/CLOs		64	265	329
CMBS		4,541		4,541
Total pressurised ABS	0	4,964	1,826	6,790

Greece, Italy, Ireland, Portugal and Spain

Of the Government and Unsecured Financial institutions' bonds exposure in Greece, Italy, Ireland, Portugal and Spain as disclosed in Note 3 'Available-for-sale investments', EUR 2.7 billion is classified as available-for-sale and is measured at fair value (with the revaluation recognised in equity, taking into account impairments that are recognised in the profit and loss account). The table below provide the fair value hierarchy per year-end 2011 for the Greek, Italian, Irish, Portuguese and Spanish Government and Unsecured Financial institutions' bond exposure measured at fair value.

Fair value hierarchy of Greek, Italian, Irish, Portuguese and Spanish bonds at fair value

2011	Level 1	Level 2	Level 3	Total
Greece				
Government bonds available-for-sale		104		104
Italy				
Government bonds available-for-sale	1,207			1,207
Financial institutions available-for-sale	112	23		135
Ireland				
Government bonds available-for-sale	43			43
Portugal				
Government bonds available-for-sale	95			95
Financial institutions available-for-sale	30	17		47
Spain				
Government bonds available–for-sale	866			866
Financial institutions available-for-sale	182			182
Total	2,535	144	0	2,679

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

Notes to the consolidated annual accounts of ING Insurance continued

32 GROSS PREMIUM INCOME

Gross premium income	2011	2010	2009
Gross premium income from life insurance policies	**25,474**	26,045	28,476
Gross premium income from non-life insurance policies	**1,725**	1,741	1,772
	27,199	27,786	30,248

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	
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Direct gross premiums written	**1,702**	1,718	1,746	**24,443**	24,881	27,177	**26,145**	26,599	28,923
Reinsurance assumed gross premiums written	**23**	23	26	**1,031**	1,164	1,299	**1,054**	1,187	1,325
Total gross premiums written	**1,725**	1,741	1,772	**25,474**	26,045	28,476	**27,199**	27,786	30,248
Reinsurance ceded	**–43**	–65	–70	**–1,888**	–2,008	–1,842	**–1,931**	–2,073	–1,912
	1,682	1,676	1,702	**23,586**	24,037	26,634	**25,268**	25,713	28,336

Effect of reinsurance on non-life premiums earned	2011	2010	2009
Direct gross premiums earned	**1,728**	1,744	1,746
Reinsurance gross assumed premiums earned	**23**	23	26
Total gross premiums earned	**1,751**	1,767	1,772
Reinsurance ceded	**–43**	–65	–68
	1,708	1,702	1,704

See Note 39 ‘Underwriting expenditure’ for disclosure on reinsurance ceded.

Notes to the consolidated annual accounts of ING Insurance continued

33 INVESTMENT INCOME

Investment income			
	2011	2010	2009
Income from real estate investments	**56**	57	54
Dividend income	**261**	211	172
	317	268	226
Income from investments in debt securities	**5,749**	5,592	5,289
Income from loans:			
– unsecured loans	**313**	284	310
– mortgage loans	**832**	844	866
– policy loans	**187**	189	177
– other	**735**	558	167
Income from investments in debt securities and loans	**7,816**	7,467	6,809
Realised gains/losses on disposal of debt securities	**68**	18	–50
Impairments of available-for-sale debt securities	**–750**	–589	–585
Reversal of impairments of available-for-sale debt securities	**5**	11	
Realised gains/losses and impairments of debt securities	**–677**	–560	–635
Realised gains/losses on disposal of equity securities	**446**	209	381
Impairments of available-for-sale equity securities	**–188**	–43	–360
Realised gains/losses and impairments of equity securities	**258**	166	21
Change in fair value of real estate investments	**2**	–48	–124
Investment income	**7,716**	7,293	6,297

In 2011, an impairment of EUR 390 million was recognised on Greek government bonds and an impairment of EUR 189 million was recognised on subordinated debt from Irish banks both are included in Impairments of available-for-sale debt securities. Reference is made to ‘Securities portfolio’ in the ‘Risk management’ section for further information on these impairments.

Impairments and Reversals of impairments on investments are presented within Investment Income, which is part of Total income. This can be specified for each segment as follows:

Impairments and Reversals of impairments on investments per operating segment						
		Impairments			Reversals of impairments	
	2011	2010	2009	**2011**	2010	2009
Insurance Benelux	**410**	53	360			
Insurance Central & Rest of Europe (CRE)	**338**	18	36			
Insurance United States (US)	**166**	553	527	**–5**		
Insurance Asia/Pacific	**15**	8	15		–3	–2
ING Investment Management (IM)			3		–8	
Corporate Line Insurance	**9**		6			
	938	632	947	**–5**	–11	–2

34 NET RESULT ON DISPOSALS OF GROUP COMPANIES

Net result on disposal of group companies in 2011	
	2011
Pacific Antai Life Insurance Company Ltd	**28**
Other	**22**
	50

The result on disposal of the Latin American pensions, life insurance and investment management operations is not included above but in the result on disposal of discontinued operations. Reference is made to Note 22 'Discontinued operations'.

Notes to the consolidated annual accounts of ING Insurance continued

Net result on disposal of group companies in 2010	
	2010
Other	–3

Net result on disposal of group companies in 2009	
	2009
ING Australia and New Zealand	337
ING Canada	–38
Other	2
	301

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

35 COMMISSION INCOME

Gross fee and commission income			
	2011	2010	2009
Insurance broking	**366**	348	124
Asset management fees	**1,470**	1,490	2,062
Brokerage and advisory fees	**213**	225	497
Other	**526**	289	315
	2,575	2,352	2,998

Asset management fees related to the management of investments held for the risk of policyholders of EUR 495 million (2010: EUR 358 million; 2009: EUR 825 million) are included in Commission Income.

Fee and commission expenses			
	2011	2010	2009
Management fees	**123**	239	378
Brokerage and advisory fees	**284**	313	805
Other	**627**	285	253
	1,034	837	1,436

36 VALUATION RESULTS ON NON-TRADING DERIVATIVES

Valuation results on non-trading derivatives			
	2011	2010	2009
Change in fair value of derivatives relating to:			
– fair value hedges	**–72**	–69	191
– cash flow hedges (ineffective portion)	**–16**	–9	–15
– hedges of net investment in foreign entities (ineffective portion)			1
– other non-trading derivatives	**1,381**	84	–3,708
Net result on non-trading derivatives	**1,293**	6	–3,531
Change in fair value of assets and liabilities (hedged items)	**58**	66	–226
Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading)	**103**	93	–56
Net valuation results	**1,454**	165	–3,813

The positive impact of the Valuation results on non-trading derivatives during 2011 includes the effect of negative developments in the stock markets giving rise to positive valuation results on related derivatives. Furthermore, as a result of decreasing long term interest rates, values of interest related derivatives have increased. Valuation results on non-trading derivatives related to insurance provisions are mainly offset by an opposite amount in Underlying expenditure (reference is made to Note 39 'Underwriting expenditure').

Notes to the consolidated annual accounts of ING Insurance continued

37 NET TRADING INCOME

Net trading income	2011	2010	2009
Securities trading results	**36**	180	155
Foreign exchange transactions results	**–179**	–591	182
Other	**26**	–66	
	–117	–477	337

38 OTHER INCOME

In 2011, Other income includes a gain of EUR 95 million on the repurchase of subordinated loans as disclosed in Note 13 'Subordinated loans'.

39 UNDERWRITING EXPENDITURE

Underwriting expenditure	2011	2010	2009
Gross underwriting expenditure:			
– before effect of investment result for risk of policyholder	**34,962**	34,523	32,393
– effect of investment result for risk of policyholder	**–1,246**	10,492	17,736
	33,716	45,015	50,129
Investment result for risk of policyholders	**1,246**	–10,492	–17,736
Reinsurance recoveries	**–1,875**	–1,721	–1,700
Underwriting expenditure	**33,087**	32,802	30,693

The investment income and valuation results regarding investments for risk of policyholders is EUR –1,246 million (2010: EUR 10,492 million; 2009: EUR 17,736 million). This amount is not recognised in investment income and valuation results on assets and liabilities designated as at fair value through profit and loss but are in Underwriting expenditure. As a result it is shown together with the equal amount of related change in insurance provisions for risk of policyholders.

Notes to the consolidated annual accounts of ING Insurance continued

Underwriting expenditure by class	2011	2010	2009
Expenditure from life underwriting			
Reinsurance and retrocession premiums	**1,888**	2,008	1,842
Gross benefits	**27,277**	25,493	23,672
Reinsurance recoveries	**–1,866**	–1,712	–1,694
Change in life insurance provisions for risk of company	**1,606**	1,875	2,077
Costs of acquiring insurance business	**1,727**	2,557	1,646
Other underwriting expenditure	**576**	560	462
Profit sharing and rebates	**443**	538	438
	31,651	31,319	28,443
Expenditure from non-life underwriting			
Reinsurance and retrocession premiums	**43**	65	70
Gross claims	**1,097**	1,034	1,012
Reinsurance recoveries	**–9**	–9	–6
Changes in the provision for unearned premiums	**–26**	–26	–2
Changes in the claims provision	**5**	44	–23
Costs of acquiring insurance business	**269**	281	290
Other underwriting expenditure	**–3**	–2	–4
	1,376	1,387	1,337
Expenditure from investment contracts			
Costs of acquiring investment contracts	**3**	5	3
Other changes in investment contract liabilities	**57**	91	910
	60	96	913
	33,087	32,802	30,693

Profit sharing and rebates	2011	2010	2009
Distributions on account of interest or underwriting results	**21**	9	91
Bonuses added to policies	**287**	328	289
Deferred profit sharing expense	**135**	201	58
	443	538	438

The total Cost of acquiring insurance business (life and non-life) and investment contracts amounted to EUR 1,999 million (2010: EUR 2,843 million; 2009: EUR 1,939 million). This includes amortisation and unlocking of DAC of EUR 1,702 million (2010: EUR 2,697 million; 2009: EUR 1,811 million) and the net amount of commissions paid of EUR 1,884 million (2010: EUR 1,707 million; 2009: EUR 1,758 million) and commissions capitalised in DAC of EUR 1,587 million (2010: EUR 1,562 million; 2009 EUR 1,630 million).

The total amount of commission paid and commission payable amounted to EUR 2,470 million (2010: EUR 2,424 million; 2009: EUR 2,392 million). This includes the commissions recognised in Costs of acquiring insurance business of EUR 1,884 million (2010: EUR 1,707 million; 2009 EUR 1,758 million) referred to above and commissions recognised in Other underwriting expenditure of EUR 586 million (2010: EUR 717 million; 2009: EUR 634 million). Other underwriting expenditure also includes reinsurance commissions received of EUR 192 million (2010: EUR 192 million; 2009: EUR 255 million).

Notes to the consolidated annual accounts of ING Insurance continued

In 2011, ING has conducted a comprehensive review of it's assumptions for the Insurance US Closed Block Variable Annuity (VA) business. The review showed that current US policyholder behaviour for Closed Block VA policies sold predominantly between 2003 and 2009 diverges from earlier assumptions made by ING, particularly given the ongoing volatility and challenging market circumstances. The assumptions for the US Closed Block VA were updated for lapses, mortality, annuitisation, and utilisation rates, with the most significant revision coming from the adjustments of lapse assumptions. The revisions bring the assumptions more in line with US policyholder experience and reflect to a much greater degree the market volatility of recent years. In conjunction, hedging is adjusted to reflect the revised assumptions. The assumption changes resulted in a charge of EUR 1,099 million, which is reflected in Underwriting expenditure and in the segment Insurance US Closed Block VA. This charge affects the deferred acquisition costs (amortisation and unlocking) for EUR 488 million and the insurance provision (effect of changes in other assumptions for EUR 611 million). Reference is made to Note 9 'Deferred acquisition costs' and Note 16 'Insurance and Investment contracts, reinsurance contracts'. The impact of the assumption adjustments includes a charge to restore the reserve adequacy to the 50% confidence level for the Insurance US Closed Block VA segment. Reference is made to Note 45 'Operating segments'.

ING has completed a separate annual review of the policyholder behaviour assumptions for the VA Japan business, which has not resulted in material adjustments.

In 2010 the Change in life insurance provisions for risk of company includes an amount related to variable annuity assumption changes in the United States and Japan of approximately 2010: EUR 356 million (2009: EUR 343 million). These assumptions were updated to reflect lower-than-expected surrenders on policies where the value of the benefit guarantees is significant.

Other underwriting expenditure from life underwriting in 2010 includes a EUR 975 million DAC write-off as explained in Note 45 'Operating segments'.

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 2011 was EUR 14 million (2010: EUR 17 million; 2009: EUR 13 million). The cumulative amortisation as at 31 December 2011 was EUR 151 million (2010: EUR 132 million; 2009: EUR 107 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.

ING Group transferred its U.S. group reinsurance business to Reinsurance Group of America Inc. in 2010 by means of a reinsurance agreement. The transaction resulted in EUR 70 million ceding commission which is required to be recorded as a deferred gain and amortised over the life of the underlying business, starting in 2010 and gradually decreasing in subsequent years as the business tails off. The amount amortised in 2011 was EUR 16 million. The cumulative amortisation as at 31 December 2011 was EUR 69 million.

40 INTANGIBLE AMORTISATION AND OTHER IMPAIRMENTS

Intangible amortisation, and (reversals of) other impairments

	2011	2010	2009
Property and equipment	1	1	
Goodwill		637	
Software and other intangible assets	34	3	1
(Reversals of) other impairments	35	641	1
Amortisation of other intangible assets	23	24	27
	58	665	28

In 2010 a goodwill impairment of EUR 637 million was recognised. Reference is made to Note 8 'Intangible assets'.

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

Notes to the consolidated annual accounts of ING Insurance continued

41 STAFF EXPENSES

Staff expenses

	2011	2010	2009
Salaries	**1,602**	1,621	1,492
Pension and other staff related benefit costs	**86**	114	140
Social security costs	**152**	169	151
Share-based compensation arrangements [1]	**58**	40	39
External employees	**140**	123	96
Education	**20**	11	7
Other staff costs	**14**	68	145
	2,072	2,146	2,070

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

Number of employees

	Netherlands			International			Total		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Continuing operations - average number of employees at full time equivalent basis	**7,305**	8,335	8,234	**19,563**	19,749	22,895	**26,868**	28,084	31,129
Discontinuing operations - average number of employees at full time equivalent basis				**6,376**	6,769	6,571	**6,376**	6,769	6,571
Total average number of employees at full time equivalent basis	**7,305**	8,335	8,234	**25,939**	26,518	29,466	**33,244**	34,853	37,700

Pension and other staff-related benefit costs

	Pension benefits			Post-employment benefits other than pensions			Other			Total		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
Current service cost	**105**	102	110	**5**		3	**8**	–2	–14	**118**	100	99
Past service cost	**1**		–1							**1**	0	–1
Interest cost	**303**	285	273	**3**	4	5			2	**306**	289	280
Expected return on assets	**–308**	–296	–296							**–308**	–296	–296
Amortisation of unrecognised past service cost	**1**		2	**–1**	–5	–21				**0**	–5	–19
Amortisation of unrecognised actuarial gains/losses	**37**	41	85	**–4**	–9	–5				**33**	32	80
Effect of curtailment or settlement	**–64**	–3	–8							**–64**	–3	–8
Other	**2**	–1	–13				**–2**	–2	–2	**0**	–3	–15
Defined benefit plans	**77**	128	152	**3**	–10	–18	**6**	–4	–14	**86**	114	120
Defined contribution plans												20
										86	114	140

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 Management Board, general managers and other officers nominated by the Management Board) and to a considerable number of employees of ING Insurance. 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.

In 2011, ING granted two types of share awards, deferred shares and performance shares. The entitlement to the share awards is granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. In addition to the employment condition, the performance shares contain a performance condition. The number of ING depositary receipts that would ultimately be granted at the end of a performance period is dependent on ING's performance over that period.

Notes to the consolidated annual accounts of ING Insurance continued

In 2011 no share awards (2010: nil; 2009: nil) were granted to the members of the Executive Board of ING Groep N.V., 25,370 share awards were granted to the Management Boards of ING Verzekeringen N.V., Insurance Eurasia and Americas Insurance Holdings. To senior management and other employees of ING Insurance 8,819,873 share awards (2010: 5,816,613; 2009: 2,998,266) were granted.

Every year, the ING Group Executive Board decides whether the option and share schemes are to be continued and, if so, to what extent. In 2010 the Group Executive Board decided not to continue the option scheme as from 2011. The existing option schemes up and until 2010 will be run off in the coming years.

The option rights are valid for a period of five or ten years. Option rights that are not exercised within this period lapse. Option rights granted will remain valid until the expiry date, even if the option scheme is discontinued. The option rights are subject to certain conditions, including a pre-determined continuous period of service. The exercise prices of the options are the same as the quoted prices of ING Group shares at the date on which the options are granted.

ING Group holds its own shares in order to fulfil its obligations with regard to the existing stock option plan and to hedge the position risk of the options concerned (the so-called delta hedge). As at 31 December 2011, 42,126,329 own shares (2010: 45,213,891; 2009: 35,178,086) were held in connection with the option plan compared to 108,138,551 options outstanding (2010: 124,836,694; 2009: 122,334,486). As a result the granted option rights were (delta) hedged, taking into account the following parameters: strike price, opening price, zero coupon interest rate, dividend yield, expected volatility and employee behaviour. The hedge used to be rebalanced regularly at predetermined points in time. In December 2010 ING Groep N.V. announced that it will no longer rebalance its hedge portfolio. This decision is an effort to simplify the management and administration of ING's various employee share and option programmes. The remaining shares in the hedge portfolio will be used to fund the obligations arising from exercise and vesting. Once all shares in the hedge portfolio are used ING will fund these obligations by issuing new shares.

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

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

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

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

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

Changes in option rights outstanding

	Options outstanding (in number)			Weighted average exercise price (in euros)		
	2011	2010	2009	**2011**	2010	2009
Opening balance	**49,162,987**	48,941,322	34,357,225	**14.97**	16.36	25.26
Granted		8,182,454	7,088,225		7.36	3.88
Exercised or transferred	**2,170,169**	–652,948	306,850	**21.49**	8.35	24.05
Forfeited	**–1,259,217**	–2,068,947	–3,390,502	**12.68**	12.77	24.07
Rights issue			11,360,192			
Expired	**–5,884,075**	–5,238,894	–780,668	**20.06**	19.19	31.36
Closing balance	**44,189,864**	49,162,987	48,941,322	**14.71**	14.97	16.36

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

Notes to the consolidated annual accounts of ING Insurance continued

Changes in option rights non-vested

	Options non-vested (in number)			Weighted average grant date fair value (in euros)		
	2011	2010	2009	2011	2010	2009
Opening balance	**21,552,537**	21,473,193	15,521,324	**3.01**	3.40	6.01
Granted		8,182,454	7,088,225		3.27	2.50
Vested or transferred	**–6,580,861**	–6,549,537	–4,439,746	**3.88**	5.41	6.46
Forfeited	**–807,431**	–1,553,573	–1,680,996	**3.03**	3.18	5.55
Rights issue			4,984,386			
Closing balance	**14,164,245**	21,552,537	21,473,193	**2.61**	3.01	3.40

Summary of stock options outstanding and exercisable

2011 Range of exercise price in euros	**Options outstanding as at 31 December 2011**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options exercisable as at 31 December 2011**	**Weighted average remaining contractual life**	**Weighted average exercise price**
0.00 – 5.00	**6,809,837**	**7.18**	**2.90**			
5.00 – 10.00	**9,591,024**	**6.58**	**7.78**	**2,236,616**	**1.19**	**9.12**
10.00 – 15.00	**3,172,161**	**2.27**	**14.30**	**3,172,161**	**2.27**	**14.30**
15.00 – 20.00	**12,305,273**	**4.24**	**17.08**	**12,305,273**	**4.24**	**17.08**
20.00 – 25.00	**7,104,328**	**3.23**	**23.80**	**7,104,328**	**3.23**	**23.80**
25.00 – 30.00	**5,207,241**	**4.27**	**25.18**	**5,207,241**	**4.27**	**25.18**
	44,189,864			**30,025,619**		

Summary of stock options outstanding and exercisable

2010 Range of exercise price in euros	Options outstanding as at 31 December 2010	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2010	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	7,594,004	8.18	2.90			
5.00 – 10.00	10,170,853	7.65	7.73	2,266,265	2.19	8.95
10.00 – 15.00	4,538,576	2.61	14.44	4,471,704	2.54	14.44
15.00 – 20.00	12,729,690	5.23	17.34	6,742,617	3.51	17.94
20.00 – 25.00	7,425,453	4.37	23.86	7,425,453	4.37	23.86
25.00 – 30.00	6,704,411	4.05	25.61	6,704,411	4.05	25.61
	49,162,987			27,610,450		

Summary of stock options outstanding and exercisable

2009 Range of exercise price in euros	Options outstanding as at 31 December 2009	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2010	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	8,786,032	9.19	2.90			
5.00 – 10.00	2,667,660	3.51	8.64	2,535,133	3.19	8.64
10.00 – 15.00	5,611,119	3.57	14.14	5,465,327	3.43	14.14
15.00 – 20.00	14,982,085	6.20	17.24	7,973,451	4.46	17.74
20.00 – 25.00	9,409,619	4.90	23.69	4,009,411	1.81	22.36
25.00 – 30.00	7,484,807	5.13	25.58	7,484,807	5.13	25.58
	48,941,322			27,468,129		

As at 31 December 2011, the aggregate intrinsic values of options outstanding and exercisable were EUR 18 million and nil, respectively.

As at 31 December 2011, unrecognised compensation costs related to stock options amounted to EUR 10 million (2010: EUR 27 million; 2009: EUR 26 million). These costs are expected to be recognised over a weighted average period of 1.1 years (2010: 1.9 years; 2009: 1.6 years).

Notes to the consolidated annual accounts of ING Insurance continued

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 (2.0% to 4.6%), as well as the expected life of the options granted (from 5 to 9 years), the exercise price, the current share price (EUR 2.90 - EUR 26.05), the expected volatility of the certificates of ING Group shares (25% - 84%) and the expected dividends yield (0.94% - 8.99%).

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

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.

42 INTEREST EXPENSES

Interest expenses mainly consist of interest on the subordinated loans.

In 2011, total interest income and total interest expense for items not valued at fair value through profit and loss were EUR 7,816 million and EUR –905 million respectively (2010: EUR 7,467 million and EUR 1,022 million respectively). Net interest income of EUR 6,911 million is presented in the following lines in the profit and loss account.

Total net interest income

	2011	2010	2009
Investment income	**7,816**	7,467	6,809
Other interest expenses	**–905**	–1,022	–945
	6,911	6,445	5,864

43 OTHER OPERATING EXPENSES

Other operating expenses

	2011	2010	2009
Depreciation of property and equipment	**69**	70	77
Amortisation of software	**60**	45	57
Computer costs	**309**	263	263
Office expenses	**320**	308	450
Travel and accommodation expenses	**61**	64	64
Advertising and public relations	**91**	98	84
External advisory fees	**413**	335	269
Addition/(releases) of provision for reorganisations and relocations	**130**	98	258
Other	**611**	699	612
	2,064	1,980	2,134

Other operating expenses include lease and sublease payments for the amount of EUR 7 million (2010: EUR 8 million; 2009: EUR 8 million) in respect of operating leases in which ING Insurance is the lessee.

