



ING Insurance Annual Report

2010



**ING Insurance
2010 Annual Report**

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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 2010

Jan H.M. Hommen (67), chairman
 Patrick G. Flynn (50), chief financial officer
 J.V. (Koos) Timmermans (50), chief risk officer
 Tom J. McInerney ⁽¹⁾ (54), chief operating officer
 Matthew J. Rider (47), chief administrative officer

⁽¹⁾ Stepped down per 1 January 2011.

* As of 1 January 2011, Messrs E. (Lard) Frieze (48) and Gilbert O.J.M. Van Hassel (53) were appointed to the Management Board Insurance as chief operating officer and CEO ING Investment Management respectively.

SUPERVISORY BOARD

Composition on 31 December 2010

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

⁽¹⁾ Retirement as of 9 May 2011.

⁽²⁾ Resigned on 24 January 2011.

⁽³⁾ Resigned on 6 January 2011.

ING at a glance

ING INSURANCE IS PART OF ING GROUP

ING GROUP

Our mission

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

Our profile

ING is a global financial institution of Dutch origin, currently offering banking, investments, life insurance and retirement services to meet the needs of a broad customer base. Going forward, we will concentrate on our position as an international retail, direct and commercial bank, while creating an optimal base for an independent future for our insurance operations (including investment management).

Our strategy

To serve the interests of our stakeholders, increase management focus and create value for our shareholders, ING is moving towards separation of its banking and insurance operations. We believe the widespread demand for greater simplicity, reliability and transparency makes this the best course of action. In the future, ING Bank will build on its global presence and international network and capitalise on its leadership position in gathering savings, multi-channel distribution, simple propositions and marketing. ING Insurance has a strong position as a global provider of life insurance and retirement services. While moving towards the public offerings of a Europe-led and a US-focused business, ING Insurance will initially concentrate on further improving its operational performance. Both the Bank and the Insurer will focus on earning our customers' trust through transparent products, value for money and superior service. This reflects ING's universal customer ideal: saving and investing for the future should be easier.

Our customers

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

Our stakeholders

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

Our corporate responsibility

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

ING INSURANCE

ING Insurance is active through seven Business Lines: Insurance Benelux, Insurance Central & Rest of Europe, Insurance US (excluding US Closed Block VA), Insurance US Closed Block VA, Insurance Latin America, Insurance Asia/Pacific and ING Investment Management.

Insurance Benelux

Insurance Benelux includes ING's life and non-life insurance, investment and pension businesses in the Netherlands, Belgium and Luxembourg. Insurance Benelux, already a leading player in the industry, aims to become the most efficient large insurer in the region.

Insurance Central & Rest of Europe

Insurance Central & Rest of Europe consists of ING's life insurance and pensions operations in nine countries which include Poland, the Czech Republic, Slovakia, Hungary, Romania, Greece and Spain as well as greenfield operations in Bulgaria and Turkey.

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 Latin America

Insurance Latin America includes ING's pension, insurance and investment businesses in the region and is present in six countries including Mexico, Chile, Peru, Colombia, Uruguay, and Brazil through its joint venture in SulAmérica, the leading wealth management and insurance company in the country. In Latin America, ING is the second largest provider of mandatory pensions.

Insurance Asia/Pacific

Insurance Asia/Pacific is one of the major foreign life insurance companies in the region and is present in seven countries including Japan, Malaysia, South Korea, Thailand, China, Hong Kong 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 (ING IM) is a leading global asset manager and is the principal investment manager of ING Group. It has operations in 33 countries across the Americas, Asia-Pacific, Europe and the Middle East. ING IM provides retail and institutional clients with access to domestic, regional and global investment solutions.

Insurance

OVERVIEW

ING Verzekeringen N.V., together with ING Bank N.V., is part of ING Groep N.V. The business lines for the insurance activities are Insurance Benelux, Insurance Central and Rest of Europe, Insurance US (excluding Insurance US Closed Block VA), US Closed Block VA, Insurance Latin America, Insurance Asia/Pacific and ING Investment Management.

ING Insurance is a global leader in retirement services and has an attractive mix of mature businesses and strong market positions in growth markets. Around the world, ING is the number one life insurer in the Netherlands, is ranked as the third largest in defined contribution retirement services in the US, is the second largest pensions company in Latin America, a major life and pensions provider in Central Europe and a major foreign life insurer in Asia.

ING evaluates its insurance activities on an underlying results basis. Underlying numbers are derived from IFRS-EU numbers, excluding the impact of divestments and special items. A reconciliation of net profit to underlying result can be found in Note 45 'Operating Segments'.

2010 was a year of steady improvement in operations at ING Insurance/Investment Management (IM). The economic environment remained challenging throughout the year and was marked by continued low interest rates and market volatility. Insurance/IM worked on improving performance in preparation for future IPOs while working simultaneously to separate the business from Banking before the end of the year. Solid progress was made on both fronts.

Financial overview ⁽¹⁾		
in EUR million	2010	2009
Total operating result	1,865	1,568
Gains/losses and impairments	-489	-586
Revaluations	601	-346
Market and other impacts	-2,359	-758
Underlying result before tax	-382	-122
Gross premium income	27,947	30,170
New sales	4,877	4,426
Administrative expenses/operating income	43.8%	44.2%
Life general account assets (EUR billion)	165	143
Client balances (EUR billion)	454	408
Administrative expenses (total)	3,705	3,440

Underlying result before tax		
in EUR million	2010	2009
Benelux	790	306
Central and Rest of Europe	253	291
United States (excluding US Closed Block VA)	308	314
Insurance US Closed Block VA	-1,793	-654
Latin America	342	274
Asia/Pacific	516	382
ING Investment Management	173	157
Corporate line insurance	-971	-1,192
Total	-382	-122

Operating result ⁽¹⁾⁽²⁾		
in EUR million	2010	2009
Benelux	691	640
Central and Rest of Europe	292	336
United States (excluding US Closed Block VA)	559	568
Insurance US Closed Block VA	49	23
Latin America	283	211
Asia/Pacific	472	365
ING Investment Management	166	201
Corporate line insurance	-647	-776
Total	1,865	1,568

⁽¹⁾ Underlying numbers are derived from IFRS-EU numbers excluding market and other impacts.

⁽²⁾ Market and other impacts Insurance include gains/losses and impairments, revaluations and market and other impacts.

FINANCIAL RESULTS

Despite the improvements in business fundamentals, the underlying loss before tax of Insurance/IM was EUR 382 million compared with a loss of EUR 122 million in 2009.

Market conditions continued to improve in 2010, although at a relatively slow pace given the depth of the financial crisis in 2008 and 2009. The operating result of Insurance/IM increased to EUR 1,865 million from EUR 1,568 million in 2009, mostly driven by higher investment margins and increased fees and premium-based revenues in life insurance and the investment management business. The investment spread on life general account assets increased 10 basis points to 93 basis points in 2010, after cautious re-risking of the investment portfolios and forward investment of premiums in the course of the year. 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 harsh economic conditions; and in Investment Management following higher expenses related to the build-up of its global investment capabilities.

The increase in the operating result and significantly better revaluations of investments were more than offset by higher negative market impacts, mostly related to the closed variable annuity blocks in the US and Japan. Hence, underlying results per business line showed a divergent development, with strong result recoveries in the Benelux, Latin America, and Asia/Pacific (excluding Japan variable annuities), compared with lower results in Central and Rest of Europe and the US.

Insurance (continued)

Despite the 7.7% increase in administrative expenses, partly driven by the weakening of the euro against most major international currencies, the life/IM administrative expense ratio improved slightly to 43.8%. Especially in the Benelux, significant progress was made in containing expenses through the integration of the Dutch businesses.

New life sales (APE) held up well in 2010, although the increase against 2009 was mostly due to the weakening of the euro. Higher sales in the US, Latin America and Asia/Pacific were compensated by a significant sales decline in the Benelux, partly due to the low interest rate environment.

In the US, the closed block variable annuity business was reported as a separate business line as of the fourth quarter of 2010. The split of the US insurance business into two business lines, triggered a EUR 975 million write-down of deferred acquisition costs related to the closed block variable annuity business, bringing the reserve adequacy on this block to well above 50% confidence level.

INSURANCE BENELUX

Underlying result before tax in the Benelux increased by 158.2%, reflecting a higher operating result (EUR 51 million), lower negative real estate revaluations (EUR 379 million) as well as lower negative realised gains on real estate (EUR 57 million). After a period of strongly declining real estate values, the ING Insurance Real Estate Portfolio benefited from both the continuing recovery in the UK real estate market and stabilising yields in Continental Europe.

Operating result before tax increased 8.0%, as a higher investment margin and lower expenses more than compensated for a lower technical margin as well as a lower non-life result. The higher investment margin (EUR 57 million or 15.5% increase) reflected a higher fixed income result as cash balances were reinvested over the course of 2010. The non-life result was EUR 156 million compared to EUR 248 million in 2009. This was due to the inclusion of favourable one-off items in the 2009 result. Furthermore, adverse claims development in the disability business and a few large fire claims in 2010 contributed to the decline in the non-life result.