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

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

Notes to the consolidated annual accounts of ING Insurance continued

44 TAXATION
Profit and loss account

Taxation on continuing operations by type

	Netherlands			International			Total		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Current tax	**58**	–25	77	**–28**	–120	87	**30**	–145	164
Deferred tax	**45**	–76	–250	**–108**	112	–6	**–63**	36	–256
	103	–101	–173	**–136**	–8	81	**–33**	–109	–92

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

	2011	2010	2009
Result before tax from continuing operations	**78**	–1,865	–776
Weighted average statutory tax rate	**–73.1%**	37.9%	42.3%
Weighted average statutory tax amount	**–57**	–706	–328
Associates exemption	**–121**	–199	–125
Other income not subject to tax	**–66**	–5	15
Expenses not deductible for tax purposes	**46**	58	22
Impact on deferred tax from change in tax rates	**–69**	1	
Deferred tax benefit from previously unrecognised amounts	**3**		
Write down/reversal of deferred tax assets	**221**	756	308
Adjustments to prior periods	**10**	–14	16
Effective tax amount	**–33**	–109	–92
Effective tax rate	**–42.3%**	5.8%	11.9%

The weighted average statutory tax rate in 2011 is reversed compared to 2010 as the profit component in the result slightly exceeds the loss component and is taxed against a moderate rate whereas the latter mentioned is taxed against a much higher rate.

The weighted average statutory tax rate decreased in 2010 compared to 2009 and still remains high. This is caused by the fact that a relatively large part of the losses was incurred in high tax jurisdictions.

The reversed effective tax rate in 2011 was higher than the weighted average statutory tax rate. This is caused by the fact that the non deductible expenses, write down of deferred tax assets and prior year adjustments exceeds the exempt income and tax rate corrections.

The effective tax rate in 2010 was lower than the weighted average statutory tax rate. This is caused by the fact that a reduction of the carrying value of deferred tax assets (mainly in the United States) and non deductible expenses exceeds the exempt income and prior year corrections significantly.

The effective tax rate in 2009 was much lower than the weighted average statutory tax rate because for part of the losses no tax benefit could be recognised. This was only partly offset by an increase of exempt income.

Adjustments to prior periods in 2011 and 2010 relate to final tax assessments and other marginal corrections.

Comprehensive income

Income tax related to components of other comprehensive income

	2011	2010	2009
Unrealised revaluations	**–1,148**	–1,190	–2,395
Realised gains/losses transferred to profit and loss (reclassifications from equity to profit and loss)	**–102**	–9	–14
Changes in cash flow hedge reserve	**–467**	–218	150
Transfer to insurance liabilities/DAC	**847**	719	1,017
Exchange rate differences	**–3**	13	13
Total income tax related to components of other comprehensive income	**–873**	–685	–1,229

Notes to the consolidated annual accounts of ING Insurance continued

45 OPERATING SEGMENTS

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

Operating segments of ING Insurance
Insurance Benelux
Insurance Central & Rest of Europe (CRE)
Insurance United States (US) [1]
Insurance US Closed Block VA
Insurance Asia/Pacific
ING Investment Management (IM)
Corporate Line Insurance

[1] Excluding US Closed block VA.

In 2011 the operating segment Insurance Latin America is not included in the segment reporting anymore as its activities classify mainly as discontinued operations. Reference is made to Note 22 'Discontinued operations'. Activities reported previously in the segment Insurance Latin America and that are not classified as discontinued operations are now reported in the Corporate Line Insurance. Comparative disclosures are adjusted accordingly.

The Management Board Insurance sets the performance targets and approves and monitors the budgets prepared by the business lines. Business lines formulate strategic, commercial and financial policy in conformity with the strategy and performance targets set by the Management Board Insurance.

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

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

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

Specification of the main source of income of each of the segments

Segment	Main source of income
Insurance Benelux	Income from life insurance, non-life insurance and retirement services in the Benelux.
Insurance CRE	Income from life insurance, non-life insurance and retirement services in Central and Rest of Europe.
Insurance United States (US) [1]	Income from life insurance and retirement services in the United States.
Insurance US Closed Block VA	Consists of ING's Closed Block Variable Annuity business in the United States, which has been closed to new business since early 2010 and which is now being managed in run-off.
Insurance Asia/Pacific	Income from life insurance and retirement services in Asia/Pacific.
ING IM	Income from investment management activities.
Corporate Line Insurance	The Corporate Line Insurance includes items related to capital management, run-off portfolios, ING Re and remaining activities in Latin America.

[1] Excluding US Closed block VA.

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

Notes to the consolidated annual accounts of ING Insurance continued

Operating segments	2011	2010	2009
Underlying income:			
– Gross premium income	**27,198**	27,786	30,009
– Commission income	**1,515**	1,472	1,378
– Total investment and other income	**9,380**	7,431	3,061
Total underlying income	**38,093**	36,689	34,448
Underlying expenditure:			
– Underwriting expenditure	**33,087**	32,801	30,275
– Operating expenses	**3,735**	3,772	3,613
– Other interest expenses	**908**	1,022	944
– Other impairments	**24**	29	25
Total underlying expenses	**37,754**	37,624	34,857
Underlying result before taxation	**339**	–935	–409
Taxation	**25**	–10	4
Minority interest	**14**	27	30
Underlying net result	**300**	–952	–443

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

2011	**Income**	**Expenses**	**Net result**
Underlying	**38,093**	**37,754**	**300**
Divestments	**79**	**32**	**46**
Special items	**92**	**400**	**–249**
IFRS-EU (continuing operations)	**38,264**	**38,186**	**97**
Discontinued operations	**1,706**	**567**	**1,103**
IFRS-EU (continuing and discontinued operations)	**39,970**	**38,753**	**1,200**

Divestments in 2011 reflects the results on the sale of IIM Australia and Pacific Antai Life Insurance Company Ltd as well as the operating result of divested units.

Special items in 2011 include mainly, an adjustment of the Illiquid Assets Back-up Facility based on higher prepayment behaviour in the underlying Alt-A securities, the result on the repurchase of subordinated loans executed in December 2011 as disclosed in Note 38 'Other income' and Note 13 'Subordinated loans', and restructuring expenses.

Reference is made to Note 22 'Discontinued operations' for information on discontinued operations.

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

2010	Income	Expenses	Net result
Underlying	36,689	37,624	–952
Divestments	62	68	–7
Special items	–1	923	–824
IFRS-EU (continuing operations)	36,750	38,615	1,783
Discontinued operations	781	513	209
IFRS-EU (continuing and discontinued operations)	37,531	39,128	–1,574

Divestments in 2010 mainly include the sale of three U.S. independent retail broker-dealer units, as well as the operating result of the in 2010 and 2011 divested units.

Special items in 2010 include mainly restructuring costs and the expenses related to the goodwill impairment in the United States of EUR 610 million (after tax) in 2010. Reference is made to Note 8 'Intangible assets'.

Reference is made to Note 22 'Discontinued operations' for information on discontinued operations.

Notes to the consolidated annual accounts of ING Insurance continued

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

2009	Income	Expenses	Net result
Underlying	34,448	34,850	–436
Divestments	785	695	111
Special items	–121	325	–389
IFRS-EU (continuing operations)	35,112	35,870	–714
Discontinued operations	837	634	93
IFRS-EU (continuing and discontinued operations)	35,949	36,504	–621

Divestments in 2009 mainly includes the net impact of the sale of ING's 70% stake in ING Canada, the Nationale Nederlanden Industry Pension fund portfolio, the annuity and mortgage businesses in Chile, three U.S. independent retail broker-dealer units (three quarters of ING Advisors Network) and ING Australia PTY Limited as well as the operating result of the in 2009, 2010 and 2011 divested units.

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

Reference is made to Note 22 'Discontinued operations' for information on discontinued operations.

ING Insurance analyses, as of 2011, the underlying result through a margin analysis, which includes the following components:
- Operating result;
- Non-operating items.

Both comprised various sub-components. The total of operating result and non-operating items (gains/losses and impairments, revaluations and market & other impacts) equals underlying result before tax.

To determine the operating result the following non-operating items are adjusted in the reported underlying result before tax:
- Realised capital gains/losses and impairments on debt and equity securities;
- Revaluations on assets marked to market through the P&L; and
- Other non-operating impacts, e.g. provision for guarantees on separate account pension contracts, equity related and other DAC unlocking, VA/FIA Guaranteed benefit Reserve Unlocking and DAC offset on gains/losses on debt securities.

The Operating result for the life insurance business is also broken down into expenses and the following sources of income:
- Investment margin which includes the spread between investment income earned and interest credited to insurance liabilities (excluding market impacts, but including dividends and coupons);
- Fees and premium-based revenues which includes the portion of life insurance premiums available to cover expenses and profit, fees on deposits and fee income on assets under management (net of guaranteed benefit costs in the United States);
- Technical margin which includes the margin between costs charged for benefits and incurred benefit costs and it includes mortality, morbidity and surrender results; and
- Non-modelled which is not significant and includes parts of the business for which no margins are provided.

As of the fourth quarter of 2010, the Closed Block Variable Annuity (VA) segment in the US is reported and analysed separately from the other US business in the internal management reporting. Therefore as of 1 October 2010 ING reports the Insurance US Closed Block VA segment as a separate segment to improve transparency and ongoing business. ING Group's accounting policy for reserve adequacy as set out in the Accounting policies for the consolidated annual accounts of ING Group requires each segment to be adequate at the 50% confidence level. The separation of the Legacy VA business into a separate segment triggered a charge in the fourth quarter of 2010 to bring reserve adequacy on the new Insurance US Closed Block VA segment to the 50% level. This charge is reflected as a DAC write-down of EUR 975 million before tax. For 2011 the impact of the assumption adjustments includes a charge of EUR 177 million to restore the reserve adequacy of the Insurance US Closed Block VA segment line to the 50% level at 31 December 2011. Reference is made to Note 39 'Underwriting expenditure'.

The adequacy of the reserves held for the Insurance US Closed Block VA segment is evaluated on a quarterly basis. The test considers current estimates of all contractual and related cash flows (including projected performance of the hedge program). The test is conducted by comparing the present value of the cash flows to the reserves for the business line. If it is determined, using a best estimate (50%) confidence level, that reserves are insufficient to support the projected cash outflows, the shortfall is established as an additional reserve, which is in turn recognised immediately in the profit and loss account. There are no offsets considered by any other business line.

Notes to the consolidated annual accounts of ING Insurance continued

There are several key inputs to the reserve adequacy testing. The liability assumptions are based on management's best estimate of policyholder behaviour, which is reviewed periodically, but at least annually. Stochastic scenario simulations are incorporated based on management's long term view of equity markets and interest rates. The hedging program is based on our current approach to managing the risk of the business. Finally, current market conditions impact the results of the test as both reserves and the present value of cash flows are sensitive to market interest rates. Any changes in the items above may have a potentially material impact to the results of the reserve adequacy test.

A net reserve inadequacy exists using a prudent (90%) confidence level for the segment Insurance US Closed Block VA. This inadequacy existed in 2011, 2010 and 2009. This inadequacy was offset by reserve adequacies in other segments, such that at the Group level there is a net adequacy at the prudent (90%) confidence level.

Effective as of 2011, the estimate for the short-term equity growth assumption used to calculate the amortisation of DAC in the United States (Insurance US) was changed to a mean reversion assumption. The impact of this change in estimate in 2011 was approximately EUR 14 million lower result before tax.

Operating segments

2011	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	Insurance Asia/Pacific	ING IM	Corporate Line Insurance	Total
Investment margin	683	76	892	28	73	4		1,756
Fees and premium based revenues	584	458	1,064	169	1,442	868		4,585
Technical margin	315	169	72	28	178			762
Income non-modelled life business	36	9			44			89
Life & ING IM operating income	1,618	712	2,028	225	1,737	872	0	7,192
Administrative expenses	593	309	742	81	456	676		2,857
DAC amortisation and trail commissions	213	202	625	124	731	3		1,898
Life & ING IM expenses	806	511	1,367	205	1,187	679	0	4,755
Life & ING IM operating result	812	201	661	20	550	193	0	2,437
Non-life operating result	179	5			4			188
Corporate Line operating result							–394	–394
Operating result	991	206	661	20	554	193	–394	2,231
Gains/losses and impairments	–47	–404	–166	2	61	5	–1	–550
Revaluations	62	–1	159		–8	6	–13	205
Market & other impacts	–250		–36	–1,295	–18		52	–1,547
Underlying result before tax	756	–199	618	–1,273	589	204	–356	339
Taxation	74	20	–22	–222	121	73	–19	25
Minority interests	4	10						14
Underlying net result	678	–229	640	–1,051	468	131	–337	300

Notes to the consolidated annual accounts of ING Insurance continued

Operating segments

2010	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	Insurance Asia/ Pacific	ING IM	Corporate Line Insurance	Total
Investment margin	425	77	827	–11	53	2		1,373
Fees and premium based revenues	578	502	1,060	121	1,328	826		4,415
Technical margin	243	149	196	9	157			754
Income non-modelled life business	86	16			80			182
Life & ING IM operating income	1,332	744	2,083	119	1,618	828	0	6,724
Administrative expenses	567	262	904	77	441	682		2,933
DAC amortisation and trail commissions	230	197	620	–7	710	3		1,753
Life & ING IM expenses	797	459	1,524	70	1,151	685	0	4,686
Life & ING IM operating result	535	285	559	49	467	143	0	2,038
Non-life operating result	156	7			5			168
Corporate Line operating result							–527	–527
Operating result	691	292	559	49	472	143	–527	1,679
Gains/losses and impairments	14	–29	–564	22	50	10	1	–496
Revaluations	60		490	3	–14	–3	–87	449
Market & other impacts	24	–9	–177	–2,149	8		–264	–2,567
Underlying result before tax	789	254	308	–2,075	516	150	–877	–935
Taxation	134	64	–155	–56	135	56	–188	–10
Minority interests	15	10			1	1		27
Underlying net result	640	180	463	–2,019	380	93	–689	–952

Notes to the consolidated annual accounts of ING Insurance continued

Operating segments

2009	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	Insurance Asia/ Pacific	ING IM	Corporate Line Insurance	Total
Investment margin	367	78	685	21	9	19		1,179
Fees and premium based	569	521	967	168	1,084	722		4,031
Technical margin	286	175	238	25	163			887
Income non-modelled life business	39	14	–42		86			97
Life & ING IM operating income	1,261	788	1,848	214	1,342	741	0	6,194
Administrative expenses	634	261	791	87	410	546		2,729
DAC amortisation and trail commissions	235	197	489	104	571	2		1,598
Life & ING IM expenses	869	458	1,280	191	981	548	0	4,327
Life & ING IM operating result	392	330	568	23	361	193	0	1,867
Non-life operating result	247	6			4			257
Corporate Line operating result							–684	–684
Operating result	639	336	568	23	365	193	–684	1,440
Gains/losses and impairments	–43	–45	–557	38	26		–8	–589
Revaluations	–356		272	–4	–9	–33	–213	–343
Market & other impacts	67		31	–821	1		–195	–917
Underlying result before tax	307	291	314	–764	383	160	–1,100	–409
Taxation	62	57	138	–118	112	59	–306	4
Minority interests	16	12			1	1		30
Underlying net result	229	222	176	–646	270	100	–794	–443

Interest income and interest expenses breakdown by operating segments

2011	**Insurance Benelux**	**Insurance CRE**	**Insurance US**	**Insurance US Closed Block VA**	**Insurance Asia/ Pacific**	**ING IM**	**Corporate Line Insurance**	**Total external**
Interest income	**2,655**	**359**	**3,263**	**205**	**897**	**12**	**425**	**7,816**
Interest expense	**228**	**1**	**45**		**3**	**7**	**624**	**908**
	2,427	**358**	**3,218**	**205**	**894**	**5**	**–199**	**6,908**

Interest income and interest expenses breakdown by operating segments

2010	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	Insurance Asia/ Pacific	ING IM	Corporate Line Insurance	Total external
Interest income	2,610	363	3,433	28	808	13	212	7,467
Interest expense	151		76	5	3	5	782	1,022
	2,459	363	3,357	23	805	8	–570	6,445

Interest income and interest expenses breakdown by operating segments

2009	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	Insurance Asia/ Pacific	ING IM	Corporate Line Insurance	Total external
Interest income	2,604	419	3,327	2	643	8	–238	6,765
Interest expense	295	37	113	5	10	9	476	945
	2,309	382	3,214	–3	633	–1	–714	5,820

IFRS-EU balance sheets by segment are not reported internally to, and not managed by, the chief operating decision maker. IFRS-EU balance sheet information is prepared, and disclosed below for the Insurance operations as a whole and by segment.

Notes to the consolidated annual accounts of ING Insurance continued

Total assets and Total liabilities by segment

	2011		2010		2009	
	Total assets	**Total liabilities**	Total assets	Total liabilities	Total assets	Total liabilities
Insurance Benelux	**95,928**	**83,790**	92,476	83,518	85,037	78,497
Insurance Central and Rest of Europe	**11,729**	**10,724**	12,671	11,288	12,212	10,789
Insurance US	**118,329**	**106,696**	114,217	102,780	101,104	97,213
Insurance US Closed Block VA	**41,362**	**38,771**	42,477	40,254	39,636	36,561
Insurance Latin America			3,162	1,557	2,759	1,321
Insurance Asia/Pacific	**62,281**	**56,712**	57,029	52,332	44,267	41,381
ING IM	**1,385**	**605**	2,033	1,184	926	434
Corporate Line Insurance	**55,722**	**29,674**	46,635	24,960	37,970	21,116
Total Insurance segments	**386,736**	**326,972**	370,700	317,873	323,911	287,312
Eliminations	**–51,349**	**–15,122**	–45,041	–12,484	–33,692	–12,840
Total	**335,387**	**311,850**	325,659	305,389	290,219	274,472

46 INFORMATION ON GEOGRAPHICAL AREAS

ING Insurance's business lines operate in seven main geographical areas: Netherlands, Belgium, Rest of Europe, North America, Latin America, Asia and Australia. The Netherlands is ING Insurance's country of domicile. Geographical distribution of income is based on the origin of revenue. A geographical area is a distinguishable component of ING Insurance engaged in providing products and services within a particular economic environment that is subject to risks and returns that are different from those of segment operating in other economic environments. The geographical analyses are based on the location of the office from which the transaction is originated.

Geographical areas

2011	**Nether-lands**	**Belgium**	**Rest of Europe**	**North America**	**Latin America**	**Asia**	**Australia**	**Elimi-nations**	**Total**
Total income	**12,219**	**1,297**	**2,477**	**15,793**		**9,455**		**–2,977**	**38,264**
Total assets	**146,826**	**10,892**	**12,938**	**172,542**		**68,336**	**1,713**	**–77,860**	**335,387**

Geographical areas

2010	Nether-lands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Elimi-nations	Total
Total income	10,843	1,686	2,707	15,153		8,946		–2,585	36,750
Total assets	147,147	11,253	13,600	169,584	3,162	64,764	2,009	–85,860	325,659

Geographical areas

2009	Nether-lands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Elimi-nations	Total
Total income	10,286	1,679	2,603	15,309		9,356	777	–4,916	35,094
Total assets	129,530	10,203	12,958	141,403	2,759	49,656	1,678	–57,968	290,219

47 NET CASH FLOW FROM INVESTING ACTIVITIES

Information on the impact of companies acquired or disposed is presented in Note 27 'Companies acquired and companies disposed'.

48 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

Interest and dividend received and paid

	2011	2010	2009
Interest received	**8,038**	7,441	6,827
Interest paid	**–988**	–1,072	–982
	7,050	6,369	5,845
Dividend received	**388**	313	262
Dividend paid			–363

Notes to the consolidated annual accounts of ING Insurance continued

49 IMPACT OF CHANGE IN ACCOUNTING POLICY

This note provides more information on the impact of the change in accounting policy for insurance provisions for Guaranteed Minimum Benefits for Life and how this change affects the financial information of the comparative years as included in previously published annual accounts. Reference is made to 'Changes in Accounting Policies' for more details on the impact of the change in accounting policy.

The restated consolidated balance sheets as per 31 December 2009 and 1 January 2009 are as follows:

Restated consolidated balance sheet	31 December 2009 (Restated)	1 January 2009 (Restated)
Assets		
Cash and cash equivalents	9,425	14,440
Financial assets at fair value through profit and loss:		
– trading assets	474	537
– investments for risk of policyholders	104,597	95,366
– non-trading derivatives	3,668	6,344
– designated as at fair value through profit and loss	2,378	3,789
Available-for-sale investments	105,521	109,487
Loans and advances to customers	29,014	25,635
Reinsurance contracts	5,480	5,797
Investments in associates	2,486	2,723
Real estate investments	1,069	1,118
Property and equipment	552	710
Intangible assets	3,875	4,731
Deferred acquisition costs	11,208	12,989
Assets held for sale	441	15,312
Other assets	10,031	14,388
Total assets	290,219	313,366
Equity		
Shareholders' equity (parent)	15,667	11,748
Minority interests	80	520
Total equity	15,747	12,268
Liabilities		
Subordinated loans	5,743	6,928
Debt securities in issue	4,079	4,728
Other borrowed funds	7,036	13,153
Insurance and investment contracts	241,006	242,159
Financial liabilities at fair value through profit and loss:		
– trading liabilities		4
– non-trading derivatives	3,921	5,213
Liabilities held for sale	258	15,020
Other liabilities	12,429	13,893
Total liabilities	274,472	301,098
Total equity and liabilities	290,219	313,366

The change in accounting policy for insurance provisions for Guaranteed Minimum Benefits for Life affects the following balance sheet line items: Deferred acquisition costs, Other liabilities, Insurance and investment contracts and Shareholders' equity (reference is made to Note 12 'Shareholders' equity (parent)'). In addition to the comparative information on 2010 as disclosed in the relevant notes the following tables also disclose on the balance sheet items as per 31 December 2009 and 1 January 2009.

Notes to the consolidated annual accounts of ING Insurance continued

Deferred acquisition costs (Restated)

Changes in deferred acquisition costs

	Investment contracts	Life insurance	Non-life insurance	Total
Opening balance 1 January 2009	89	12,635	265	12,989
Capitalised	9	1,609	12	1,630
Amortisation and unlocking	–11	–1,789	–12	–1,812
Effect of unrealised revaluations in equity		–1,140		–1,140
Changes in the composition of the group	–104	58	–231	–277
Exchange rate differences	17	–209	9	–183
Disposal of portfolios		1		1
Closing balance 31 December 2009	0	11,165	43	11,208

Insurance and investment contracts, Reinsurance contracts (Restated)

Insurance and investment contracts, reinsurance contracts

	Provision net of reinsurance		Reinsurance contracts		Insurance and investment contracts	
	31 December 2009	1 January 2009	31 December 2009	1 January 2009	31 December 2009	1 January 2009
Provision for non-participating life policy liabilities	69,789	68,489	4,798	4,822	74,587	73,311
Provision for participating life policy liabilities	50,102	55,266	200	217	50,302	55,483
Provision for (deferred) profit sharing and rebates	1,600	147	3	2	1,603	149
Life insurance provisions excluding provisions for risk of policyholders	121,491	123,902	5,001	5,041	126,492	128,943
Provision for life insurance for risk of policyholders	99,299	84,279	374	541	99,673	84,820
Life insurance provisions	220,790	208,181	5,375	5,582	226,165	213,763
Provision for unearned premiums and unexpired risks	361	1,756	4	13	365	1,769
Reported claims provision	2,580	3,995	96	202	2,676	4,197
Claims incurred but not reported (IBNR)	493	1,345	5		498	1,345
Claims provisions	3,073	5,340	101	202	3,174	5,542
Other insurance provisions						
Total provisions for insurance contracts	224,224	215,277	5,480	5,797	229,704	221,074
Investment contracts for risk of company	5,896	9,804			5,896	9,804
Investment contracts for risk of policyholders	5,406	11,281			5,406	11,281
Total provisions for investment contracts	11,302	21,085	0	0	11,302	21,085
Total	235,526	236,362	5,480	5,797	241,006	242,159

Notes to the consolidated annual accounts of ING Insurance continued

Other liabilities (Restated)

Other liabilities by type

	31 December 2009 (Restated)	1 January 2009 (Restated)
Deferred tax liabilities	741	1,197
Income tax payable	463	482
Pension benefits	348	236
Post-employment benefits	86	120
Other staff-related liabilities	350	128
Other taxation and social security contributions	152	112
Deposits from reinsurers	871	909
Accrued interest	1,626	1,664
Costs payable	828	1,223
Amounts payable to brokers	200	89
Amounts payable to policyholders	2,182	2,231
Reorganisation provision	154	31
Other provisions	167	409
Other	4,261	5,062
	12,429	13,893

Changes in deferred tax

	Net liability 1 January 2009	Change through equity	Change through net result	Changes in the composition of the group	Exchange rate differences	Other	Net liability 31 December 2009
Investments	–2,151	2,474	267	13	–2	78	679
Financial assets and liabilities at fair value through profit and loss	45		1	–21	3	–7	21
Deferred acquisition costs and VOBA	3,402	–567	136	–12	–180	71	2,850
Fiscal equalisation reserve			–48			48	0
Depreciation	–1		–4		–1		–6
Insurance provisions	–494	–483	–468	55	–1	–55	–1,446
Cash flow hedges	419	–143			6	–15	267
Pension and post-employment benefits	161		113				274
Other provisions	–1,436	3	447	3	112	–72	–943
Receivables	42		–1		–2		39
Loans and advances to customers			–3				–3
Unused tax losses carried forward	–722		–677		51	–18	–1,366
Other	–32	–55	–6	–18	29	–5	–87
	–767	1,229	–243	20	15	25	279
Comprising:							
– deferred tax liabilities	1,197						741
– deferred tax assets	1,964						462
	–767						279

Risk management

amounts in millions of euros, unless stated otherwise

ING Insurance

ING INSURANCE RISK MANAGEMENT

ING 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, earnings and capital position, as well as uncertainty as to the future returns on investments of the insurance premiums. Financial risks include Investment Risk, Asset and Liability Management and surplus and capital issues. Insurance product risks include Insurance risks (actuarial and underwriting) and interest rate sensitivity. Compliance risk, legal risk, reputation risk and operational risk are classified as Non-Financial Risks.

The Management Board Insurance Eurasia consists of 6 members, including the members of the ING Group Executive Board, and is responsible for managing risks associated with the insurance activities in Europe and Asia. The Board ING America Holdings consists of 7 members, including the members of the ING Group Executive Board, and is responsible for managing risks associated with the insurance activities in the United States (ING Insurance US). Risks associated with certain ING Insurance activities that will not be disposed of through the divestments of the Latin American, Asian, European and US business ('Insurance Investments') are directly managed by the Executive Board.

In anticipation of the intended divestment of the insurance activities, to a large extent risk management has been delegated to ING Insurance Eurasia and ING Insurance US with an oversight role at Group level.

ING has completed the divestment of its Latin American pensions, life insurance and investment management operations. This transaction is the first major step in the divestment of ING's insurance and investment management activities.

Governance

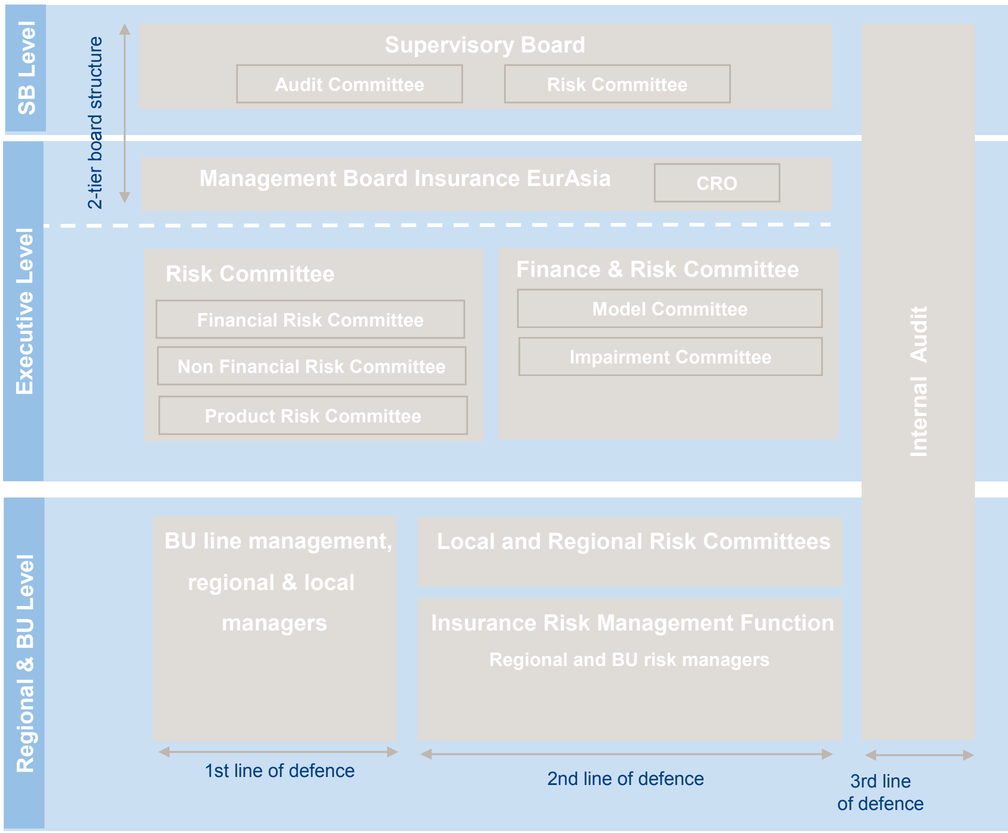
Risk management within ING is the primary responsibility of the ING Group Chief Risk Officer. The ING Group Chief Risk Officer has a direct functional line with the Deputy Chief Risk Officer of ING Insurance Eurasia and with the Chief Risk officer of ING Insurance US via the ING Insurance US Chief Financial Officer. The General Manager of Insurance Investments is responsible for winding down the activities within Insurance Investments. The ING Group CRO is supported by the Risk functions of ING Group and by the Group functions Corporate Legal and the Functional Controller Insurance.

Risk management continued
ING Insurance Eurasia

MISSION AND OBJECTIVES
ING Insurance Eurasia is naturally exposed to a variety of risks, being a financial services company that provides wealth management and protection products. The mission of risk management in ING Insurance Eurasia is to ensure that all risks run by the entity are well understood, accurately measured and pro-actively managed, in order to support efficient capital allocation, profitable growth, required returns on capital and predictability in earnings.

The following principles support this objective:
- Transparent communication to internal and external stakeholders on risk management and value creation
- Compliance with internal and external rules and guidelines
- Products and portfolios are structured, underwritten, priced, approved and managed according to the guidelines
- The risk profile of ING Insurance Eurasia is transparent, and is consistent with delegated authorities and the overall Insurance Eurasia strategy and risk appetite.

ING INSURANCE EURASIA RISK GOVERNANCE
ING Insurance Eurasia's risk framework is based on the 'three lines of defence' concept which ensures that risk is managed in line with the risk appetite as defined by the Management Board Insurance Eurasia (MBI Eurasia) and ratified by the Supervisory Board and is cascaded throughout ING Insurance Eurasia.



BOARD LEVEL RISK OVERSIGHT
ING Insurance Eurasia has a two-tier board structure consisting of the Management Board Insurance Eurasia (MBI Eurasia) and the Supervisory Board Insurance Eurasia.

The Supervisory Board is responsible for supervising the policy of the MBI Eurasia and the general course of affairs of the company and its businesses. For Risk Management purposes the Supervisory Board is assisted by two sub-committees:
- The Audit Committee assists the Supervisory Board in supervising and advising the MBI Eurasia with respect to the structure and operation of internal risk management and control systems, as well as compliance with legislation and regulations applicable to ING Insurance Eurasia and its subsidiaries;
- The Risk Committee assists the Supervisory Board in supervising and advising the MBI Eurasia with respect to ING Eurasia's strategy and its risk policies, including the risks inherent in its business activities.

To the extent that the committees do not determine otherwise, the Chief Risk Officer (CRO) attends the meetings of both committees.

Risk management continued

ING Insurance Eurasia

The MBI Eurasia is responsible for managing the risks associated with the activities of ING Insurance Eurasia. The MBI Eurasia's responsibilities include ensuring the risk management and control systems are effective and ING Insurance Eurasia complies with legislation and regulations. The MBI Eurasia reports and discusses these topics on a regular basis with the Supervisory Board, and reports to the Risk Committee on a quarterly basis on ING Insurance Eurasia's risk profile versus its risk appetite.

As part of the integration of risk management into the strategic planning process, the MBI Eurasia annually issues a Planning Letter which provides the organisation with the corporate strategic planning, and addresses key risk issues. Based on this letter the business lines develop their own business plans, including qualitative and quantitative assessment of the risks involved. Risk appetite, risk tolerance levels and risk limits are explicitly discussed as part of the process. Based on the business plans the MBI Eurasia formulates the Strategic plan which is submitted to the Supervisory Board for approval.

EXECUTIVE LEVEL

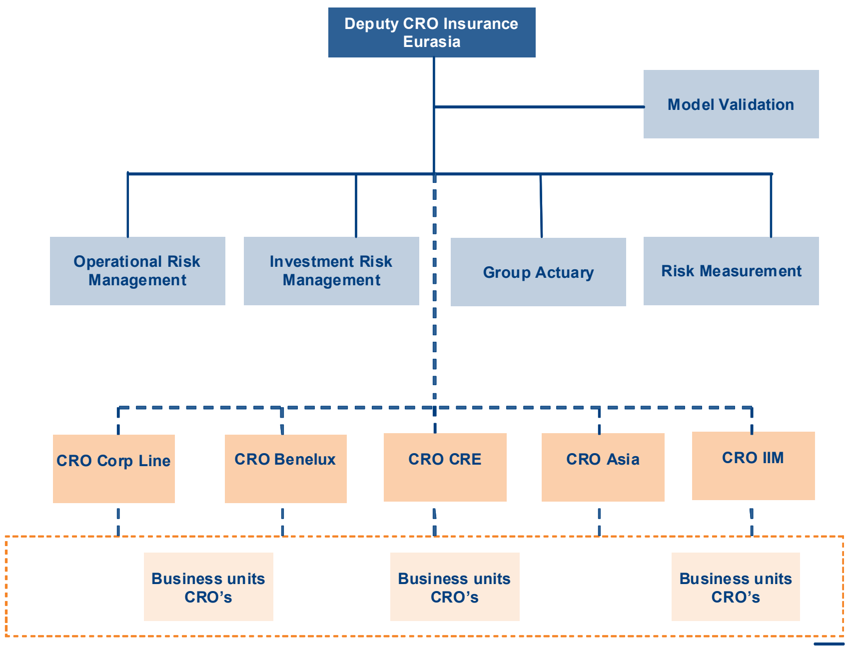
The MBI Eurasia has delegated tasks to two committees with regards to risk:

- Finance and Risk Committee
  The primary responsibility of the committee is to align finance and risk decisions that have an impact on internal and/or external reporting of ING Insurance Eurasia. This includes advising on, (pre-) approving, reviewing and taking actions on issues that impact the financial condition of ING Insurance Eurasia. The Finance and Risk committee has two sub-committees dealing with different risk areas:
  - *Eurasia Model Committee* – The authority that approves methodologies, models and parameters used for measuring Risk, Economic Capital and Market-Consistent Valuations which are applied within ING Insurance Eurasia.
  - *Impairment Committee* – The authority where impairments for financial reporting purposes are approved (including loan loss provisions).
- Risk Committee MBI Eurasia
  The Risk Committee MBI Eurasia includes all MBI Eurasia members and heads of finance & risk staff departments. It discusses and decides on risk related items, approving limits and tolerance levels per risk category and approving and mandating action plans for specific financial, product and operational risk issues. The Risk Committee MBI Eurasia has three sub-committees dealing with different risk areas:
  - *Financial Risk Committee* – Oversees all financial risks within the ING Insurance Eurasia entities
  - *Product Risk Committee* – Oversees all insurance product risks within the ING Insurance Eurasia entities
  - *Non Financial Risk Committee* – Oversees all non-financial risks within ING Insurance Eurasia.

RISK MANAGEMENT FUNCTION

The CRO bears primary and overall responsibility for the risk management function within ING Insurance Eurasia, which identifies, measures, monitors and reports risk within ING Insurance Eurasia. The risk function maintains and updates the policy framework, develops risk methodologies and advises on the risk tolerance and risk profile. The CRO assures that both the Supervisory Board and MBI Eurasia are well informed and understand the material risks within ING Insurance Eurasia at all times.

The CRO delegates day-to-day Risk Management within ING Insurance Eurasia to the Deputy CRO. The Deputy CRO department consists of several risk functions that support the overall Risk Management function.



Risk management continued

ING Insurance Eurasia

Regional level and business unit level have separate risk committees. The Regional CROs report functionally to the Deputy CRO, while the Business Units CROs in turn functionally report to the Regional CROs. Within ING Insurance Eurasia Compliance Risk Management is part of the Legal and Compliance function.

PRODUCT APPROVAL AND REVIEW PROCESS

A critical aspect of risk management is that all products are designed, underwritten and priced effectively. Within ING Insurance Eurasia this is safeguarded by the Product Approval and Review Process (PARP). This standard includes requirements to risk profile, value-oriented pricing metrics, targets and documentation. The PARP includes requirements to assess market risks, credit risk, insurance risk, compliance risk, legal risk, operational risk as well as the assessment of the administration and accounting aspects of the product. Requirements with respect to the customer suitability of insurance products are an integral part of the PARP.

NEW INVESTMENT CLASS AND INVESTMENT MANDATE PROCESS

Complementing the PARP for insurance products, ING Insurance Eurasia maintains a New Investment Class Approval and Review Process (NICARP) for approving new investment classes. Each asset ING Insurance Eurasia invests in should be on the Global Asset List; the list of all approved investment classes. Each Business Unit maintains a Local Asset List that is a subset of the Global List. For a limited number of investment classes, a Group Investment Transaction Approval (GITA) is required for each new transaction. This requirement only applies when the level of complexity or diversity warrants Group approval for individual (programmes of) transaction(s). Actual investments are made based on Investment Mandates, a formal agreement between the owner of the investments and its asset manager. Business Units can only include investment classes in their Investment Mandates that are on their Local Asset List. Next to setting the allowed investment classes, the mandate also serves to agree the strategic asset allocation and asset, industry, regional, and credit concentration limits.

RESERVE ADEQUACY

The ING Insurance Eurasia Group Actuary instructs and supervises all ING Insurance Eurasia entities to ensure that the IFRS insurance liabilities of ING Insurance Eurasia are tested for adequacy taking into account the insurance premium rate levels and the uncertainty of future returns on investments. The reserve adequacy test is executed by evaluating insurance liabilities on current best estimate actuarial assumptions plus a risk margin, ensuring that the reserves remain adequate based on these 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 short term and reinvestments, new money rates are used. For other reinvestments, long-term best estimate assumptions are taken into account. For many products stochastic testing is required, taking the 90th percentile of results as the required level. In the case where deterministic testing is used, the 90% confidence level is achieved by subtracting risk margins of 20% from the best estimate interest rates or one percent point, whichever is higher.

POLICIES

ING Insurance Eurasia has a comprehensive set of risk management policies in place, which are regularly updated to align with the best practices, regulations and change in business profile. Starting in 2011, ING Insurance Eurasia reviews all policies for compliance with emerging Solvency II and other regulations, for example Capital Requirements Directive III (CRD III).

MODEL GOVERNANCE

Models with regards to the disclosed metrics are approved by the ING Insurance Eurasia Model Committee (EMC). The EMC is responsible for policies, procedures, methodologies, models and parameters which are applied within ING Insurance Eurasia. Regional Model Committees are in place for the approval of regional models and parameters. Significant regional models and parameter changes are subject to EMC approval. Furthermore, the Model Validation function carries out periodic validations of all internal models. To ensure independence from the business and other risk departments the department head reports directly to the Deputy CRO.

ING INSURANCE EURASIA RISK APPETITE FRAMEWORK

In order to manage risks on a day-to-day basis and balance value, earnings and capital decisions, ING Insurance Eurasia has implemented a risk limit framework, which follows a top down approach

	Description
Risk Appetite	A qualitative statement defining the playing field ING Insurance Eurasia wants to act in. Driven by ING Insurance Eurasia's business strategy.
Risk Tolerance	A quantitative boundary on the risks in which the risk taking should be within. Driven by Capital Rating targets and local capital restrictions and risk appetite for financial and non-financial risks.
Risk Limits	Limit setting to a granular level for business units throughout the organisation to constrain risk taking at the operational level within the business.

Risk management continued
ING Insurance Eurasia

The risk appetite is managed by Available Financial Resources over Economic Capital Ratio (AFR/EC). This ratio is defined as the Available Financial Resources (AFR) over the amount of capital required for the current net asset value to absorb unexpected losses in a scenario based on a 99.5% confidence level with a one year time horizon. The confidence interval and horizon are aligned to Solvency II.

FINANCIAL RISKS
For financial risks, the risk tolerance is translated into risk limits on several sensitivities assuming a moderate stress scenario. These limits are set on a regional and business unit level.
- AFR sensitivities - The potential reduction of the current net asset value (based on fair values) to a change in different risk factors;
- IFRS Earnings sensitivities - The sensitivity of realised pre tax earnings of the insurance operations to a change in different risk factors over a full year, using scenario analysis.

Other than the above mentioned sensitivities several limit structures are put in place on corporate, regional and business unit level. Examples include, but are not limited to, the following:
- Regulatory capital sensitivities
- Issuer concentration limits
- Mortality concentration limits
- Catastrophe and mortality exposure retention limits
- Investment and derivatives guidelines and limits.

Financial Risk Management Report
The Financial Risk Management Report (FRMR) is discussed in the Risk Committee of the Supervisory board. The report contains information on the AFR/EC ratio as well as a qualitative summary of relevant risk topics in the regions and specific business units.

Actuarial Opinion
The Actuarial Opinion is a quarterly report to the Supervisory Board which highlights significant developments with respect to the adequacy of insurance liabilities, based on IFRS reserving principles. Developments that (could) have a significant impact on the IFRS P&L are also mentioned in the Actuarial Opinion. The Actuarial Opinion of the last quarter of the year is accompanied by an overview of the IFRS reserve adequacy test.

Financial Risk Dashboard
The Financial Risk Dashboard (FRD) is a report that is discussed quarterly in the Risk Committee of MBI Eurasia and in the Financial Risk Committee. The FRD provides an overview of the main financial risk metrics compared to the limits set by management in alignment with the risk appetite.

Investment Risk Dashboard
On a quarterly basis the Investment Risk Dashboard (IRD) is prepared for the general account of ING Insurance Eurasia. The IRD is reported to the Risk Committee and provides management information on the portfolios. The IRD analyses how the portfolios developed over the quarter. It summarises market developments and provides several breakdowns of the portfolios to highlight (potential) risk concentrations in asset classes, industries, rating classes and individual names. Also given the crisis, the IRD was further adapted to reflect more details and new views on some of the risks in ING Insurance Eurasia’s investment portfolios.

NON-FINANCIAL RISKS
To ensure robust non-financial risk management, which is also reflected in the risk tolerance levels, ING Insurance Eurasia monitors the full implementation of risk policies, minimum standards and implementation guidelines. Business units have to demonstrate that the appropriate steps have been taken to control their operational and compliance risk. ING Insurance Eurasia applies scorecards to measure the quality of the internal control within a business unit. Scoring is based on the ability to demonstrate that the required risk management processes are in place and effective within the business units.

Non-financial Risk Dashboard
The Non-Financial Risk Dashboard (NFRD) is a quarterly report that is discussed at the MBI Eurasia and Risk Committee and sent to the Supervisory Board for information. The NFRD provides management at all organisational levels information on their key operational, compliance and legal risks. The NFRD is based on defined risk tolerance within the business and gives a clear description of the risks and responses enabling management to prioritise and to manage operational, compliance and legal risks.

STRESS TESTING
ING Insurance Eurasia complements its regular risk reporting process for financial and non-financial risks with (ad hoc) stress tests. Stress testing examines the effect of exceptional but plausible scenarios on the capital position of ING Insurance Eurasia. Stress testing can be initiated internally or by external parties such as the Dutch Central Bank (De Nederlandsche Bank - DNB) and the European Insurance and Occupational Pensions Authority (EIOPA).

Risk management continued
ING Insurance Eurasia

ING INSURANCE EURASIA RISK PROFILE

RISK TYPE DESCRIPTION
ING Insurance Eurasia identifies the following main types of risk that are associated with its business:

- Insurance risk – risks such as mortality, morbidity, longevity and property and casualty (P&C) associated with the claims under insurance policies it issues/underwrites; specifically, the risk that premium rate levels and provisions are not sufficient to cover insurance claims
- Business risk – risk driven by the possibility that experience deviates from expectations with respect to policyholder behaviour, expenses and premium re-rating. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent in strategy decisions and internal efficiency, and as such strategic risk is included in business risk
- Market risk – the risk of potential losses due to adverse movements in market variables. Market risks include interest rate, equity, real estate, implied volatility, credit spread including illiquidity premium, and foreign exchange risks
- Credit risk – the risk of potential losses due to default by ING Insurance Eurasia debtors (including bond issuers) or trading counterparties
- Liquidity risk – the risk that ING or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions
- Operational risk – the risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk, as well as legal risk
- Compliance risk – the risk of damage to ING Insurance Eurasia's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies, procedures and ethical standards.

ECONOMIC CAPITAL
Economic Capital (EC) within ING Insurance Eurasia is defined as the amount of additional assets to be held above the market value of liabilities in order to ensure a positive surplus in case of adverse movements. The Economic Capital model is based on a 99.5% level of confidence interval on a one-year time horizon.

MODEL DISCLOSURE
ING quantifies the impact of the following types of risk in its EC model:

- Market risk – Assets and Liabilities are replicated by the business units using a finite set of standard financial instruments. The set of standard instruments consists of zero coupon bonds, market indices, equity forwards, swaptions, callable bonds, FX options and equity options.
  Each unit is provided with 300 risk neutral and 200 risk volatile scenarios which are created for multiple equity indices and exchange rates, consistent with a multi-currency dynamic term structure model. The 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. Local actuarial software uses these 500 scenarios to derive stochastic cash flows. Based on this a replicating portfolio is derived. The quality of the replication 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. By including equity options, FX options and swaptions in the replicating instruments ING Insurance Eurasia is able to incorporate implied volatility risk in the considered risk types. Credit spread risk is captured through credit-risk-bearing zero coupon bonds in the set of replicating instruments.
- Credit default risk capital – Calculated on all portfolios which contain credit or transfer risk, including investment portfolios. The EC is calculated based on the following seven drivers: Probability of Default (measure of the standalone creditworthiness of individual debtors), Exposure at Default (estimated size of the financial obligation at the moment of default in the future), Loss Given Default (estimated recovery value of the underlying collateral or guarantees received (if any) and the unsecured part), Industry of the debtor, Country of the debtor, Remaining tenor of the underlying transactions and Type of Assets.
- Insurance Risk – Calculated by the business unit for all sub-risks for Life, Morbidity and P&C Risk.
- Business Risk – Calculated by the business unit for Persistency, Expense and Premium-rerating Risk.
- Operational Risk – Calculated by a corporate risk model for all business units, in alignment with Solvency II Standard Formula.

EC Calculation and aggregation
For the EC calculation the risk system (ECAPS) uses 20,000 simulated scenarios of market risks, credit risk, business risk, operational risk, life risk, morbidity risks and P&C risk. Diversification between risks is taken into account by a Gaussian Copula, allowing for different marginal probability distributions at the risk driver level. To be more in line with Solvency II operational risk capital is treated as an add-on, it is not part of the diversification between risk types.
The 20,000 scenarios are calibrated based on the historical time series of the market risk drivers using at least 5 years of historical data. Volatilities and correlations are calibrated to represent the distribution on a quarterly frequency. For each of the 20,000 scenarios the market value of assets and liabilities and the change in value of the Market Value Surplus (MVS) is recalculated. Sorting the results and selecting the 99.5% worst change in MVS result provides the Economic Capital for the given level of aggregation.

Risk management continued

ING Insurance Eurasia

For EC calculation ING Insurance Eurasia uses a one-year time horizon. In practice, the EC model calculates instantaneous quarterly shocks, which are annualised to determine the annualised EC. The quarterly shock is used as this stabilises the results and the shocks are within a range that can be more credibly valued for assets and liabilities. A quarterly shock also proves to have more consistency in how correlations between risk factors are defined and therefore align closer to actual risk processes and reporting cycles.

RISK PROFILE

The following table presents the reconciliation from the EC 2010 for Insurance excluding US as reported in the Annual Report 2010, to the comparable basis for ING Insurance Eurasia 2011. This reflects changes in scope and methodology. For the remainder of the risk management paragraph of ING Insurance Eurasia, the EC on a comparable basis to 2011 is used.

Economic Capital 2010 reconciliation

amounts in billions of euros	2010
As reported for ING Insurance excluding US in 2010	10.4
Excluding non-ING Insurance Eurasia entities	–2.0
ING Insurance Eurasia 2010, before changes	8.4
Change pension funds fee business to statutory basis	–0.1
Change in models and methodology	3.0
ING Insurance Eurasia 2010, on a basis comparable to 2011	11.3

The exclusion of non-ING Insurance Eurasia entities mainly relates to the business in Latin America and the financial leverage of ING Insurance excluding US that was considered in last year's EC.

The fee-based pension funds business in Central and Eastern Europe is regulated by local sectoral rules rather than by Solvency II regulations for insurance entities. AFR and EC of the fee-based pensions administration business were previously calculated using market consistent valuation approach. This has been replaced by using the statutory net equity and required capital of the pension funds administration companies. The impact on EC is EUR 0.1 billion.

ING Insurance Eurasia has carried out a review of the internal model in the context of a Solvency II gap analysis. This to further align with Solvency II legislation. In that review we benchmarked our models against the Solvency II Standard Formula, the EIOPA consultation papers and comments of expert groups like CRO Forum and Group Consultatif. In the Annual Report 2010 it was estimated that these changes would result in a material increase of EC between EUR 1 billion and EUR 2 billion. During 2011 further refinements and analyses took place which on a comparable basis would lead to an increase in the EC of 2010 of EUR 3.0 billion. The changes are related to equity risk (EUR 0.6 billion), operational risk (EUR 0.1 billion), credit spread and illiquidity premium risk (EUR 1.3 billion), business risk (EUR 0.1 billion) and less diversification (EUR 0.9 billion).
The Solvency II legislative process is still ongoing. In particular, aspects determining the valuation of the policyholder liabilities and thereby the sensitivity to market and other risk factors on the own funds are not yet settled. The Economic Capital model will continue to be updated to reflect most recent market data, developments in best practices, and Solvency II legislation.

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

Economic Capital break-down ING Insurance Eurasia (99.5%) by business line

	2011	2010
Insurance Benelux	**3,988**	5,075
Insurance Central & Rest of Europe	**859**	1,126
Insurance Asia/Pacific	**2,919**	2,759
Corporate Line Insurance Eurasia (1)	**2,520**	2,358
Total Insurance Eurasia	**10,286**	11,318

(1) Corporate Line Insurance Eurasia includes funding activities at ING Insurance Eurasia level, explicit internal transactions between business unit and Corporate Line Insurance Eurasia, 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 across ING Insurance Eurasia businesses is calculated across business units. Total diversification between ING Insurance Eurasia's business units and the Corporate Line Insurance Eurasia is 34% (2010: 28%).

Economic Capital for ING Insurance Eurasia decreased from 2010 to 2011 primarily due to significant de-risking activities in the Benelux and overall lower market valuations, partly offset by increased interest rate risk in Asia Pacific as actual market rates have become closer to guarantees embedded in the insurance products.

Risk management continued

ING Insurance Eurasia

The Economic Capital assigned to Corporate Line Insurance Eurasia primarily relates to foreign exchange translation risk of the market value surplus of the business units in non-euro countries to the euro.

The table below shows the breakdown of the Economic capital per risk type. Details can be found in the various risk type sections below.

Economic Capital break-down ING Insurance Eurasia (99.5%) by risk category

	2011	2010
Insurance risk	2,003	1,833
Business risk	3,011	2,979
Market risk	7,651	9,411
Credit default risk	606	627
Operational risk	640	633
Diversification between risk types	–3,625	–4,165
Total insurance operations Eurasia	10,286	11,318

ONGOING CHANGES IN THE REGULATORY ENVIRONMENT

After the turmoil in the financial markets over the last years and the need for governments to provide aid to financial institutions, financial institutions have been under more scrutiny from the public, supervisors and regulators. The resulting revised regulations are intended to make sure that a crisis in the financial system can be avoided in the future.

The most important regulatory development for the insurance industry is the continued development by the European Union of the Solvency II capital adequacy framework. Solvency II is intended to be based on economic, risk-based and market-consistent principles whereby capital requirements across Europe are directly dependent on an insurer's assets and liabilities. Some of the proposed measures currently under discussion are considered unduly conservative and deviate from economic principles. It is important that the Solvency II framework, as originally envisaged, will become market-based, avoids pro-cyclicality and should be able to withstand market volatility. The EU politicians and regulators drafting the framework should therefore ensure that the measures to be implemented are robust throughout the cycle. ING Insurance Eurasia is working actively with its colleagues in the insurance industry to advise EU politicians and regulators to come up with concrete proposals that further substantiate these objectives.

The insurance business is sensitive to regulatory action, for instance changes in regulation affecting taxes, pension regulation and customer protection. In the first quarter, the European Court of Justice ruled that price differentiation based on gender for any insurance products sold in the European Union from 21 December 2012 onwards is not allowed. This will only impact new business and exclude repricing and extensions of our current business. Significant pension fund law changes in Poland were approved and signed into law at the end of March 2011. These changes are expected to negatively impact future earnings.

INSURANCE RISK

Insurance risks comprise of actuarial and underwriting risk such as mortality, longevity, morbidity and property & casualty risks which result from the pricing and acceptance of insurance contracts.

The table below shows the main risk categories for insurance risks within ING Insurance Eurasia. IFRS Earnings sensitivities are defined on a shock scenario at the 90% confidence level, EC numbers are determined using a 99.5% confidence interval on a one-year horizon.

	Description	Key Drivers
Mortality	Mortality risk can be subdivided into: - Positive mortality risk occurs when claims are higher due to higher mortality experience e.g. term insurances - Negative mortality risk occurs when insured persons live longer than expected, for instance pension products. Longevity risk hits earnings gradually over time.	IFRS Earnings: Death claims in life business. EC: Pension and annuity business mainly in the Netherlands.
Morbidity	Morbidity or Health insurance covers insurance indemnifying or reimbursing losses (e.g. loss of income) caused by illness or disability, or for expenses of medical treatment necessitated by illness or disability.	IFRS Earnings & EC: Income protection in the Netherlands and Health riders in Korea and Malaysia.
Property & Casualty	P&C insurance products cover various risks such as fire damage, car accidents, personal and professional liability, hurricanes etc.	IFRS Earnings & EC: Storms and third party liabilities in Benelux.

Risk management continued
ING Insurance Eurasia

ECONOMIC CAPITAL

Economic Capital ING Insurance Eurasia (99.5% undiversified) by Risk Category		
	2011	2010
Mortality	**1,203**	1,138
Morbidity	**591**	516
P&C	**209**	179
Total Insurance Risk	**2,003**	1,833

SENSITIVITIES

IFRS Earnings sensitivities for Insurance risks		
	2011	2010
Mortality	**–34**	–30
Morbidity	**–123**	–99
P&C	**–76**	–49

Overall exposure to insurance risks did not change significantly during 2011. Annual review of actuarial assumptions for Insurance risk is reflected in the numbers.

MITIGATION
In general, insurance risk cannot be (easily) hedged directly via the financial markets and are partially mitigated by diversification across large portfolios. They are therefore managed at the contract level through underwriting policies, product designs requirements, independent product approval processes and risk limitations related to insurance policy terms and conditions agreed with the client.

Risk not mitigated by diversification is managed through concentration and exposure limits and through reinsurance and/or securitisations:
- Tolerance limits for non-life insurance risk are set by line of business for catastrophic events and individual risk
- Tolerance limits for life insurance risk are set per insured life and significant mortality events affecting multiple lives such as pandemics
- Reinsurance is used to manage tolerance levels according to the ING Insurance Eurasia reinsurance credit risk policy. This is mainly done for property & casualty insurance business
- Catastrophic losses resulting from events such as terrorism are considered to be uninsurable. ING participates in industry pools in various countries to mitigate this risk.

BUSINESS RISK
Business risk is essentially the risk that insurance operations accept as a consequence of participating in the insurance business. In practice this can be defined as the exposure to the possibility that experience differs from expectations with respect to expenses, the run-off of existing business (persistency/renewals), future premium rerating, etc.

The table below shows the main risk categories for business risks within ING Insurance Eurasia. EC numbers are determined using a 99.5% confidence interval on a one-year horizon.

	Description	Key Drivers
Persistency	The risk that actual persistency in the future of existing business develops adversely compared to expected persistency of existing business.	EC: Less surrenders of policies with in-the-money guarantees and higher surrender of policies with higher profitability in Asia.
Expense	The risk that actual expenses in the future exceed the expected expenses.	EC: Expense overruns in the Benelux.
Premium re-rating	The risk that actual premium rate adjustments in the future are less than the expected premium adjustment.	EC: Related to renewable health riders in Malaysia.

ECONOMIC CAPITAL

Economic Capital ING Insurance Eurasia (99.5% undiversified) by Risk Category		
	2011	2010
Business Risk	**3,011**	2,979

Risk management continued

ING Insurance Eurasia

MARKET RISK

ING Insurance Eurasia is exposed to market risk to the extent the market value of surpluses can be adversely impacted due to movements in financial markets. Changes in financial market prices impact the market value of ING Insurance Eurasia's asset portfolio and hedging derivatives directly as well as through the calculated market value of the insurance liabilities.

The table below shows the main risk categories for market risk within ING Insurance Eurasia. EC numbers are based on a 99.5% confidence interval on a one-year horizon. IFRS and AFR sensitivities measurement is described in the table below.

	Description	Key Drivers
Interest Rate	Impact of interest rate changes in assets and liabilities	IFRS Earnings: Guaranteed separate account pension business in the Netherlands.
	AFR & IFRS earnings sensitivities: Measured by the impact of a 30% upwards and downwards shock relative to the ten year swap rate. Minimum shock is floored at 50 basis points and capped at maximum 150 basis points. Shocks are applied to forward rates up to the last available tenor of the interest rate curve.	AFR & EC: Duration gap for Traditional Life products in Korea caused by non-availability of long duration assets and embedded options in the guaranteed separate account pension business in the Netherlands.
Equity	Impact of changes in equity prices which impacts direct equity exposure and loss of fee income from unit linked, Variable Annuity (VA), pension and fund business. AFR & IFRS earnings sensitivities: Measured by the impact of a 25% drop in equity prices.	IFRS Earnings, AFR & EC: Direct equity exposure and embedded options in guaranteed separate account pension business in the Netherlands and embedded options in VA business in Japan.
FX	Impact of losses related to changes in exchange rates	IFRS Earnings: Translation risk of IFRS earnings from non-Euro businesses.
	AFR & IFRS earnings sensitivities: Measured by the impact of a 10% up and down movement of currencies compared to the euro.	AFR & EC: Translation risk of market value surplus from non-euro businesses.
Implied Volatility (Equity & Interest Rate)	Impact of losses on assets and liabilities due to movements in the volatility implied from market option prices. AFR & IFRS earnings sensitivities: For interest rate measured by the impact of a relative increase of 30% in implied volatilities For Equity measured by the impact of a relative increase in implied volatilities based on tenor: 80% for tenors less than 1 year, up 30% for tenors between 1and 3 years, up 20% for tenors between 3-7 years and up 10% for tenors of 7 years and above. NOTE: this impact was not disclosed in 2010 for IFRS earnings as it was considered to be immaterial.	IFRS Earnings, AFR & EC: Embedded options in: - traditional Life products in Korea - guaranteed separate account pension business in the Netherlands - VA business in Japan.

Risk management continued
ING Insurance Eurasia

	Description	Key Drivers
Credit Spread	Impact of an increase in credit spreads on investments in fixed income securities offset by movements in the liquidity premium on the liabilities.	IFRS: Impaired assets in Greece.
	AFR & IFRS earnings sensitivities: Measured by the impact of a relative increase based on multiplying duration by a rating based shock (e.g. single A shock is 110 basis points). AAA and AA rated government bonds and home government bonds in local currency (for example KRW government bonds in Korea) are excluded, exception only applicable to Greek bonds. Shocks for structured credit are 50% higher than for corporate and government bonds. Liquidity premium is shocked by 50 basis points up to a certain tenor depending on the currency (e.g. EURO 15 years, USD 30 years) In order to avoid double counting Credit Default Risk is only captured for IFRS earnings, while Credit Spread Risk is only measured for AFR. The only exception is impaired assets for which Credit Spread risk is measured for IFRS earnings.	AFR & EC: Debt securities in all regions. Liquidity premium offset primarily in the Benelux.
Real Estate Price Risk	Impact of the value of Real Estate assets because of a change in earnings related to Real Estate activities and/or a change in required investor yield AFR & IFRS earnings sensitivities: For AFR this is measured by the impact of a 15% drop in real estate prices for all real estate holdings For IFRS Earnings this is measured by the impact of a 15% drop in real estate prices only for the minority holdings and direct for all real estate revalued through P&L. Other holdings will be included in case of a possible impairments caused by the drop in prices.	IFRS Earnings, AFR & EC: Real estate holdings in the Benelux.

ECONOMIC CAPITAL

Economic Capital ING Insurance Eurasia (99.5% undiversified) by Risk Category

	2011	2010
Market Risk	**7,651**	9,411

Economic capital mainly reduced due to a decrease in equity risk caused by market conditions and additional hedges which were put in place for the direct equity holdings in the Benelux. In addition credit spread risk reduced as Southern European government bonds were replaced by Dutch, Japanese and German government bonds.

SENSITIVITIES

Sensitivities for market risks

	AFR	IFRS Earnings	AFR	IFRS Earnings
	2011	**2011**	2010	2010
Interest Rate Up	**746**	**–220**	601	–170
Interest Rate Down	**–1,601**	**405**	–1,462	251
Equity	**–823**	**308**	–1,720	–85
FX	**–972**	**–89**	–877	–113
Implied Volatility	**–432**	**–116**	–463	n/a
Credit Spread	**–180**	**–35**	–1,912	
Real Estate	**–790**	**–782**	–798	–791

Risk management continued

ING Insurance Eurasia

The Available Financial Resources are currently mainly sensitive to downward interest rates movements and declining equity and real estate prices. Compared to 2010 the downward interest rate sensitivity was reduced by hedges put in place in the Benelux. The sensitivity to equity prices was reduced because of hedges put in place in the Benelux to protect the direct equity exposure. Credit Spread reduced significantly compared to 2010 due to an increased offsetting effect of liquidity premium present in spreads.

The IFRS earnings are mainly sensitive to interest rate movements and a decline in real estate prices. During 2011 the sensitivities for Real Estate risk remained fairly stable. The Interest rates sensitivities compared to 2010 are mainly influenced by the additional hedges put in place in the Benelux. IFRS sensitivities for implied volatility of interest rates and of equity are disclosed since 2011.

REAL ESTATE

Real estate price risk arises from the possibility that the value of real estate assets fluctuates because of a change in earnings related to real estate activities and/or a change in required investor yield. Real estate exposure is mainly present in Europe, more specifically Benelux.

ING Insurance Eurasia has two different categories of real estate exposure on its insurance books. First, ING Insurance Eurasia owns buildings it occupies. Second, ING Insurance Eurasia 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 second category can be divided on the one hand in stakes in real estate assets that are revalued through equity and on the other hand stakes in funds and direct real estate revalued through P&L. Only for the last category will real estate price shocks have a direct impact on reported net profit.

Real Estate Exposure Profile by Sector Type

Sector	Revalued through P&L 2011	Not revalued through P&L 2011	Revalued through P&L 2010	Not revalued through P&L 2010
Residential	109	967	349	785
Office	886	605	1,321	199
Retail	1,596	379	1,933	
Industrial	440		422	
Other	212	518	166	502
Total	3,243	2,469	4,191	1,486

As at 31 December 2011, ING Insurance Eurasia has EUR 3.6 billion of real estate related investments (excluding leverage). ING Insurance Eurasia's real estate exposure (i.e. including leverage) is EUR 5.7 billion of which EUR 3.2 billion is recognised at fair value through P&L and EUR 2.5 billion is not revalued through P&L, but is either booked at cost or is revalued through equity (with impairments going through P&L). In total, real estate exposure increased by EUR 35 million, mainly as a result of positive fair value changes (EUR 22 million), net investments (EUR 126 million) and FX revaluation (EUR 8 million) offset by divestments (EUR 87 million) and impairments (EUR 34 million).

CREDIT RISK

The main credit risk for ING Insurance Eurasia stems from the bond portfolio. This risk is largely measured through the credit spread risk economic capital that is part of the market risk methodology. The spread risk captures differences in risk (and diversification) between rating classes and regions, but does not capture idiosyncratic risk. This name-specific risk is measured in the Credit Default model, using every bond issuer’s probability of default (PD) and stressed loss given default (LGD). For corporate bonds, the idiosyncratic risk is also managed with rating based issuer & lending limits that prevent large exposures in one (group of related) single name(s). An outright loss given default limit serves as the final backstop for corporate exposures. Government exposures are separately monitored. The credit risk profile is monitored and reported in the Investment Risk Dashboard.

Given the size of the portfolio, term loans (including private placements) are a much smaller source of credit risk for ING Insurance Eurasia. These exposures are also included in the issuer & lending limit monitoring. Residential mortgages and policy loans form the retail credit risk exposures of ING Insurance Eurasia. Credit risks are contained through underwriting criteria and the availability of collateral.

Risk management continued
ING Insurance Eurasia

The third source of credit risk is the claims on counterparties from OTC derivatives, money market lending and reinsurance.

- Derivatives transactions are only allowed under an ISDA-master agreement with Credit Support Annex, ensuring that ING Insurance Eurasia receives collateral from its counterparty for the total positive marked-to-market value of all bilateral derivative contracts between ING Insurance Eurasia and that counterparty. In case the net marked-to-market is negative, collateral must be posted with the counterparty;
- Money market lending is only done with banks of good credit standing. ING Insurance Eurasia maintains money market limits for each of these banks. The counterparties are continuously monitored for developments that could warrant lowering the limit; and
- Reinsurance credit risk is the risk that one of ING Insurance Eurasia's reinsurers fails to pay timely, or fails to pay at all, valid claims that were reinsured by ING Insurance Eurasia with that reinsurer. ING Insurance Eurasia mitigates this risk by diversifying its reinsurance exposure over various well rated reinsurers, and by requiring collateral for reinsurance contracts that could lead to reinsurance exposures above a minimum threshold.

Within ING Insurance Eurasia, the goal is to maintain a low-risk, well diversified credit portfolio that meets or exceeds market based benchmark returns. ING Insurance Eurasia has a policy of maintaining a high quality investment grade portfolio while avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of top-down concentration limits for individual borrowers and certain asset classes.

The table below shows the main risk categories for credit risk within ING Insurance Eurasia. EC numbers are based on a 99.5% confidence interval on a one-year horizon. IFRS and AFR sensitivities measurement is described in the table below.

	Description	Key Drivers
Credit Default	Impact of a default of counterparties on IFRS earnings IFRS earnings sensitivities: [1] Measured by the impact of multiplying the Historical Cost, the Probability of Default, and the Loss Given Default (stressed by 15%). Impaired assets are shocked as per the Credit Spread methodology.	IFRS Earnings and EC: General account assets in all regions, mostly bond investments and lending portfolio.
Credit Spread	See Market Risk section.	

[1] In order to avoid double counting Credit Default Risk is only captured for IFRS earnings, while Credit Spread Risk is only measured for AFR. This assumes Credit Default Risk for mortgages and concentration does not have a material Impact on the AFR.

ECONOMIC CAPITAL

Economic Capital ING Insurance Eurasia (99.5% undiversified) by Risk Category

	2011	2010
Credit Default Risk	606	627

SENSITIVITIES

IFRS Earnings sensitivities for Insurance Credit Risks

	2011	2010
Credit Default	–160	–236

RISK PROFILE
ING Insurance Eurasia's goal is to maintain a low-risk, well diversified investment grade portfolio while avoiding large risk concentrations. To limit and diversify spread risk, ING Insurance Eurasia manages the credit portfolio's distribution over rating classes and industries. Both profiles also include the non-traded fixed income and money market products whose risks are measured with the Credit Default model. The specific risks are contained through the combined issuer and lending concentration limit framework and the separate money market and reinsurance limit frameworks. Please note that for all of the following tables, the figures exclude all ING intercompany exposures.

Risk developments in 2011
After an initial improvement in the beginning of 2011, worldwide interest rates and equity markets declined. Credit spreads widened especially in Southern European countries. Negative growth prospect for European countries in general and Southern European countries in particular have been dominating the news during the year.

Risk management continued

ING Insurance Eurasia

ING Insurance Eurasia bond portfolio increased from EUR 69.4 billion at year-end 2010 to EUR 75.8 billion at end of 2011,The exposure to ‘Government’ bonds increased by EUR 6.4 billion mainly due to investments in, among others, Dutch, German, and Japanese sovereign bonds as well as positive marked-to-market revaluations for bonds issued by the US, Netherlands and Germany. In 2011, credit spreads widened further for the Southern European region, causing further negative revaluations on the Greek, Italian and Portuguese government bond portfolios in particular. Divestments mainly took place in the Italian government bond portfolio; impairments were only taken with respect to the Greek government bonds position. An impairment of EUR 390 million was taken on Greek Government bonds in 2011.

ABS Portfolio

Compared with 2010, the ABS and CMBS exposure combined, remained fairly stable at EUR 7.8 billion. ING Insurance Eurasia continued to manage its asset-backed securities (ABS) portfolio very carefully in 2011. Some of the redemptions and sales were reinvested during the year in the super senior AAA tranches. With the sale of ING Direct US, the overall ING Group exposure to ABS is reduced drastically and going forward we expect not to report them as pressurised assets in ING Insurance Eurasia financial reporting.

Greece, Italy, Ireland, Portugal and Spain

In the first half of 2010 concerns arose regarding the creditworthiness of several southern European countries, which later spread to other European countries. As a result of these concerns the value of sovereign debt decreased and those exposures were monitored more closely.

With regard to troubled European countries, ING Insurance Eurasia’s main focus is on Greece, Italy, Ireland, Portugal and Spain as these countries have either applied for support from the European Financial Stability Facility (‘EFSF’) or receive support from the ECB via government bond purchases in the secondary market. Within these countries, ING’s main focus is on exposure to Government bonds and Unsecured Financial institutions’ bonds. Further details are included in Note 3 ‘Available-for-sale investments’.

The table below provides information on ING Insurance Eurasia’s exposure with regard to Greece, Italy, Ireland, Portugal and Spain. Unless otherwise indicated, the amounts represent exposure values and exposures are included based on the country of residence.

Greece, Italy, Ireland, Portugal and Spain - Total risk exposures [1,2]

2011	Greece	Italy	Ireland	Portugal	Spain	Total
Residential mortgages and other consumer lending	11				19	30
Corporate Lending						
Financial Institutions Lending	5				347	352
Government Lending						
Total Lending	16	0	0	0	366	382
RMBS		451	588	18	410	1,467
CMBS						
Other ABS		67	255		90	412
Corporate Bonds		371	320	26	205	922
Covered Bonds		18	15		675	708
Financial institutions Bonds (unsecured)		105	65	105	208	483
Government Bonds	104	1,425	53	178	984	2,744
Total Debt Securities	104	2,437	1,296	327	2,572	6,736
Real Estate [3]	36	327		228	427	1,018

(1) The exposures reported are credit, market and real estate exposures based on source systems and measurement criteria that can differ from those of similar exposures reported in Note 3 ‘Available-for-sale Investments’ of the Annual Accounts.
(2) More information on the risk management definitions and practices can be found in the remainder of this section.
(3) Real Estate includes Real Estate Development, Real Estate Investments and Property in Own Use; it does not include (indirect) exposure through Real Estate Finance, which is reflected in Total Lending and Total Debt Securities.

Derivatives

ING Insurance Eurasia does not have material derivatives exposures in these countries.

Monitoring exposures and Current developments

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

Risk management continued

ING Insurance Eurasia

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

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

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

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

Risk classes

Risk Classes: ING Insurance Eurasia portfolio, as % of total outstandings [1]

		2011	2010
1	(AAA)	**29.9%**	26.5%
2-4	(AA)	**16.3%**	15.3%
5-7	(A)	**28.0%**	31.3%
8-10	(BBB)	**8.7%**	9.2%
11-13	(BB)	**3.9%**	4.6%
14-16	(B)	**2.3%**	2.4%
17-22	(CCC, Unrated & Problem Grade)	**10.9%**	10.7%
		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 and are based on ultimate parent.

ING Insurance Eurasia rating class distribution remained fairly stable during 2011. The increase in the AAA class is mainly due to an increase in AAA government bonds. The CCC, Unrated and Problem Grade class which mainly contains bonds from unrated counterparties, private equity and real estate investments.

Risk concentration

Risk Concentration: ING Insurance Eurasia portfolio, by economic sector [1,2]

	2011	2010
Non-Bank Financial Institutions	**17.2%**	17.4%
Central Governments	**43.6%**	41.3%
Commercial Banks	**10.7%**	12.9%
Private Individuals	**7.5%**	7.9%
Real Estate	**2.6%**	2.8%
Utilities	**2.8%**	2.5%
Natural Resources	**1.6%**	1.5%
Food, Beverages & Personal Care	**1.0%**	1.0%
Other	**13.0%**	12.7%
	100.0%	100.0%

[1] Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities.
[2] Economic sectors below 2% are not shown separately but grouped in 'Other'.

Main shift in 2011 is an increase in central governments due to an increased exposure to European Central Governments, mainly Dutch, Japanese and German.

Risk management continued

ING Insurance Eurasia

Largest economic exposures: ING Insurance Eurasia portfolio, by geographic area [1]	2011	2010
Netherlands	**21.7%**	21.3%
Belgium	**3.8%**	3.6%
Rest of Europe	**42.7%**	46.1%
Americas	**5.9%**	6.2%
Asia/Pacific	**25.0%**	21.7%
Rest of World	**0.9%**	1.1%
Total	**100.0%**	100.0%

[1] Country is based on the country of residence of the ultimate parent.

The decrease in Rest of Europe is mainly due to decreased exposure to Central Governments of Southern European countries.

Security lending business

ING Insurance Eurasia entities can enter into agreements to sell and buy back marketable securities. These transactions can take many legal forms. Repurchase and reverse repurchase agreements, buy/sellback and sell/buyback agreements, and securities borrowing and lending agreements are the most common. The amount of marketable securities that ING Insurance Eurasia held as collateral under these types of agreements at 31 December 2011 was EUR 8.4 billion (2010: EUR 9.5 billion). The decrease was due to the reduced security lending activities. These amounts exclude the cash leg of the respective transactions, as well as any pledges of securities under Tri-Party agreements (as the underlying is not directly pledged to or owned by ING Insurance Eurasia). As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or pledged in other (similar) transactions. ING is obliged to return equivalent securities in such cases.

MITIGATION

ING Insurance Eurasia uses different credit risk mitigation techniques, of which the use of ISDA Master Agreements accompanied with Collateral Agreements for all OTC derivative-transactions is an important example. Other forms of cover are mortgages and guarantees, both are important to enhance the credit quality of ING Insurance Eurasia's mortgage portfolios.

Credit Covers

The table below shows the cover values per credit risk category. At ING Insurance Eurasia, cover is a term which is defined as any security, lien, mortgage, or collateral interest in an asset or guarantee, indemnification or undertaking received (either by contract and/or by law) that is intended to reduce the losses incurred subsequent to an event of default on an obligation (usually financial in nature) a customer may have towards ING Insurance Eurasia. Within ING Insurance Eurasia, covers are subdivided into two distinct groups, called collateral and promises.

Collateral

Collateral is a security interest in assets. If the customer defaults on its promised performance, the asset is given as collateral or security for that obligation is liquidated, such that the proceeds can be applied towards full or partial compensation of the pledgor's (financial) obligation to ING Insurance Eurasia. Assets have monetary value and are generally owned by the person or organisation, who gives them as collateral to ING Insurance Eurasia. Examples of collateral are insurance policies or investment accounts of clients pledged to ING Insurance Eurasia as collateral for mortgage loans, or payables or funds withheld for reinsurance exposures.

Promises

Promises are defined as a legally binding declaration by persons or organisations that give ING Insurance Eurasia the right to expect and claim from those persons or organisations if an ING Insurance Eurasia's customer fails on its obligations to ING Insurance Eurasia. An example is the guarantee by the Dutch National Mortgage Guarantee scheme (NHG) for residential mortgage loans.

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

Risk management continued

ING Insurance Eurasia

Outstandings – Cover values including guarantees received

		31 December 2011					
		Outstan-dings	**Mort-gages**	**Cash**	**Guaran-tees**	**Other**	**Total Credit Covers**
Investment	Financial Institutions	**20,670**				**183**	**183**
	Other	**61,334**				**3**	**3**
Lending	Residential Mortgages	**5,603**	**7,062**	**-**	**482**	**398**	**7,942**
	Financial Institutions Lending	**777**					**0**
	Commercial Lending	**3,086**	**341**				**341**
	Government Lending	**280**					**0**
	Other	**88**					**0**
Reinsurance	Financial Institutions	**531**		**139**		**62**	**201**
Other	Financial Institutions	**5,889**		**77**		**45**	**122**
Total		**98,258**	**7,403**	**216**	**482**	**691**	**8,792**

Outstandings – Cover values including guarantees received

		31 December 2010					
		Outstan-dings	Mort-gages	Cash	Guaran-tees	Other	Total Credit Covers
Investment	Financial Institutions	22,023				194	194
	Other	56,167				1	1
Lending	Residential Mortgages	5,835	7,197		475	491	8,163
	Financial Institutions Lending	260					0
	Commercial Lending	2,910	352				352
	Government Lending	326					0
	Other						0
Reinsurance	Financial Institutions	475		47		63	110
Other	Financial Institutions	6,059				10	10
Total		94,055	7,549	47	475	759	8,830

The credit covers in the above table represent the sum of all existing covers, however excess cover amounts on specific assets cannot be put in place for other assets without covers, or with a cover amount that is smaller than the underlying exposure. The valuation methods for covers may vary per cover.

In comparison to 2010 figures, the overall cover amount remained largely unchanged. The increase in cash collateral is due to the data quality improvements with regards to reinsurance exposures and bond repo positions in the Hong Kong life business. For residential mortgage lending, the total loan amount decreased nearly 4%, while the total cover amount for residential mortgages decreased approximately by 2%. The decrease was most notable in the category 'other cover' (which comprises of insurance policies received and pledged securities), mainly due to a decrease in the number of covers and the average cover value. The guaranteed value of the Dutch National Mortgage Guarantee scheme (NHG) is estimated to be EUR 1.6 billion. The estimated value of the guarantee can differ depending on the number and amount of rejected NHG claims under the scheme (rejection of claims can occur in case the lending institution does not fully comply with the NHG rules).

Loan-to-Value

The LTV ratio relates the total loan amount to the market value of the collateral. The market value is the registered value as adopted from the valuation report of a qualified appraiser or valuer. For example, the LTV of portfolio invested in The Netherlands is based on foreclosure value. When available, indexation is applied to revalue the collateral to the present value. In the LTV calculation the following property covers are included: residential and industrial/commercial properties, land and applicable other fixed assets. All other covers are excluded.

In some countries residential mortgages are covered by governmental or commercial sponsors. For example the NHG (see previous section) in the Netherlands guarantees the repayment of a loan in case of a forced property sale. These covered mortgages are included in the calculation of the weighted average LTV.

The ING Insurance Eurasia residential mortgage portfolio amounts to EUR 5.6 billion, making up 5% of the total ING Insurance Eurasia outstandings. The residential mortgage portfolio is for 97% concentrated in the Netherlands (Nationale-Nederlanden). The average LTV of the Dutch residential mortgage portfolio amounts to 86%.

Risk management continued
ING Insurance Eurasia

PROBLEM LOANS
At 31 December 2011 EUR 65 million was classified as a problem loan (2010: EUR 73 million).

Past-due obligations
ING Insurance Eurasia continually measures its portfolio in terms of payment arrears. Particularly the retail residential portfolios are closely monitored on a monthly basis to determine if there are any significant changes in the level of arrears. Generally, an obligation is considered ‘past-due’ if a payment of interest or principal is more than one day late. In practice, the first 15 days after an obligation becomes past due are considered to be operational in nature for the retail loans and small businesses. After this period, letters are sent to the obligor reminding the obligor of its (past due) payment obligations. If the arrear still exists after 60 days, the obligation is transferred to one of the departments that deals with these problem loans.

Aging analysis (past due but not impaired) outstandings [1,2]

	2011	2010
Past due for 1-30 days	82	88
Past due for 31-60 days	24	28
Past due for 61-90 days	17	14
Total	123	130

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

Impaired loans and provisions
The credit portfolio is under constant review. Generally, all loans with past due financial obligations of more than 90 days are automatically reclassified as impaired. For the wholesale lending portfolios and securities obligations, there are generally reasons for declaring a loan impaired prior to being 90 days past due. These include, but are not limited to, ING Insurance Eurasia’s assessment of the customer’s perceived inability to meet its financial obligations, or the customer filing for bankruptcy or bankruptcy protection. In some cases, a material breach of financial covenants will also trigger a reclassification of a loan to the impaired category. ING Insurance Eurasia identifies those loans as impaired loans when it is likely that the principal and interest amounts contractually due will not be collected in accordance with the contractual terms of the loan agreements, based on current information and events. A formal analysis takes place quarterly to determine the provisions for possible bad debts, using a bottom-up approach. Conclusions are discussed in the Disclosure Committee, which advises the Management Board on specific provisioning levels.

During 2010 and 2011 there were no impairments for loans within ING Insurance Eurasia. Provisions reported here relate to personal loans and mortgages, and are mainly present in Benelux.

Provisions: ING Insurance Eurasia portfolio

	2011	2010
Opening balance	73.0	55.1
Write-offs	–11.7	–4.9
Recoveries	1.9	1.0
Increase/(decrease) in loan loss provision	19.7	21.6
Exchange differences	–0.2	0.2
Other changes	0.5	0.0
Closing balance	83.2	73.0

LIQUIDITY RISK
Liquidity risk refers to the risk that a company is unable to settle financial obligations when they fall due. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all commitments when due. ING Insurance Eurasia identifies two related liquidity risks: funding liquidity risk and market liquidity risk. Funding liquidity risk is the – primary – risk that ING Insurance Eurasia will not have the funds to meet its financial obligations when due. Market liquidity risk is the – secondary – risk that an asset cannot be sold without significant losses. The interrelation with funding liquidity stems from the fact that when payments are due, and not enough cash is available, investment positions need to be converted into cash. When Market liquidity is low, this would lead to a loss.

Similar to other market risks, liquidity risk falls under the supervision of the Risk Committee. ING Insurance Eurasia maintains a liquidity policy that defines liquidity limits in line with risk tolerances. The Liquidity Management Principles include the following:
- Interbank funding markets should be used to provide liquidity for day-to-day cash management purposes;
- A portion of assets must be invested in unencumbered marketable securities that can be used for collateralised borrowing or asset sales;
- Strategic asset allocation should reflect the expected and contingent liquidity needs of liabilities; and
- Adequate and up-to-date contingency liquidity plans should be in place to enable management to act effectively and efficiently in times of crisis.

Risk management continued
ING Insurance Eurasia

ING Insurance Eurasia defines three levels of Liquidity Management. Short term liquidity, or cash management covers the day-to-day cash requirements under normal business conditions and targets funding liquidity risk. Long term liquidity management considers business conditions, in which market liquidity risk materialises. Stress liquidity management looks at the company's ability to respond to a potential crisis situation. Two types of crisis liquidity events can be distinguished: a market event and an ING Insurance Eurasia specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale. Depending on the type of event, the policy also defines the composition of the crisis teams.

Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios.

OPERATIONAL RISK
Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the risk of reputational loss, as well as legal risk whereas strategic risks are not included. Operational risk also includes IT risk.

For Operational Risk ING Insurance Eurasia has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks. The framework is based on the elements of the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission). The Operational Risk capital calculation is described in the Economic capital section.

The Operational risk function works with the Operational Risk Management (ORM) Scorecard process to evaluate yearly the embedding level of the ORM Framework in each business. Policies and minimum standards governing the framework are kept in the policy house. During 2011 Operational Risk started with the implementation of this policy house in which the existing policies are kept in a well structured and easy to access manner.

Risk appetite is defined as the risk level management is prepared to tolerate. The operational risk appetite levels are set by the management team of ING Insurance Eurasia. Via Non Financial Risk Committees (NFRC's) it is ensured that responsible line managers mitigate the risks that are not within the risk appetite. Incidents and operational risks are tracked and reported on a quarterly basis to management in the Non Financial Risk Dashboard.

Integrated risk assessments are performed at least once a year to determine the completeness of the risks in scope and the level of the risks. Mitigating actions are taken on those risks that are identified as risks beyond the risk appetite level. Status of the mitigating actions is tracked.

To ensure an independent Operational risk function and the possibility for the Operational risk officers to be impartial and objective when advising business management on Operational Risk in their Business Unit and Region, a dual reporting line, directly to Chief Risk Officer of their business and functionally to the next higher level Operational risk Officer, is in place. The head of Operational risk ultimately reports directly to the Deputy Chief Risk Officer.

ECONOMIC CAPITAL

Economic Capital ING Insurance Eurasia (99.5% undiversified) by Risk Category

	2011	2010
Operational Risk	640	633

COMPLIANCE RISK
Compliance Risk is defined as the risk of damage to ING Insurance Eurasia's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies, procedures and ethical standards. In addition to reputational damage, failure to effectively manage Compliance Risk could expose ING Insurance Eurasia to fines, civil and criminal penalties, and payment of damages, court orders and suspension or revocation of licenses, which would adversely impact customers, staff and shareholders of ING Insurance Eurasia.

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

As a result of frequent evaluation of all businesses from economic, strategic and risk perspectives ING Insurance Eurasia continues to believe that doing businesses in Myanmar, North Korea, Sudan, Syria, Iran and Cuba should be discontinued. ING Insurance Eurasia has a policy not to enter into new relationships with clients from these countries and processes remain in place to discontinue existing relationships involving these countries.

Risk management continued

ING Insurance Eurasia

ING Insurance Eurasia performs a due diligence process when developing products and invests considerably in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception by both the public at large and governmental authorities of acceptable market practices might influence client expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations, reported incidents and regulatory activity. As part of ING Insurance Eurasia's customer centric commitment, Compliance Risk Management and the business work closely together to optimise both products and services to meet the customers' needs.

ING Insurance Eurasia Compliance Risk Management has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting compliance risks. The Compliance function works with the ORM Scorecard process to evaluate yearly the level in which the Compliance Risk Management Framework is embedded in each business.

To ensure an independent compliance function and the possibility for the Compliance Officers to be impartial and objective when advising business management on Compliance Risk in their Business Unit and Region, a dual reporting line, directly to General Management of their business and functionally to the next higher level Compliance Officer, is in place.

Main developments in 2011

- Building Customer Trust – As part of ING Insurance Eurasia's customer centric commitment, Compliance Risk Management and the business worked closely together to optimise both products and services to meet the customers' needs.
- Learning – Continuous education and awareness training was provided through face-to-face training sessions and online learning tools.

Risk management continued

ING Insurance US

MISSION AND OBJECTIVES

As a financial services company active in investments, life insurance and retirement services ING Insurance US is naturally exposed to a variety of risks. The mission of risk management in ING Insurance US is to build a sustainable and competitive advantage by fully integrating risk management into daily business activities and strategic planning.

The following principles support this objective:

- A transparent communication to internal and external stakeholders on risk management and value creation;
- Compliance with internal and external rules and guidelines is monitored;
- Products and portfolios are structured, underwritten, priced, approved and managed appropriately;
- The risk profile of ING Insurance US is transparent, managed to avoid surprises and is consistent with delegated authorities; and
- Delegated authorities are consistent with the overall ING Insurance US strategy and risk appetite.

RISK GOVERNANCE

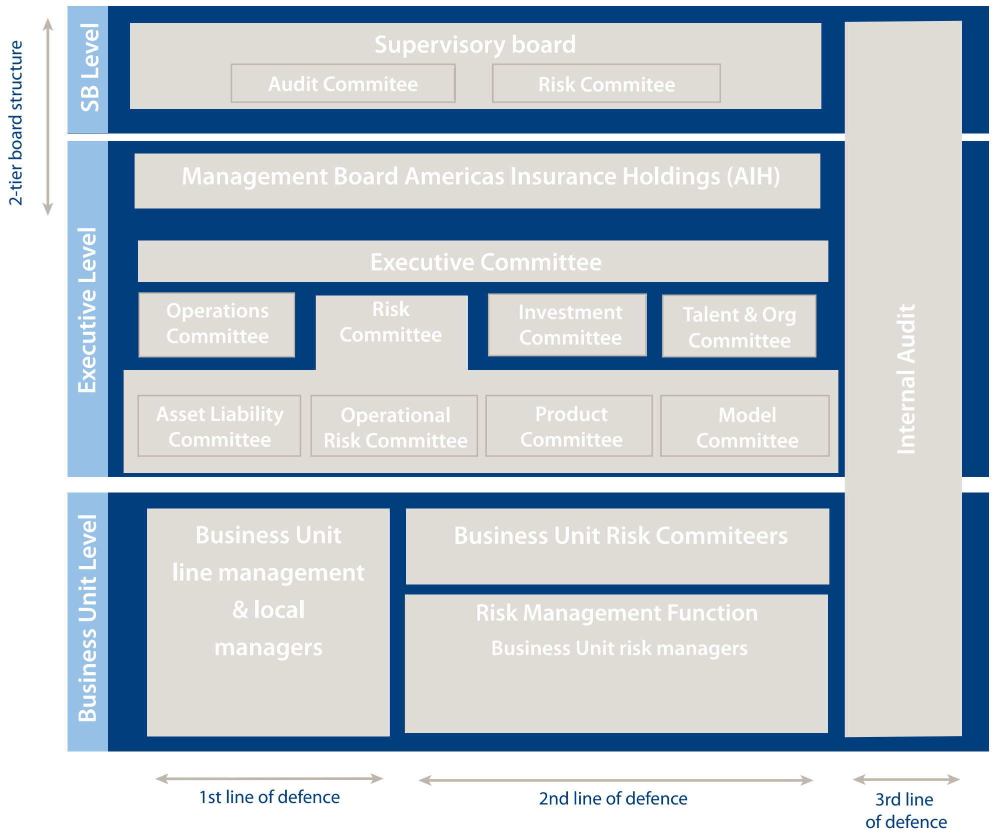
The risk governance is based on the ‘three lines of defence‘ framework which ensures that risk is managed in line with the risk appetite as defined by the Management Board AIH (MB AIH) and ratified by the Supervisory Board and is cascaded throughout ING Insurance US.

For most of 2011 ING Insurance US executive management delegated risk governance to a financial risk committee called ‘Business Line Insurance US & BL US Closed Block Variable Annuity Asset Liability Committee‘ (BL ALCO), and a non-financial risk committee called ‘Operational Risk Committee‘.

- BL ALCO
  Provided oversight on all financial risk related issues for ING Insurance US.
  Advised management on risk limits and appetites, approved investment mandates, oversaw assumption setting.
  Implemented and monitored ING Group risk policies ensuring consistency across business units.

- Operational Risk Committee
  Addressed bottoms up business unit operational risk matters.
  Coordinated across business units on issues including financial controls, business continuity, and information security.
  Implemented and monitored ING Group’s operational risk policies across business units.

In the last quarter of 2011, ING Insurance US transitioned to an expanded risk governance structure as described below.



Risk management continued

ING Insurance US

BOARD LEVEL RISK OVERSIGHT

ING Insurance US has a two-tier board structure consisting of the Management Board AIH (MB AIH) and the Supervisory Board.

The Supervisory Board is responsible for supervising the policy of the MB AIH, the general course of affairs of the Company and its businesses. For Risk Management purposes the Supervisory Board is assisted by two sub-committees:

- The Audit Committee assists in reviewing and assessing ING Insurance US's major risks and the operation of internal risk management and control systems, as well as policies and procedures regarding compliance and its applicable laws and regulations;
- The Risk Committee assists in matters related to risk governance, risk policies and risk appetite setting.

The Chief Risk Officer (CRO) attends the meetings of both committees. The MB AIH is responsible for managing the risks associated with the activities of ING Insurance US. The MB AIH responsibilities include ensuring the risk management and control systems are effective and ING Insurance US complies with relevant legislation and regulations. The MB AIH reports and discusses these issues on a regular basis with the Supervisory Board, and reports to the Audit Committee on a quarterly basis on ING Insurance US's risk profile versus its risk appetite.

As part of the integration of risk management into the annual strategic planning process, the MB AIH issues a Planning Letter which provides the organisation with the corporate strategic planning, and addresses key risk issues. Based on this letter the business units develop their business plans, including qualitative and quantitative assessment of the risks involved. As part of the process strategic limits and risk appetite levels are explicitly discussed. Based on the business plans the Management Board formulates the Strategic Plan which is submitted to the Supervisory Board for approval.

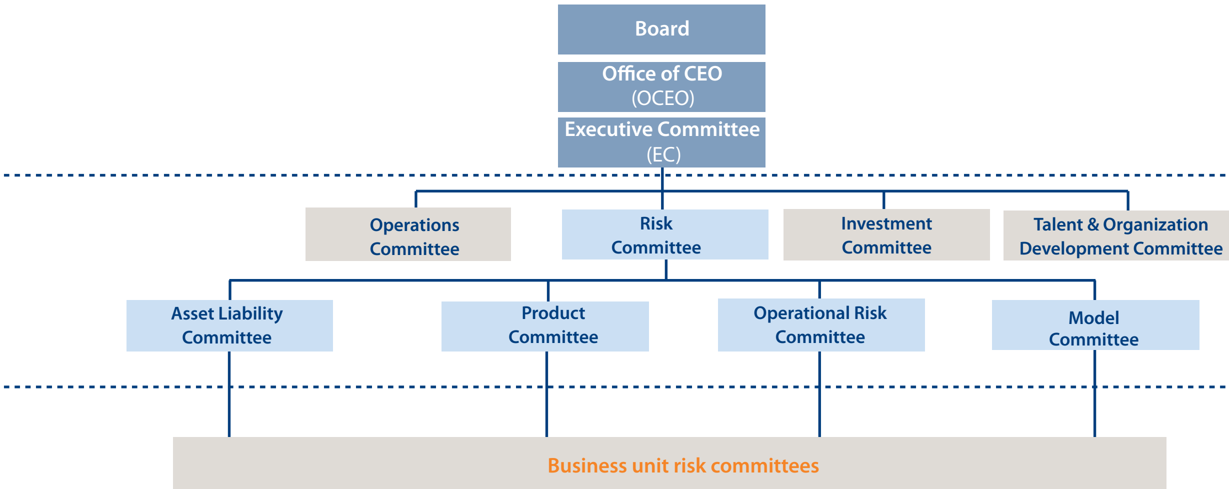
EXECUTIVE LEVEL

As noted above, during 2011 ING Insurance US transitioned from a financial risk committee called 'Business Line Insurance US & BL US Closed Block Variable Annuity Asset Liability Committee ' and a non-financial risk committee called 'Operational Risk Committee' to the expanded structure described below.

For risk related issues the MB AIH relies on Group Finance and Risk Committee oversight and the Executive Committee which has delegated risk related tasks to the following committees:

- Risk Committee
  Assists the Executive Committee (EC) by focusing on ING Insurance US risk management and capital issues.
  Advises the EC with respect to financial, non-financial, product and model risk issues ('All Risks').
  Recommends, approves and reviews risk policies and determines risk appetite, tolerance and limits.
  The Risk Committee has a number of sub-committees focussing on different risk areas:
- Product Committee
  Oversees all insurance product risk issues across ING Insurance US. These include insurance risks and interest rate sensitivity (interest guarantees, profit sharing to policyholders, lapse/surrender or increased exposure of products sold, and hedges).
  Responsible for preparation/approval on product risk items (e.g., product approval, actuarial assumption setting), monitoring underwriting and management of the product portfolio.
- Operational Risk Committee
  Oversees all non-financial risk issues across ING Insurance US. This includes operational, compliance, legal and reputation risk.
  Responsible for preparation/pre-approval of non financial risk items, oversight on non-financial risk issues, and deciding on reported risks and proposed accepted risk.
- Model Committee
  Oversees all model and model validation risk issues across ING Insurance US.
  Responsible for preparation/pre-approval of model risk items and oversight on model validation.
- Asset Liability Committee
  Reviews methods and techniques for calculating Asset Liability Management risk, advice about limits and check for breaches in the investment mandates.
  Addresses balance sheet management, Statutory Capital requirements, and liquidity needs and recommend to the Executive Committee.
  Oversees activities and initiatives related to ING Insurance US debt ratings and relationships with ratings agencies.
  Recommends capital and liquidity requirements to the Risk Committee.

Risk management continued
ING Insurance US

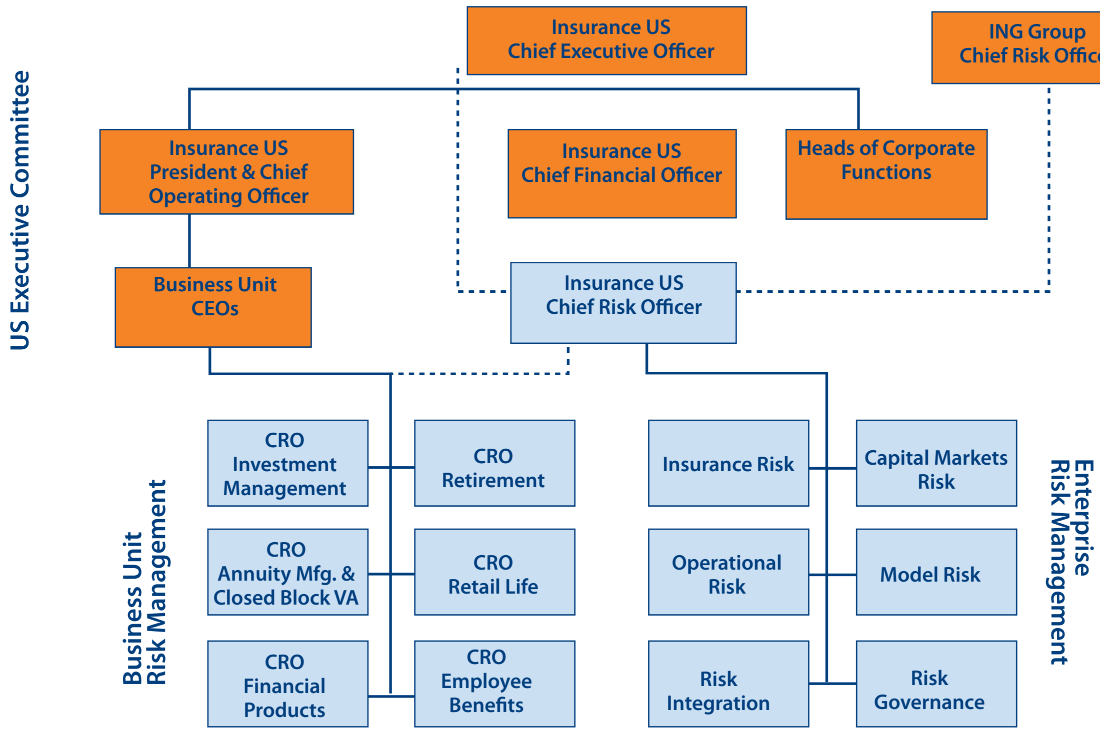


RISK MANAGEMENT FUNCTION

The Chief Risk Officer bears primary and overall responsibility for the risk management function within ING Insurance US, which identifies, measures, monitors and reports risk within ING Insurance US. The risk function maintains and updates the policy framework, develops and maintains risk methodologies and advises on the risk tolerance and risk profile. The CRO makes sure both the Supervisory Board and MB AIH are well informed and understand ING Insurance US's risk position at all times.

The ING Group CRO has delegated the day-to-day Risk Management within ING Insurance US to the ING Insurance US CRO. The ING Insurance US CRO's department (US Enterprise Risk Management) consists of several risk functions that support the overall business unit and ING Insurance US risk management activities.

Risk committees are established at the ING Insurance US and business unit levels. The Chief Risk Officers of the business units have a reporting line to the ING Insurance US CRO.



Risk management continued

ING Insurance US

PRODUCT APPROVAL AND REVIEW PROCESS

A critical aspect of risk management is that all new products are designed, underwritten and priced appropriately. Within ING Insurance US this is safeguarded by the Product Approval and Review Process (PARP). This standard includes requirements to risk profile, traditional and value-oriented pricing metrics, targets and documentation. The PARP includes requirements to assess market risks, insurance risk, compliance risk, legal risk, credit risk, operational risk as well as assessment of the administration and accounting aspects of the product. Customer suitability is integral part of the PARP requirements.

RESERVE ADEQUACY

US ERM instructs and supervises all ING Insurance US entities to ensure that the total insurance liabilities of ING Insurance US 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 the best-estimate scenario.

POLICIES

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

MODEL GOVERNANCE

During 2011 new models with regard to the disclosed metrics were approved by the Insurance Model Committee at the ING Group level. Under the new governance structure this will be the responsibility of the ING Insurance US Model Committee.

RISK FRAMEWORK

In order to manage the risk on a day-to-day basis and balance value, earnings and capital decisions, ING Insurance US has implemented a risk limit framework. The risk limit framework follows a top down approach.

	Description
Risk Appetite	A qualitative measure defining the playing field ING Insurance US wants to act in. Driven by ING Insurance US's capital rating targets and local capital restrictions, and business strategy
Risk Tolerance	A quantitative boundary intended to limit the risks taken, driven by the risk appetite.
Risk Limits	Limit setting to a granular level for business units throughout the organisation

The risk appetite is managed by the following risk tolerance metrics:
- US Regulatory Capital Requirements- Defined as a multiple of the minimum capital required by the National Association of Insurance Commissioners (NAIC) with consideration of the capital requirements deemed appropriate to maintain the ratings level issued to the operating companies by various rating agencies, excluding entities that are not US domiciled;
- IFRS Earnings;
- Targets are set on the current ratio values, limits are set on these ratios after considering a moderate stress scenario; and
- ING Insurance US is considering the implementation of additional risk tolerance metrics, potentially including US GAAP Earnings, capital sensitivities that include non-US domiciled entities, and a US management version of Economic Capital (which may not fully align with Solvency II).

Risk management continued
ING Insurance US

FINANCIAL RISKS
For financial risks, the risk tolerance is translated to risk limits on several sensitivities assuming a moderate stress scenario.
- US Regulatory Capital Requirements sensitivities.
  The potential reduction, under a moderately adverse market and credit stress scenario, of the excess of available statutory capital above the minimum required under the US regulatory Risk Based Capital (RBC) methodology. The RBC methodology is prescribed by the National Association of Insurance Commissioners (NAIC) and applies to US domiciled regulated insurance entities. The amount of excess capital targeted is also dependent on rating agency models and requirements.
- IFRS Earnings sensitivities.
  The sensitivity of realised pre tax earnings of the insurance operations over a 12-month period to moderate shocks to underlying risk factors.

Other than this, several other limit structures are put in place on corporate and business unit level. Examples include but are not limited to the following:
- Issuer concentration limits
- Mortality concentration limits
- Catastrophe and mortality exposure retention
- Minimum liquidity requirements
- Investment and derivatives guidelines and limits.

Financial Risk Management Report
ING Insurance US contributes to the Financial Risk Management Report (FRMR) that is discussed in the Risk Committee of the Supervisory board. The report contains a qualitative summary of relevant risk topics in the specific business units.

Actuarial Opinion
ING Insurance US contributes to the Actuarial Opinion, a quarterly report to the Supervisory Board which highlights significant developments with respect to the adequacy of insurance liabilities, based on IFRS reserving principles. Developments that (could) have a significant impact on the IFRS P&L are also mentioned in the Actuarial Opinion. The Actuarial Opinion of the last quarter of the year is accompanied by an overview of the IFRS reserve adequacy test.

Financial Risk Dashboard
ING Insurance US contributes to the Financial Risk Dashboard (FRD), a report that is discussed quarterly in the Risk Committee of MB AIH and in the Financial Risk Committee. The FRD provides an overview of the main financial risk metrics compared to the limits set by management in alignment with the risk appetite.

Investment Risk Dashboard
On a quarterly basis the Investment Risk Dashboard (IRD) is prepared for the general account of ING Insurance US. The IRD is reported to the Risk Committee and provides management information on the portfolios. The IRD analyses how the portfolios developed over the quarter. It summarises market developments and provides several breakdowns of the portfolios to highlight (potential) risk concentrations in asset classes, industries, rating classes and individual names. Also given the crisis, the IRD was further adapted to reflect more details and new views on some of the risks in ING Insurance US's investment portfolios.

NON-FINANCIAL RISKS
To ensure robust non-financial risk management, which also reflects the risk tolerance levels, ING Insurance US monitors the full implementation of ING Insurance US's risk policies, minimum standards and implementation guidelines. Business units have to demonstrate that the appropriate steps have been taken to control their operational and compliance risk. ING Insurance US applies scorecards to measure the quality of the internal control within a business unit. Scoring is based on the ability to demonstrate that the required risk management processes are in place and effective within the business units.

Non-financial Risk Dashboard
The Non-Financial Risk Dashboard (NFRD) is a quarterly report that is discussed at the Supervisory Board, AIH Executive Committee, Risk Committee and ING Insurance US management bodies. The NFRD provides management at all organisational levels information on their key operational, compliance and legal risks. The NFRD is based on defined risk tolerance within the business and gives a clear description of the risks and responses enabling management to prioritise and to manage operational, compliance and legal risks.

STRESS TESTING
ING Insurance US complements its regular risk reporting process with (ad hoc) stress tests. Stress testing examines the effect of exceptional but plausible scenarios on the capital position for ING Insurance US. Stress testing can be initiated internally or on certain request from external constituents.

Risk management continued
ING Insurance US

RISK TYPE DESCRIPTION
ING Insurance US measures the following main types of risks that are associated with its business risk:

- Insurance risk – risks such as mortality and morbidity associated with the claims under insurance policies it issues/underwrites; specifically, the risk that premium rate levels and provisions are not sufficient to cover insurance claims;
- Market risk – the risk of potential loss due to adverse movements in market variables. Market risks include interest rate, equity, real estate, implied volatility, credit spread, and foreign exchange risks;
- Credit risk – the risk of potential loss due to default by ING Insurance US debtors (including bond issuers) or trading counterparties;
- Business risk – the exposure to value loss due to fluctuations in volumes, margins and costs, as well as client behaviour risk. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency, and as such strategic risk is included in business risk;
- Liquidity risk – the risk that ING Insurance US or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions;
- Operational risk – the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputation risk, as well as legal risk;
- Compliance risk – the risk of damage to ING Insurance US's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies, procedures and ethical standards.

ONGOING CHANGES IN THE REGULATORY ENVIRONMENT
The Dodd-Frank Act, its implementing regulations and other financial regulatory reform initiatives could have adverse consequences for the financial services industry, including ING Insurance US and/or materially affect the results of operations, financial condition and liquidity. The 2010 Dodd-Frank Act directs existing and newly-created government agencies and bodies to conduct certain studies and promulgate a multitude of regulations implementing the law, a process that is underway and is expected to continue over the next few years. While some studies have already been completed and the rule-making process has begun, there continues to be significant uncertainty regarding the results of ongoing studies and the ultimate requirements of those regulations that have not yet been adopted. Until final regulations are promulgated pursuant to the Dodd-Frank Act, the full impact of the Dodd-Frank Act on the businesses, products, results of operation and financial condition will remain unclear.

State insurance regulators and the National Association of Insurance Commissioners (NAIC) regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and could have a material adverse effect on the financial condition and results of operations. The NAIC continues to work on comprehensive reforms related to life insurance reserves and the accounting for such reserves, although the timing and extent of further changes to statutory reserves and reporting requirements are uncertain.

RISK DEVELOPMENTS IN 2011
As reported in ING's third quarter results of 3 November 2011, ING Insurance US conducted a comprehensive assumptions review of the US Closed Block Variable Annuity (CB-VA) business. The review showed current US policyholder behaviour for CB-VA policies sold predominantly between 2003 and 2009 diverges from earlier assumptions made by ING, particularly given the ongoing volatility and challenging market circumstances. The assumptions for the CB-VA were updated for lapses, mortality, GMIB annuitisation, and GMWB utilisation rates, with the most significant revision coming from the adjustments of lapse assumptions. The revisions bring the assumptions more in line with US policyholder experience and reflect to a much greater degree the market volatility of recent years. In conjunction, ING Insurance US adjusted hedging to reflect the revised assumptions. As announced in December, the assumptions review resulted in a EUR 1.1 billion earnings charge for the CB-VA business. The impact of the assumption adjustments also includes a charge to restore the reserve adequacy to the 50% confidence level for the CB-VA in line with ING's accounting policy. Even with these actions, CB-VA and other business are exposed to future policyholder behaviour risks, which will continue to be monitored and assumption updates implemented as appropriate.

INSURANCE RISK
Insurance risks are comprised of actuarial and underwriting risks such as mortality, longevity, morbidity etc. which result from the pricing and acceptance of insurance contracts.

The table below shows the main risk categories for insurance risks within ING Insurance US. IFRS Earnings sensitivities are defined on a shock scenario at the 90% confidence level.

Risk management continued

ING Insurance US

	Description	Key Drivers
Mortality	Within mortality risk there are two main parts: - Positive mortality risk exists when more insureds die than expected, leading to higher claims than expected. - Negative mortality risk exists when insureds live longer than expected, leading to higher claims than expected (moderate shocks are not material to the P&L).	The largest earnings sensitivity to positive mortality risk arises in the Retail Life insurance business.
Morbidity	Morbidity or Health insurance covers insurance indemnifying or reimbursing losses (e.g. loss of income) caused by illness or disability, or for expenses of medical treatment necessitated by illness or disability. Morbidity 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 (ALAE) for morbidity product lines over the remaining contract period.	Earnings sensitivity to morbidity risk (e.g. sickness, disability, accidental death, workers' compensation, medical insurance) is present in the Employee Benefits business.

SENSITIVITIES
Mortality and morbidity sensitivities are calculated on a diversified basis at a 10% level assuming a normal probability distribution of results and a specified mortality/morbidity scenario to calibrate the distribution. The largest contribution to the mortality sensitivity comes from the Retail Life business while the morbidity exposure relates for a large part to the Employee Benefit business.

IFRS Earnings Sensitivities for Insurance Risks

	US Excl. CB-VA		CB-VA	
	2011	2010	**2011**	2010
Mortality	**–19**	–16	**–7**	–3
Morbidity	**–49**	–48		

MITIGATION
In general insurance risks cannot be (easily) hedged directly at the financial markets and tends to be mitigated by diversification across large portfolios. They are therefore managed at the contract level through standard underwriting policies, product design requirements, independent product approval processes and risk limitations related to insurance policy terms and conditions agreed with the client.

Risk not mitigated by diversification is managed through concentration and exposure limits and through reinsurance and/or securitisations:
- Tolerance limits for life insurance risk are set per insured life and significant mortality and morbidity events affecting multiple lives such as pandemics;
- Reinsurance is used to manage tolerance levels according to the ING Insurance US reinsurance credit risk policy; and
- Catastrophic losses resulting from events such as terrorism are considered to be uninsurable. ING Insurance US participates in industry pools in various countries to mitigate this risk.

BUSINESS RISK
Business risk for insurance is essentially the risk insurance operations accept as consequence of choosing to be in the business. In practice this can be defined as the exposure to the possibility that experience differs from expectations with respect to expenses, the run-off of existing business (persistency/renewals), future premium rerating, etc. The calculation of Business Risk Capital is specified by the regulatory capital methodology prescribed by the National Association of Insurance Commissioners (NAIC). ING Insurance US targets a capital level equal to 425% of the Company Action Level specified by the NAIC.

MARKET RISK
ING Insurance US is exposed to market risk to the extent to which the market value of surpluses can be adversely impacted due to movements in financial markets. Changes in financial market prices impact the market value of ING Insurance US's current asset portfolio and hedging derivatives directly as well as through the calculated market value of the insurance liabilities.

Risk management continued

ING Insurance US

The sensitivities shown are calculated at business unit level and cover US domiciled insurance entities. The sensitivities are based on moderate and simple to explain shocks to underlying risk factors. The following risk factors are taken into account:

	Description	Key Drivers
Interest Rate	Impact on assets and liabilities due to movements of interest rates Measured by the impact of a 1% upwards and downwards parallel shift of US Treasury curve.	Sensitivities of various guarantees (e.g. minimum interest rate guarantees, and guaranteed living benefits). CB-VA and GMIRs of insurance products.
Equity	Impact of a drop in equity prices which impacts direct equity exposure and loss of fee income from variable and equity linked Measured by the impact of a 25% drop in equity prices.	Separate account and equity indexed business, and direct equity exposure.
Credit (Default and Spread risk)	Impact that credit default risk can have on credit impairment levels in a '1 in 10 ' scenario (using '1 in 10 ' 1-year default rates by rating category, combined with stressed 'Loss Given Default ' assumptions); plus impact that a '1-in-10' increase in credit spreads levels can have on previously impaired structured assets (re-impairment risk) and on CDS transactions that are carried at market value.	General account business
Implied Volatility (Equity & Interest Rates)	Impact of losses on assets and liabilities due to movements in the volatility implied from market option prices. For interest rate - measured by the impact of a relative increase of 30% in implied swaption volatilities For equity - measured by the impact of a relative increase in implied volatilities based on tenor - 80% for tenors less than 1 year, up 30% for tenors between 1and 3 years, up 20% for tenors between 3-7 years and up 10% for tenors of 7 years and above.	Embedded guarantees in business and derivatives used to hedge equity exposures.
FX	Impact of losses related to changes in exchange rates Measured by the worst case impact of a 10% up and down movement for each currency.	Translation risk of market value surplus of non-USD businesses.
Real Estate	Impact of losses related to changes in real estate Measured by impact of all real estate down 15%.	

SENSITIVITIES

The stress events are described above. The ING Insurance US earnings sensitivities are dominated by credit, equity and interest rate exposure.

ING Insurance US has no significant earnings sensitivity to Foreign Exchange Rates as ING Insurance US is managed on a local currency basis and therefore there is no translation risk to the Group reporting currency included. There is no significant earnings exposure to non-US currencies. From the ING Group perspective, there may be some translation risk between USD based operations and EUR basis.

ING Insurance US earnings sensitivies are shown in the tables below. Taking into account diversification between risk factors, ING Insurance US (excluding CB-VA) is exposed to a EUR 1.0 billion decrease in expected IFRS Earnings within the context of the market and non-market sensitivity analysis. The changes from 2010 to 2011 are the result of many factors including:
- Reduction in interest rates increasing exposure to further declines in rates due to product guarantees;
- Hedging programs, including various actions taken to reduce the risk of declining rates;
- Turnover of the asset portfolio; and
- Incorporation of mean reversion in DAC calculations by Retirement Services.

IFRS Earnings Sensitivities for Market Risks [1,2]

	US Excl. CB-VA	
	2011	2010
Interest Rate Up	**72**	13
Interest Rate Down	**–146**	–34
Equity	**–293**	–374
Credit – Default	**–355**	–513
Credit – Spread	**–188**	–269

(1) Implied Volatility, FX and Real Estate sensitivities do not have a material impact.
(2) Sensitivities are calculated at business unit level.

Risk management continued
ING Insurance US

Estimated CB-VA Immediate Earnings Sensitivities at 31 December 2011	Immediate Change in Equity Market					
	-25%	-15%	-5%	+5%	+15%	+25%
Earnings sensitivity before RAT Policy Impact	750	500	100	–250	–600	–900
RAT Policy Impact (RAT50)	–950	–600	–200			
Total estimated Post Refinement Earnings Sensitivity	–200	–100	–100	–250	–600	–900
Improvement in RAT 50 Sufficiency				200	600	950

Due to the lack of excess reserve adequacy, CB-VA results may be volatile under certain economic scenarios. This volatility is shown in the table above which shows the estimated sensitivity of IFRS earnings to immediate changes in equity markets. For, example, as of 31 December 2011 it is estimated that if equity markets were to increase 25%, CB-VA would be exposed to an immediate EUR 0.9 billion decrease in IFRS Earnings and an increase in the reserve adequacy at the 50% confidence level of EUR 0.95 billion. This immediate sensitivity is not directly comparable to the 12 month sensitivities shown in the preceding table.

The credit default exposure relates to general account debt securities. Exposure to Asset Backed Securities (ABS) and Residential Mortgage Backed Securities (RMBS) contributes significantly to the earnings sensitivity.

MITIGATION
ING Insurance US manages its risk exposure through contractual adjustment mechanisms such as changes to credited rates, the contractual terms related to new business, adjusting its capital structure within regulatory constraints, and, where deemed appropriate, hedging various exposures.

REAL ESTATE
ING Insurance US has a small exposure to direct real estate, which is composed primarily of Home Office real estate and real estate from foreclosed loans.

Real Estate Exposure	2011	2010
Total	125	121

CREDIT RISK
ING Insurance US credit exposure arises from the investment of insurance premiums in assets subject to credit risk, largely in the form of unsecured bond investments, investments in private placements and commercial mortgages, as well as in structured finance products. In addition, ING Insurance US is exposed to credit counterparty risk exposure in derivatives transactions, sell/repurchase transactions, securities lending/borrowing and in reinsurance contracts.

Within ING Insurance US, the goal is to maintain a low-risk, well diversified credit risk portfolio that meets or exceeds market based benchmark returns. ING Insurance US has a policy of maintaining a high-quality investment grade fixed income portfolio while avoiding large risk concentrations. The emphasis is on managing total exposure and concentration risk by means of portfolio level risk limits and concentration limits for countries, individual borrowers and borrower groups. Counterparty credit risk is mitigated by only transacting with counterparties that meet minimum credit quality standards as well as by requesting collateral for all larger exposures.

Risk management continued

ING Insurance US

The table below shows the main risk categories for credit risk within ING Insurance US.

	Description	Key Drivers
Issuer or Investment Risk	Risk related to the impact of a credit default or rating migration, plus the risk that a change in general credit spread levels can have on the market value of these instruments Measured at original cost (purchase price) less any prepayments or amortisations and excluding any accrued and unpaid interest or the effects of any impairment.	Investments in public bonds, commercial paper, securitisations and other publicly traded securities.
Lending Risk	Risk related to certain illiquid investments made by ING Insurance US Measured at original cost (purchase price) less any prepayments or amortisations and excluding any accrued and unpaid interest or the effects of any impairment.	Privately placed bonds and commercial mortgage loans in the United States.
Pre Settlement Risk	Risk of a counterparty defaulting on a transaction before settlement and ING Insurance US having to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. Measured as the replacement value (mark-to-market) plus a potential future volatility concept, using a 3-7 year historical time horizon and a 97.5% (1.96 standard deviations) confidence level.	Options, swaps, and securities financing transactions used for hedging purposes.

RISK DEVELOPMENTS IN 2011

Debt Securities
ING Insurance US's bond portfolio increased by 9.5%, from EUR 52.9 billion at year-end 2010 to EUR 57.9 billion at year-end 2011. This increase is partially explained by a 3% change in the USD/Euro exchange rate and a 4% average increase in price of the assets carried at market value due to a drop in interest rates and/or credit spreads. Other noteworthy changes include a EUR 0.8 billion reduction in exposure to Sub-Prime RMBS and a EUR 0.4 billion reduction in exposure to CMBS. These reductions are largely the results of asset sales that helped improve the overall quality of the bond portfolio. The EUR 0.4 billion increase in government bonds is fully related to a price increase on the US Treasury book. While ING Insurance US has limited exposure to corporate issuers in Greece, Italy, Ireland, Portugal, and Spain, it has no direct exposure to any sovereign issuers or banks in these countries.

ABS portfolio
The RMBS and other ABS changed from EUR 9.6 billion at year-end 2010 to EUR 8.9 billion at year-end 2011. Similarly, the CMBS portfolio decreased from EUR 4.6 billion to EUR 4.2 billion at year-end 2011. ING Insurance US continued to de-risk its asset-backed securities (ABS) portfolio in 2011 selling lower rated securities. ING Insurance US does not reinvest in Subprime or Alt-A securities and limits the reinvestments in ABS to only the most senior investment-grade tranches. Compared with 2010, these ABS exposures declined EUR 1.4 billion to EUR 5.4 billion. In 2011 ING Insurance US implemented an Investment Risk policy prohibiting any new investments in these ABS. For all of these reasons going forward it is expected that they will not be reported as pressurised assets in ING Insurance US financial reporting.

Greece, Italy, Ireland, Portugal and Spain
In the first half of 2010 concerns arose regarding the creditworthiness of several European countries, which later spread to a few other European countries. As a result of these concerns the value of sovereign debt decreased.

ING Insurance US does not have any type of credit exposure related to Governments or Financial Institutions in these countries. Therefore ING Insurance US financial performance is largely insulated from developments in Greece, Italy, Ireland, Portugal and Spain. Obviously there is always the risk of contagion to other sectors of the global economy, which could have an impact on the portfolio. In this context, ING Insurance US has disclosed around EUR 200 million exposure to largely investment grade quality corporate issuers in Italy, Spain and Ireland (EUR 600 million total). In addition, it disclosed a partially collateralised EUR 1.3 billion reinsurance counterparty risk exposure to an Irish subsidiary of a large German reinsurance company as exposure to Ireland.

RISK PROFILE

Risk classes
As a result of the downgrade of the United States Government in August 2011 by S&P, the exposure to AAA rated assets decreased to 16.5%. This resulted in a large 'inflow' in the AA category, which was offset by downgrades from AA to A for a few insurance companies where ING Insurance US has (collateralised) reinsurance counterparty risk. Please note that the 17-22 category largely consists of unrated exposures. The exposure to assets actually rated CCC or below is less than 3% of the portfolio.

Risk management continued
ING Insurance US

Risk Classes: ING Insurance US portfolio, as % of total outstandings [1]		ING Insurance US	
		2011	2010
1	(AAA)	**16.5%**	22.3%
2-4	(AA)	**13.7%**	13.9%
5-7	(A)	**25.3%**	23.4%
8-10	(BBB)	**24.0%**	21.3%
11-13	(BB)	**3.8%**	4.0%
14-16	(B)	**3.9%**	4.5%
17-22	(CCC, Unrated & Problem Grade)	**12.8%**	10.6%
		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 and are based on ultimate parent.

Risk concentration
The risk concentration per sector remains very similar to last year, with the largest decrease shown for Non-Bank Financial institutions which decreased by 2.9% Please note that this category largely consists of special purpose vehicles that issue RMBS, ABS and CMBS securities.

Risk Concentration: ING Insurance US portfolio, by economic sector [1]	ING Insurance US	
	2011	2010
Non-Bank Financial Institutions	**38.6%**	41.5%
Real Estate	**8.5%**	7.9%
Central Governments	**8.2%**	8.4%
Natural Resources	**6.9%**	5.5%
Utilities	**6.0%**	5.2%
Commercial Banks	**4.4%**	3.4%
Food, Beverages & Personal Care	**3.6%**	3.2%
Chemicals, Health & Pharmaceuticals	**3.1%**	3.0%
Private Individuals	**2.2%**	2.3%
Telecom	**2.2%**	2.1%
General Industries	**2.1%**	1.6%
Other	**14.2%**	15.9%
	100.0%	100.0%

[1] Economic sectors below 2% are not shown separately but grouped in 'Other'.

ING Insurance US largely invests in financial instruments issued in the United States, as required by regulation. Bonds and private placements issued by Western European corporations account for the majority of the non-US exposure. The decrease in exposures to the Netherlands is partially related to a reduction in the exposure to the Dutch state.

Largest economic exposures: ING Insurance US portfolio, by geographic area [1]	ING Insurance US	
	2011	2010
United States	**77.4%**	77.7%
Netherlands	**5.7%**	8.2%
Rest of Europe	**9.3%**	6.8%
Rest of Americas	**4.4%**	4.2%
Asia/Pacific	**3.0%**	3.0%
Rest of World	**0.2%**	0.1%
Total	**100.0%**	100.0%

[1] Country is based on the country of residence of the obligor.

Risk management continued

ING Insurance US

Security lending business
As part of its securities financing business, ING Insurance US entities actively enter into agreements to sell and buy back marketable securities. These transactions can take many legal forms. Repurchase and reverse repurchase agreements, buy/sellback and sell/buyback agreements, and securities borrowing and lending agreements are the most common. The amount of marketable securities that ING Insurance US held as collateral under these types of agreements was EUR 0.8 billion in 2011 and EUR 2 billion in 2010. The change is largely due to a decrease in repurchase agreements and the elimination of the Cash Release securities lending program. These amounts exclude the cash leg of the respective transactions, as well as any pledges of securities under Tri-Party agreements (as the underlying is not directly pledged to or owned by ING Insurance US). As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or pledged in other (similar) transactions. ING Insurance US is obliged to return equivalent securities in such cases.

MITIGATION
Credit Risk in ING Insurance US portfolio is partially mitigated by collateral it has received:
- The entire block of commercial mortgages (EUR 6.7 billion) is collateralised with mortgages on real estate properties. The weighted average loan to (most recent) value of this portfolio was 55% as per 31 December 2011;
- The EUR 10 billion private placement portfolio is partially collateralised with assets pledged to the consortium of lenders;
- The EUR 1.7 billion policy loan portfolio is fully collateralised by the cash value of the underlying insurance policies;
- The gross counterparty risk exposure to reinsurance companies (EUR 5.8 billion per 31 December 2011) is largely collateralised with assets held in trust (EUR 4.0 billion), letters of credit (EUR 1.8 billion), or funds withheld (EUR 1.1 billion). Please note however that some exposures are overcollateralised and that there is a total of EUR 1.7 billion of uncollateralised reinsurance counterparty risk exposure; and
- Exposure to financial institutions related to OTC derivative-transactions is largely collateralised, in line with ISDA Master Agreements accompanied by Collateral Support Agreements that have been signed with these counterparties. As per 31 December 2011, ING Insurance US was holding net collateral of EUR 0.35 billion supporting a net market value exposure of EUR 0.5 billion.

Exposures related to Securities Lending, Reverse Repo, and exchange traded instruments are obviously also collateralised.

PROBLEM LOANS
ING Insurance US does not have any material past-due or impaired loans. The only type of investments that fall into the loan category are commercial mortgage loans. As soon as such loans become non-performing, the collateral is typically liquidated or the loan is sold.

Impaired loans and provisions
ING Insurance US mainly has bond investments. The amount of impaired loans in its portfolio is very small and limited to commercial mortgage loans.

LIQUIDITY RISK
Liquidity risk refers to the risk that a company is unable to settle financial obligations when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions. As with other market risks, liquidity risk falls under the supervision of the Risk Committee function. Under the volatile market circumstances in 2011, funding and liquidity risk remains an important topic on the agenda of senior management and the Risk Committee, that needs continuous monitoring and management. External market and regulatory developments and internal financial developments are closely monitored. Regular stress testing and measurement of early warning indicators are, among others, used to provide additional management information.

ING Insurance US defines two levels of Liquidity Management. Short term liquidity, or cash management, covers the day-to-day cash requirements under normally expected or likely business conditions. Long term liquidity management takes into consideration various expected and adverse business conditions, which might result in the inability of realising the current market values of the assets. The assets may only be sold at a further distressed price simply due to the lack of liquidity. Stress liquidity management looks at the company’s ability to respond to a potential crisis situation. The day-to-day and ongoing cash management allows for a more proactive response to potential liquidity problems in distressed markets. Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis in a base case and under several stressed scenarios.

OPERATIONAL RISK
Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the risk of reputation loss, as well as legal risk whereas strategic risks are not included. Operational risk also includes IT risk.

For Operational Risk, ING Insurance US follows the ING Group framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks. The ING framework is based on the elements of the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission).

Risk management continued
ING Insurance US

The Operational risk function works with the ING Operational Risk Management (ORM) Scorecard process to evaluate yearly the embedding level of the Operational Risk Management Framework in each business. Policies and minimum standards governing the framework are kept in the policy house. During 2011 Operational Risk started with the implementation of an ING Insurance US policy house in preparing for a stand-alone public organisation.

Risk appetite is defined as the risk level management is prepared to tolerate. The operational risk appetite levels are set by ING Group in the form of a risk footprint. Via Operational Risk Committees (ORCs) it is ensured that responsible line managers mitigate the risks that are not within the risk appetite. Incidents and operational risks are tracked and on a quarterly basis reported to management in the Non-Financial Risk Dashboard.

Integrated risk assessments are performed on an ongoing basis across the organisation. Mitigating actions are taken for those risks that are identified as risks beyond the risk appetite level. Status of the mitigating actions is formally tracked.

To ensure an independent Operational risk function and the possibility for the Operational risk officers to be impartial and objective when advising business management on Operational Risk, a dual reporting line, directly to ING Insurance US Chief Risk Officer and functionally to the next higher level ING Group Operational Risk Officer, is in place. The head of Operational risk ultimately reports directly to the ING Insurance US Chief Risk Officer.

COMPLIANCE RISK
The ING Insurance US Compliance program and function are aligned with ING Group's Compliance Risk Management Charter and Framework and the related processes described elsewhere in this Report.

The Scope of the Compliance function
The ING Insurance US Compliance function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry. The Compliance function actively educates and supports the business in managing compliance risks including anti-money laundering, preventing terrorist financing, conflicts of interest, sales practices for insurance and investment products, trading conduct and protection of customer interests.

The Compliance function
In ING Insurance US, the Compliance function is an independent control and risk management department. The ING Insurance US Chief Compliance Officer reports directly to the ING Insurance US Chief Legal Officer, who is a member of the ING Insurance US Executive Committee. The ING Insurance US Chief Compliance Officer also has a functional reporting line to the ING Group Chief Compliance Officer.

Compliance Risk Management Framework
ING Insurance US adheres to the ING Group Compliance Framework, which consists of three key components: the Compliance Risk Management process, an Advisory component and the Scorecard. ING Insurance US Compliance executes a regular process of identifying, assessing, mitigating, monitoring and reporting compliance risks. The Compliance function works with Operational Risk Management's annual evaluation process, assessing the implementation of compliance program elements within each business line and across the enterprise.

ING Insurance US also maintains a Whistleblower process, which encourages staff to speak up, without fear of reprisal, if they know of or suspect a breach of laws, regulations or internal policies. ING Insurance U.S. also maintains a domestic 'hotline' operated by a third-party vendor that is available to all employees to report suspected misconduct, and reporting employees may elect to remain anonymous in doing so.

Main Compliance developments in 2011
- **Policies & Procedures**: ING Insurance US Compliance reviewed and prepared drafts of an updated Code of Business Conduct and Ethics, along with new or refreshed Corporate Compliance Policies tailored to the US business and regulatory regime. These will be issued and implemented in 2012.
- **Technology Enhancements**: ING Insurance US Compliance enhanced technology and tools to improve compliance risk management in the areas of anti-money laundering, position reporting and personal trading.
- **Enterprise Functions**: ING Insurance US Compliance enhanced its organisation by implementing greater focus on consistent enterprise-wide compliance processes and dedicated teams to support critical functions across all business lines, including advertising review, customer complaint resolution, branch office compliance inspections and compliance training. Compliance also integrated its team and processes supporting all of the ING Insurance US wholesale broker-dealers in the Retirement, Insurance and Annuity Manufacturing business lines to provide more effective and consistent controls.
- **Extra-territorial Laws**: The UK Bribery Act was effective 1 July 2011 and is deemed applicable to ING's business globally. Accordingly, the ING Group Gifts, Entertainment and Anti-Bribery Policy was amended to comply with the UK Bribery Act, and ING Insurance US adopted and implemented the amended Group policy to enhance ING Insurance US's existing anti-corruption and anti-bribery policies and procedures.
- **Employee Compliance Training**: Continuous education and awareness training was provided through the ING Learning Center, with four required Corporate Responsibilities Courses for all ING Insurance US employees, in addition to two targeted courses on Privacy and Anti-Money Laundering for certain designated employees.

Risk management continued

ING Insurance US

REGULATORY CAPITAL

For the capital adequacy assessment of ING Insurance's US domiciled regulated insurance businesses, available capital is measured under US statutory accounting principles and required capital is measured under the US regulatory Risk Based Capital (RBC) methodology defined by the National Association of Insurance Commissioners (NAIC). Commonly in the US an insurer's financial strength and ability to meet policyholder obligations is measured in terms of the amount of statutory capital held in relation to the 'Company Action Level' RBC defined by the NAIC framework. Note that the level of capital required by rating agencies to maintain an acceptable claims paying ability rating is well above the regulatory minimum defined by Company Action Level RBC. Consequently, ING Insurance US manages its available capital primarily with respect to capital metrics that are aligned with the models of the various rating agencies.

The relevant capital requirements of the ING Insurance US business units consist of statutory Risk Based Capital requirements (RBC) for its US domiciled business, along with additional requirements for the Cayman Islands based subsidiary Security Life of Denver International (SLDI). ING Insurance US targets a RBC ratio of 425% for its US-domiciled business.

The asset target for variable annuity (VA) business within SLDI is based on Actuarial Guideline 43 (AG 43), a reserve standard written by the US National Association of Insurance Commissioners. AG 43 prescribes reserves based on applying standardised economic scenarios under the Conditional Tail Expectation (CTE) approach, a scenario testing methodology. For rating agency purposes, ING Insurance US targets assets satisfying the CTE requirement in excess of the 95% confidence level.

Since Regulatory filings still need to be completed, the actual targets are not available yet, but the total ING Insurance US target is estimated at EUR 7.0 billion.

REGULATORY CAPITAL SENSITIVITIES

ING Insurance US calculates regulatory capital sensitivities on the Risk Based Capital model in order to provide insight into how the amount of available capital in excess of regulatory required capital is sensitive to an increase or decrease in different market and credit risk factors under a moderate stress scenario which corresponds approximately with a 1-in-10 event. Regulatory capital sensitivities are calculated in aggregate for the US domiciled regulated insurance entities, and exclude any effects of the sensitivities on the capital of non-US domiciled entities.

The sensitivities shown are calculated at business unit level and cover US domiciled insurance entities. The sensitivities are based on moderate and simple to explain shocks to underlying risk factors. The following risk factors are taken into account:

- Interest rates;
- Equity;
- Credit (credit default and credit spread risk);
- Implied volatility (equity & interest rates);
- Foreign exchange; and
- Real Estate.

The table previously shown in Market Risk section for Earnings at Risk is the same overview of the shock scenarios applied for regulatory capital sensitivities.

The regulatory capital sensitivity in aggregate is calculated by combining the joint impact of the various market stress events calculated by taking into account the correlations between risk types.

Sensitivities

The table below presents market risk sensitivity figures before diversification between risks. The stress events are described above.

Regulatory Capital Sensitivities [1,2,3]

	US Excl. CB-VA		CB-VA	
	2011	2010	**2011**	2010
Interest Rate Up	**2**	–132	**24**	–6
Interest Rate Down	**–50**	49	**–226**	27
Equity	**–149**	–55	**–17**	–168
Credit - Default	**–272**	–366	**–8**	–12
Credit – Ratings migration	**–410**	–355	**–21**	–20

(1) Implied Volatility, FX and Real Estate sensitivities do not have a material impact.
(2) Sensitivities are calculated at business unit level and cover US domiciled insurance entities.
(3) Sensitivities shown are calculated relative to management targets that are a multiple of 'Company Action Level' RBC, and those shown in the 2010 annual report were based on 'Company Action Level' RBC.

Risk management continued

ING Insurance US

The changes from 2010 to 2011 are the result of many factors including:

- Reduction in interest rates increasing exposure to further declines in rates due to product guarantees;
- Hedging programs, including various actions taken to reduce the risk of declining rates;
- Hedging activities for Closed Block Variable Annuity related to both interest rates and equity exposure; and
- Turnover of the asset portfolio; and
- Refinement of calculation of equity risk arising from hedge funds and limited partnerships was the primary driver of the increase in equity risk for US excluding CB-VA.

Taking into account diversification between risk factors, ING Insurance US (excluding CB-VA) is exposed to a EUR 0.9 billion decrease in regulatory capital and CB-VA is exposed to a EUR 0.3 billion decrease in regulatory capital within the context of the market and non-market sensitivity analysis.

Risk management continued

ING Insurance Investments

INSURANCE INVESTMENTS

The Insurance Investments business consists of certain parts of ING Insurance that will not be part of the divestment of the Latin American, Eurasian and US business. In the course of the divestment process of these businesses the composition of the Insurance Investments portfolio may change. Furthermore, at some stage parts of the Insurance Investments portfolio itself may be divested or closed down. In some cases this can take many years. Currently the most important parts of this portfolio are:

- Financing activities of ING Insurance and some of it’s sub holdings;
- Certain activities related to prior divestments, such as legal claims in Mexico and the ownership of a Mexican mortgage company;
- ING’s stake in the Brazilian SulAmerica joint venture;
- The run-off of former non-life and reinsurance activities.

The largest asset is the Brazilian SulAmerica joint venture with a balance sheet value of EUR 394 million.

Insurance Investments is primarily the responsibility of the ING CFO. Winding down financing activities is delegated to ING Capital Management. Other Insurance Investments businesses are managed by the newly appointed General Manager Insurance Investments. Insurance Investments is supported by the Finance and Risk functions of ING Group. From a risk perspective a key element of this structure is support from Group functions such as Credit Risk, Market Risk, Operational Risk and Legal & Compliance and Internal Audit and from the Functional Controller Insurance.

Capital management

amounts in millions of euros, unless stated otherwise

OBJECTIVES

ING Group Capital management (Capital management) is responsible for the sufficient capitalisation of ING Group entities at all times in order to manage the risk associated with ING's business activities. This involves the management, planning and allocation of capital within ING Group. ING's Corporate Treasury is part of Capital management. It executes the necessary capital market transactions, term (capital) funding and risk management transactions. Capital management monitors and plans capital adequacy on a consolidated basis at three levels: ING Group, ING Insurance and ING Bank. Capital management takes into account the metrics and requirements of regulators (Insurance Group Directive (IGD) Solvency I, Tier 1 and BIS ratios and limits for hybrid capital), rating agencies (leverage ratios, Adjusted Equity) and internal models such as the economic capital and market value balance sheet approach for parts of ING Insurance including Available Financial Resources (AFR).

ING applies the following main capital definitions:

- Insurance Group Directive capital (ING Insurance) – This regulatory concept is defined as shareholders' equity plus hybrid capital, prudential filters and certain adjustments. IGD capital is calculated in accordance with method 3 'method based on accounting consolidation' of the Dutch Act on Financial Supervision. In this method the solvency margin is calculated on the basis of the consolidated accounts and is the difference of (i) the assets eligible for the inclusion in the calculation of the solvency margin based on the consolidated data; and (ii) the minimum amount of the solvency margin calculated on total Insurance data. In applying this method a solvency deficit of an insurance subsidiary, if any, is taken into account, as well as regulatory adjustments of the Dutch insurance subsidiaries based on the Dutch Act on Financial Supervision. See 'Capital Base' disclosures in this section. This capital definition is applied in comparing IGD capital to EU required capital base.
- AFR (ING Insurance Eurasia) –This is a pre-tax market value concept, defined for the insurance operations of ING Insurance Eurasia as the market value of assets (MVA) less the market value of liabilities (MVL) on the balance sheet. The liabilities do not include perpetual hybrid capital which is included in AFR. The AFR valuation of ING Eurasia includes an adjustment for portfolio illiquidity. The AFR for pension funds is set equal to the statutory net equity. AFR is used as the measure of available capital in comparison with Economic Capital employed.
- EC, or Economic Capital (ING Insurance Eurasia), is the required capital for the insurance operations of ING Insurance Eurasia, based on a 99.5% confidence interval on a one-year horizon. This interval is aligned with the Solvency II capital requirement. The EC for pension funds is based on sectoral rules. The excess of AFR over EC is set based on the business strategy and resulting risk appetite defined by the Management Board Insurance Eurasia.
- Risk Based Capital (Domestic ING US Insurance only). In the US, regulators have well developed capital adequacy models and stress tests that reflect the unique characteristics of the US insurance industry. US domiciled insurance legal entities are required to hold minimum capital levels by state insurance regulators. The level of capital required by rating agencies to maintain an acceptable claims paying ability rating is well above these levels. The Domestic US Insurance business manages its statutory surplus primarily with respect to capital metrics that are aligned with the models of the various ratings agencies.
- Financial Leverage (ING Insurance). Financial Leverage is the sum of hybrid capital, sub-debt and net financial debt and is used to measure the debt ratio of ING Insurance.

DEVELOPMENTS

In 2011, Capital management's main focus remained to strengthen the capital position of ING Group, ING Bank and ING Insurance. ING's capital positions are well placed to deal with the uncertain financial environment, increasing regulatory requirements and the ambition to repurchase the remaining outstanding Core Tier 1 securities. Capital Management started managing towards separate US, Eurasia and Insurance Investments Financial Leverage and Capital Adequacy in 2011.

In May ING repurchased EUR 2 billion of the Core Tier 1 securities issued in November 2008 at a 50% premium. Nevertheless ING maintained a strong capital position, driven mainly by strong capital generation at ING Bank. ING Bank met the additional capital requirements proposed by the EBA and agreed by the EU Council on 26 October 2011. In December 2011, ING successfully completed a liability management transaction with an average participation of 60%. The net impact of this transaction on ING Group's consolidated balance sheet was a reduction of EUR 2 billion in hybrid capital and a capital gain of EUR 0.7 billion.

On 8 March 2012, in preparation of the planned insurance and investment management divestments, ING Group has announced three separate exchange offers and consent solicitations on a total of three series of senior securities of ING Verzekeringen N.V. with a total nominal value of EUR 2.6 billion. The objective of the transaction is to remove potential ambiguity that the planned divestments may create with regards to these ING Verzekeringen N.V. securities, predominantly with regards to the Change of Control clauses which may be triggered at the time of a substantial asset disposal. The transaction is scheduled to be completed in April 2012. Any difference between the book value of the currently outstanding securities and the fair value of the newly issued securities will be recognised in the profit and loss account upon completion of the exchange.

Capital management continued

POLICIES

The activities of Capital Management are executed on the basis of established policies, guidelines and procedures. The main documents that serve as guidelines for capital planning are the Capital Letter (comprising the approved targets and limits for capital), the Capital Planning Policy, the Dividend Policy and the Capital Request Policy. For the Corporate Treasury there are additional policies and limits that guide the management of the balance sheets and the execution of capital market transactions.

The above capital definitions and policies have been approved by the ING Group Executive Board or delegated authorities.

PROCESSES FOR MANAGING CAPITAL

In addition to measuring capital adequacy, Capital management also ensures that sufficient capital is available through setting targets and limits relevant to the above mentioned metrics for ING Group, ING Bank, and ING Insurance and ensuring adherence to the set limits and targets through planning and executing capital management transactions. The process is supplemented by stress testing and scenario analysis. The ongoing assessment and monitoring of capital adequacy is embedded in Capital management's capital planning process and results in a quarterly capital update report which is presented to both the ING Group Finance and Risk Committee and the ING Group Executive and Supervisory Boards. The main objective of the assessment is to ensure that ING Group as a whole has sufficient capital relative to its risk profile both in the short and the medium term.

A key priority of Capital management is to make sure that strong stand-alone companies are created for banking and insurance in preparation of the separation. All operating entities need to stay adequately capitalised based on local regulatory and rating agency requirements and interdependencies should be reduced to a minimum. The entities should also be able to access capital markets independently.

CAPITAL ADEQUACY ASSESSMENT

During 2011, ING Insurance was adequately capitalised.

ING INSURANCE

The table below shows the Insurance Group Directive position which represents the consolidated regulatory Solvency I position of ING Insurance business. The Insurance companies complied with their respective local regulatory requirements.

Capital position of ING Insurance

	2011	2010 [1]
Shareholders' equity (parent)	**23,475**	20,159
Hybrids issued by ING Group [2]	**2,604**	2,094
Hybrids issued by ING Insurance [3]	**1,726**	2,207
Required regulatory adjustments	**–6,399**	–4,125
IGD capital [4]	**21,406**	20,335
EU required capital base [2,3]	**9,515**	8,826
IGD Solvency I ratio [4,5]	**225%**	230%

[1] These numbers have been restated to reflect the move towards fair value accounting for Guaranteed Minimum Withdrawal Benefits for life in the US closed block VA as of 1 January 2011. Further details on the restatement are available in the Accounting Policies for the consolidated annual accounts of ING Insurance under 'Changes in accounting policies'.
[2] Hybrids issued by ING Group at notional value.
[3] Hybrids issued by ING Insurance at notional value capped at 25% of EU required capital.
[4] In the fourth quarter 2011, ING reviewed the calculation of the IGD ratio to ensure consistent application throughout the Group. As a consequence, several changes have been made, mainly related to (i) certain provisions which are internally reinsured and for which required capitals were netted out in the past and (ii) changes in the allocation of policyholder liabilities to the relevant capital requirement categories. The reported IGD Solvency I ratio in 2010 of 250% has been adjusted for this change into 230%.
[5] The actual required regulatory adjustments for IGD capital and the EU required capital may be different from the estimate since the statutory results are not final until filed with the regulators.

ING Insurance continues to aim that operating entities are adequately capitalised based on local regulatory and rating agency requirements and that on a consolidated basis, the financial leverage (hybrids, sub-debt and net financial debt) of ING Insurance is appropriate relative to the capital base. The financial leverage decreased in 2011 mainly due to the divestment of the business in Latin America.

Capital management continued

Capital base and financial leverage of ING Insurance	2011	2010 [1]
Shareholders' equity (parent)	23,475	20,159
Revaluation reserve debt securities	–4,379	–1,164
Revaluation reserve crediting to life policyholders	3,492	1,488
Revaluation reserve cash flow hedge	–2,883	–1,567
Goodwill	–786	–1,425
Minority interests	62	111
Capital base	18,981	17,602
Group Hybrid capital [2]	2,617	2,094
Insurance hybrid capital [3]	1,751	2,313
Total hybrids	4,368	4,407
External debt issued by ING Verzekeringen N.V.	2,855	3,347
External debt issued by US Holding companies	930	1,384
Other net financial debt [4]	1,686	2,273
Total financial debt	5,471	7,004

[1] These numbers have been restated to reflect the move towards fair value accounting for Guaranteed Minimum Withdrawal Benefits for life in the US closed block VA as of 1 January 2011. Further details on the restatement are available in the Accounting Policies for the consolidated annual accounts of ING Insurance under 'Changes in accounting policies'.
[2] Hybrids issued by ING Group at amortised cost value consistent with IFRS carrying value.
[3] Hybrids issued by ING Insurance at amortised cost value consistent with IFRS carrying value.
[4] Includes net internal borrowings from the operating subsidiaries, net of cash and current tax liability at the holding level and current tax liabilities of the holding companies, mainly ING Verzekeringen N.V. and ING America Insurance Holdings Inc.

For ING Insurance in total, the capital base for financial leverage purposes is fully based on IFRS accounting, whereas the IGD capital is corrected for some regulatory adjustments. The table below provides a reconciliation.

Reconciliation between IGD capital and Capital base	2011	2010
IGD Capital	21,406	20,335
Hybrids issued by ING Group	–2,604	–2,094
Hybrids issued by ING Insurance	–1,726	–2,207
Revaluation reserve debt securities	–4,379	–1,164
Revaluation reserve crediting to life policyholders	3,493	1,488
Required regulatory adjustments	2,791	1,244
Capital base	18,981	17,602

For ING Insurance Eurasia, Available Financial Resources (AFR) continues to be important, especially as an evolving proxy for the Own Funds derivation from our internal model under Solvency II. The following table presents the reconciliation from the 2010 AFR and EC for Insurance excluding US as reported in the Annual Accounts 2010, to the comparable basis for Eurasia 2011. This reflects the changes in scope and methodology.

2010 AFR and EC reconciliation amounts in billions of euros	AFR	EC
As reported for ING Insurance excluding US in 2010	19.7	10.4
Excluding non-ING Insurance Eurasia AFR and EC	1.4	–2.0
ING Insurance Eurasia 2010, before changes	21.1	8.4
Change pension funds fee business to statutory basis	–1.5	–0.1
Change in models and methodology	–1.0	3.0
ING Insurance Eurasia 2010, on a basis comparable to 2011	18.6	11.3

The exclusion of non-ING Insurance Eurasia AFR and EC mainly relates to the business in Latin America and the financial leverage of ING Insurance excluding US that was considered in last year's AFR position and EC. The capital structure of Eurasia underlying the AFR does not include any senior debt.

The fee-based pension funds business in Central and Eastern Europe is regulated by local sectoral rules rather than by Solvency II regulations for insurance entities. AFR and EC of the fee-based pensions administration business were previously calculated using market consistent valuation approach. This has been replaced by using the statutory net equity and required capital of the pension funds administration companies. The impact on AFR is EUR 1.5 billion and on EC EUR 0.1 billion.

Capital management continued

ING Insurance Eurasia has carried out a review of the internal model in the context of a Solvency II gap analysis. This to further align with Solvency II legislation. In that review we benchmarked our models against the Solvency II Standard Formula, the EIOPA consultation papers and comments of expert groups like CRO Forum and Groupe Consultatif. In the Annual Report 2010 it was estimated that these changes would result in a material increase of EC, between EUR 1 billion and EUR 2 billion. During 2011 further refinements and analyses took place which on a comparable basis would lead to an increase in the EC of 2010 of EUR 3.0 billion. The changes are related to equity risk (EUR 0.6 billion), operational risk (EUR 0.1 billion), credit spread and illiquidity premium risk (EUR 1.3 billion), business risk (EUR 0.1 billion) and less diversification (EUR 0.9 billion). The changes mainly due to new illiquidity premium method resulted in an AFR decrease of EUR 1.0 billion. The Solvency II legislative process is still ongoing. In particular, aspects determining the valuation of the policyholder liabilities and thereby the sensitivity to market and other risk factors on the own funds are not yet settled. The Economic Capital model will continue to be updated to reflect most recent market data, developments in best practices, and Solvency II legislation.

At the end of 2010 the AFR for ING Insurance Eurasia was EUR 18.6 billion. As described in the Risk management section. EC, based on 99.5% confidence interval was EUR 11.3 billion, which leads to excess of AFR over EC for 2010 of EUR 7.3 billion. For 2011 the AFR is EUR 17.3 billion, EC is EUR 10.5 billion and the excess of AFR over EC is EUR 6.8 billion.

For the capital adequacy assessment of ING Insurance's US domiciled regulated insurance business, available capital is measured under US statutory accounting principles and required capital is measured under the US regulatory Risk Based Capital (RBC) methodology as prescribed by the National Association of Insurance Commissioners (NAIC). For ING's US domiciled regulated insurance business, the consolidated RBC ratio (available capital/required capital) is estimated to be approximately 488% for the period ended 31 December 2011. The actual US consolidated RBC ratio may be different from the estimate since the statutory results are not final until filed with the regulators. For ING Insurance’s US domiciled regulated insurance business, the RBC ratio was 426% at the end of 2010.

Main credit ratings of ING at 31 December 2011

	Standard & Poor’s		Moody’s		Fitch	
	rating	outlook	rating	outlook	rating	outlook
ING Groep N.V.						
– long term	A	stable	A1	stable	A	stable
ING Bank N.V.						
– short term	A-1		P-1		F1+	
– long term	A+	stable	Aa3	stable	A+	stable
– financial strength			C+			
ING Verzekeringen N.V.						
– short term	A-2		P-2		F2	
– long term	A-	negative	Baa2	Deve-loping	A-	negative

ING’s key credit ratings and outlook are shown in the table above. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency.

A security rating is not a recommendation to buy, sell or hold securities and each rating should be evaluated independently of any other rating. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency if, in the rating agency’s judgment, circumstances so warrant. ING accepts no responsibility for the accuracy or reliability of the ratings.

AUTHORISATION OF ANNUAL ACCOUNTS

Amsterdam, 12 March 2012

THE SUPERVISORY BOARD
Jeroen van der Veer, *chairman*
Peter A.F.W. Elverding, *vice-chairman*
J.P. (Tineke) Bahlmann
Henk W. Breukink
Sjoerd van Keulen
Piet C. Klaver
Joost Ch. L. Kuiper
Aman Mehta
Luc A.C.P. Vandewalle
Lodewijk J. de Waal

THE MANAGEMENT BOARD
Jan H.M. Hommen, *CEO, chairman*
Patrick G. Flynn, *CFO*
Wilfred F. Nagel, *CRO*

Parent company balance sheet of ING Insurance

as at 31 December before appropriation of result

amounts in millions of euros	2011	2010
Assets		
Investments in wholly owned subsidiaries 1	27,857	25,863
Other assets 2	12,333	10,745
Total assets	40,190	36,608
Equity 3		
Share capital	174	174
Share premium	11,874	11,874
Legal reserves [1]	5,280	3,214
Other reserves	4,947	6,471
Unappropriated result	1,200	–1,574
	23,475	20,159
Liabilities		
Subordinated loans 4	4,367	4,407
Other liabilities 5	12,348	12,042
Total equity and liabilities	40,190	36,608

[1] Legal reserves includes Share of associates reserve of EUR 5,536 million (2010: EUR 3,609 million) and Currency translation reserve of EUR –256 million (2010: EUR –395 million).

References relate to the notes starting on page 154. 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	2011	2010
Result of group companies after taxation	1,453	–1,291
Other results after taxation	–253	–283
Net result	1,200	–1,574

Parent company statement of 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 2010	174	10,374	–534	–1,002	6,655	15,667
Unrealised revaluations after taxation			3,925		–71	3,854
Realised gains/losses transferred to profit and loss			379			379
Transfer to insurance liabilities/DAC			–1,644			–1,644
Changes in cash flow hedge reserve			641			641
Unrealised revaluations from net investment hedges			–355	–64		–419
Exchange rate difference			1,084	671		1,755
Total amount recognised directly in equity			4,030	607	–71	4,566
Net result					–1,574	–1,574
			4,030	607	–1,645	2,992
Transfer to share of associates reserve			113		–113	
Capital injection		1,500				1,500
Balance as at 31 December 2010	**174**	**11,874**	**3,609**	**–395**	**4,897**	**20,159**
Unrealised revaluations after taxation			**2,092**		**86**	**2,178**
Realised gains/losses transferred to profit and loss			**403**	**70**		**473**
Transfer to insurance liabilities/DAC			**–2,004**			**–2,004**
Changes in cash flow hedge reserve			**1,316**			**1,316**
Unrealised revaluations from net investment hedges			**180**	**–269**		**–89**
Exchange rate difference			**–96**	**338**		**242**
Total amount recognised directly in equity			**1,891**	**139**	**86**	**2,116**
Net result					**1,200**	**1,200**
			1,891	**139**	**1,286**	**3,316**
Transfer to share of associates reserve			**36**		**–36**	
Balance as at 31 December 2011	**174**	**11,874**	**5,536**	**–256**	**6,147**	**23,475**

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

In 2011, no additional share premium (2010: EUR 1,500 million) was received from ING Group to strengthen solvency.

Accounting policies for the parent company annual accounts 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 recognised at net asset value with goodwill, if any, recorded under intangible assets.

The profit and loss account is drawn up in accordance with Section 402, Book 2, of the Dutch Civil Code.

A list containing the information referred to in Section 379 (1), Book 2, of the Dutch Civil Code has been filed with the 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 legal reserve is carried at an amount equal to the share in the results of associates since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the Share of associates reserve, which forms part of Shareholders' equity.

The comparative amounts for 2010 are restated for the change in accounting policy as disclosed in the section 'Changes in accounting policies' in the Accounting principles for the consolidated annual accounts.

Notes to the parent company annual accounts of ING Insurance amounts in millions of euros, unless stated otherwise

ASSETS

1 INVESTMENTS IN WHOLLY OWNED SUBSIDIARIES

Investments in wholly owned subsidiaries

	2011	2010
ING Insurance Eurasia N.V.	15,956	
Nationale Nederlanden Nederland B.V.		8,249
ING America Insurance Holding Inc	9,337	6,024
ING Insurance International B.V.	2,545	9,305
ING Continental Europe B.V.		1,779
Other	19	507
	27,857	25,864

ING Insurance Eurasia N.V. was incorporated on 30 March 2011. ING Verzekeringen N.V. transferred ownership of Nationale Nederlanden Nederland B.V. and ING Continental Europe B.V. to ING Insurance Eurasia on 1 October 2011.

Changes in investments in wholly owned subsidiaries

	2011	2010
Opening balance	25,864	18,918
Repayments-capital contribution	–3,840	–364
Disposals of group companies	–4,523	
Revaluations	2,190	5,138
Result of group companies	1,453	–1,291
Capital contribution	6,726	4,088
Dividend	–13	–625
Closing balance	27,857	25,864

2 OTHER ASSETS

Other assets

	2011	2010
Receivables from group companies	12,137	10,558
Other receivables, prepayments and accruals	196	187
	12,333	10,745

As at 31 December 2011, an amount of EUR 3,521 million (2010: EUR 1,226 million) is expected to be settled after more than one year from the balance sheet date.

Notes to the parent company annual accounts of ING Insurance continued

EQUITY
3 EQUITY

Equity

	2011	2010
Share capital	**174**	174
Share premium	**11,874**	11,874
Share of associates reserve	**5,536**	3,609
Currency translation reserve	**–256**	–395
Other reserves	**6,147**	4,897
Equity	**23,475**	20,159

The Share of associates reserve includes the following components: Reserve for non-distributable retained earnings of associates of EUR 176 million (2010: EUR 140 million) and Revaluation reserve of associates of EUR 5,360 million (2010: EUR 3,469 million).

Share capital

	Ordinary shares (par value EUR 1.13)			
	Number x 1,000		Amount	
	2011	2010	2011	2010
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

2011	**Retained earnings**	**Other reserves**	**Total Other reserves**	**Unappro–priated result**	**Total**
Opening balance	**6,472**		**6,472**	**–1,574**	**4,898**
Result for the year				**1,200**	**1,200**
Unrealised revaluations	**85**		**85**		**85**
Transfer to Share of associates reserve	**–36**		**–36**		**–36**
Transfer to retained earnings	**–1,574**		**–1,574**	**1,574**	**0**
Closing balance	**4,947**	**0**	**4,947**	**1,200**	**6,147**

Changes in other reserves and unappropriated result

2010	Retained earnings	Other reserves	Total Other reserves	Unappro–priated result	Total
Opening balance	7,277		7,277	–621	6,656
Result for the year				–1,574	–1,574
Unrealised revaluations	–71		–71		–71
Transfer to Share of associates reserve	–113		–113		–113
Transfer to retained earnings	–621		–621	621	0
Closing balance	6,472	0	6,472	–1,574	4,898

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

The total amount of non-distributable reserves is EUR 5,792 million (2010: EUR 4,004 million).

See Note 12 'Shareholders' equity in to the consolidated annual accounts for additional information.

Notes to the parent company annual accounts of ING Insurance continued

LIABILITIES
4 SUBORDINATED LOANS

Subordinated loans

Interest rate	Year of Issue	Due date		Notional amount in original currency	Balance sheet value 2011	2010
Variable	2011	Perpetual	EUR	450	**450**	
Variable	2008	Perpetual	USD	1,100	**850**	822
Variable	2007	Perpetual	USD	1,000	**772**	748
4.176%	2005	Perpetual	EUR	300	**313**	309
Variable	2005	Perpetual	USD	200	**154**	140
Variable	2005	Perpetual	USD	100	**77**	75
6.375%	2002	7 May 2027	EUR	476	**501**	1,060
Variable	2001	21 June 2021	EUR	1,250	**1,250**	1,253
					4,367	4,407

Subordinated loans consist of subordinated bonds issued by ING Verzekeringen N.V. These bonds have been issued to raise hybrid capital. They are considered capital for regulatory purposes. EUR 2,617 million has been issued to ING Group, therefore this classifies as an intercompany liability.

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

5 OTHER LIABILITIES

Other liabilities by type

	2011	2010
Debenture loans	**2,855**	3,347
Amounts owed to group companies	**9,423**	8,346
Other amounts owed and accrued liabilities	**70**	350
	12,348	12,043

Debenture loans

Interest rate	Year of Issue	Due date	Balance sheet value 2011	2010
2.500%	2006	Apr 2012	**245**	243
Floating	2006	Sep 2013	**1,000**	1,000
4.000%	2006	Sep 2013	**1,007**	1,008
3.500%	2005	Nov 2012	**502**	504
2.000%	2005	Nov 2011		250
2.000%	2005	Nov 2011		239
3.500%	2005	Nov 2012	**101**	103
			2,855	3,347

Amounts owed to group companies by remaining term

	2011	2010
Within 1 year	**9,401**	8,325
More than 1 year but less than 5 years	**22**	21
	9,423	8,346

6 OTHER
Guarantees
As at 31 December 2011, ING Verzekeringen N.V. had guarantees (mainly funding and redemption guarantees) on behalf of group companies to third parties of EUR 250 million (2010: EUR 371 million) outstanding.

ING Verzekeringen N.V. has issued statements of liability in connection with Section 403, Book 2 of the Dutch Civil Code.

Fiscal unity
For corporation tax purposes, the Dutch fiscal unity in which ING Verzekeringen N.V. and its Dutch subsidiaries participate changed as of 1 October 2011 from ING Verzekeringen N.V. to its direct parent ING Insurance Topholding N.V. After the change, all tax payments and receipts are settled through ING Insurance Topholding N.V., albeit all subsidiaries that belong to the fiscal unity remain jointly and severally liable.

REMUNERATION OF SENIOR MANAGEMENT, MANAGEMENT BOARD AND SUPERVISORY BOARD

See Note 30 'Related parties' to the consolidated Annual Accounts for additional information.

AUTHORISATION OF PARENT COMPANY ANNUAL ACCOUNTS

Amsterdam, 12 March 2012

THE SUPERVISORY BOARD

Jeroen van der Veer, *chairman*
Peter A.F.W. Elverding, *vice-chairman*
J.P. (Tineke) Bahlmann
Henk W. Breukink
Sjoerd van Keulen
Piet C. Klaver
Joost Ch. L. Kuiper
Aman Mehta
Luc. A.C.P. Vandewalle
Lodewijk J. de Waal

THE MANAGEMENT BOARD

Jan H.M. Hommen, *CEO, chairman*
Patrick G. Flynn, *CFO*
Wilfred F. Nagel, *CRO*

Independent auditor's report

To: the Shareholders, the Supervisory Board and the Management Board of ING Verzekeringen N.V.

REPORT ON THE ANNUAL ACCOUNTS

We have audited the accompanying annual accounts 2011 of ING Verzekeringen N.V., Amsterdam (as set out on pages 14 to 158). The annual accounts include the consolidated annual accounts and the parent company annual accounts. The consolidated annual accounts comprise the consolidated balance sheet as at 31 December 2011, the profit and loss account, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The parent company annual accounts comprise the parent company balance sheet as at 31 December 2011, the parent company profit and loss account for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

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

Opinion with respect to the consolidated annual accounts

In our opinion, the consolidated annual accounts give a true and fair view of the financial position of ING Verzekeringen N.V. as at 31 December 2011 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 2011 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the report of the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the report of the Management Board, to the extent we can assess, is consistent with the annual accounts as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 12 March 2012

Ernst & Young Accountants LLP

signed by C.B. Boogaart

Proposed appropriation of result

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 appropriation of result shall be determined by the General Meeting, having heard the advice of the Management Board.

For 2011, it is proposed to appropriate the entire result to reserves, so that no final dividend will be paid.

In 2011 no interim dividend was paid.

Proposed appropriation of result

amounts in millions of euros	
Net result	**1,200**
Proposed to be added to the Other Reserves pursuant to Articles 21(2) and 21(3) of the Articles of Association	**1,200**

DISCLAIMER

Certain of the statements contained in this Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in ING's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) break-up of the euro, (4) the implementation of ING's restructuring plan to separate banking and insurance operations, (5) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations, (14) changes in the policies of governments and/or regulatory authorities, (15) conclusions with regard to purchase accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit ratings, (18) ING's ability to achieve projected operational synergies, (19) the move towards fair value accounting for Guaranteed Minimum Withdrawal Benefits for the Insurance US Closed Block VA business line and (20) the other risk factors and uncertainties detailed in the risk factors section contained in the most recent annual report of ING Groep N.V.

Any forward-looking statements made by or on behalf of ING speak only as of the date they are made, and, ING assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

232446

ING Verzekeringen N.V.
Amstelveenseweg 500
1081 KL Amsterdam
P.O. Box 810, 1000 AV Amsterdam
The Netherlands
Telephone: +31 20 5639111
Fax: +31 20 5760950
Internet: www.ing.com

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