The technical margin was EUR 243 million versus EUR 286 million in 2009 because the second quarter of 2009 included a favourable one-off item, being the release of EUR 54 million in morbidity provisions. Life expenses declined by 8.4% because of lower administrative expenses mainly reflecting lower FTE levels (7,551 at the end of 2010 compared to 8,555 at the end of 2009).

New sales were 20.1% lower than in 2009. The company continues to prioritise value creation over volume growth. In addition, a change was made in the recognition of premiums in the Netherlands which had a favourable impact of EUR 55 million on APE.

INSURANCE CENTRAL AND REST OF EUROPE

The underlying result before tax of Insurance Central and Rest of Europe decreased by 13.1% to EUR 253 million from EUR 291 million in 2009. Gains and Losses on sales of securities and impairments were EUR –29 million in 2010 compared to EUR –45 million in 2009, mainly as a result of a EUR 10 million reduction in impairments in Spain. Market and other impacts were EUR –10 million as a result of the EUR 10 million prepaid capitalised commission write-off in the pension fund in Hungary.

The operating result fell by 13.1% to EUR 292 million. The result was largely driven by a EUR 26 million lower technical margin and EUR 20 million lower fees and premium based revenues. The EUR 26 million lower technical margin was largely driven by a release in the provision for rider reserves in Poland and Hungary in 2009 of EUR 23 million and to a lesser extent by a lower realised result on surrenders. Lower fees and premium based revenues of EUR 20 million was largely driven by lower revenues in both the pension fund in Poland and the life company in Czech Republic.

Administrative expenses were stable at EUR 266 million in 2010 from EUR 265 million in 2009, despite a EUR 16 million tax on financial institutions in Hungary and a EUR 7 million currency impact. Excluding both items, administrative expenses were EUR 22 million lower on a comparable basis.

New sales (APE) decreased by EUR 40 million to EUR 352 million in 2010 from EUR 392 million in 2009, largely caused by a EUR 34 million reduction in APE in Greece, particularly in the Greek bancassurance channel.

INSURANCE US

The underlying result before tax of Insurance US in 2010 decreased to EUR 308 million from EUR 314 million in 2009. The impact of non-operating items in 2010 of EUR –251 million was greater than the impact in 2009 of EUR –212 million as the higher favourable result from revaluations was more than offset by lower results from DAC and reserve adjustments, primarily related to Fixed Annuities.

The operating result decreased slightly to EUR 559 million in 2010 from EUR 568 million in 2009. Higher operating income was more than offset by higher administrative expenses and DAC amortisation and trail commissions.

The rise in operating income was driven by a higher investment margin mainly from lower interest rate swap expenses and reinvestments into (longer duration) fixed income securities, and from higher fees and premium-based revenues, as a result of higher assets under management.

Insurance (continued)

Administrative expenses increased to EUR 904 million from EUR 791 million in 2009. The comparison with 2009 is impacted by accrual adjustments which lowered the expenses in 2009 as well as currency effects. DAC amortisation and trail commissions increased to EUR 620 million from EUR 489 million in 2009 due to higher operating income and higher assets under management levels, resulting in higher trail commissions.

INSURANCE US CLOSED BLOCK VA

The underlying loss before tax was EUR 1,793 million in 2010 compared to an underlying loss of EUR 654 million in 2009. The negative underlying result was driven by reductions in the DAC balance. In the second quarter of the year, the DAC balance was reduced as a result of an 11.9% decline in the S&P 500 during the quarter. In fourth quarter, the DAC balance was further reduced mainly due to a non-recurring DAC write-down of EUR 975 million. This DAC write-down, triggered by making the VA business a separate business line, was implemented to improve the reserve adequacy to the 50% confidence level for the business on a stand-alone basis as of 1 October 2010.

Excluding these non-operating items, the operating result improved by EUR 26 million to EUR 49 million in 2010 from EUR 23 million in 2009, as lower expenses more than offset the decrease in operating income.

Life operating income fell EUR 94 million to EUR 119 million from EUR 213 million in 2009. The investment margin decreased by EUR 32 million to EUR -11 million primarily reflecting higher balances in short-term investments and the impact of lower interest rates. Fees and premium based revenues decreased by EUR 46 million to EUR 121 million as higher fee income was more than offset by higher hedging costs. The decrease in the technical margin of EUR 16 million was mainly attributable to a nonrecurring negative reserve development in the fourth quarter 2010.

Total life expenses decreased to EUR 70 million in 2010 from EUR 191 million in 2009 mainly due to lower DAC amortisation, resulting from lower operating income. Administrative expenses in 2010 were lower compared with 2009 as product distribution and support teams were reduced or redeployed following the strategic decision to cease sales of variable annuity products effective 31 March 2010. This decision was a part of the overall global strategy and risk reduction plan.

New sales (APE) of EUR 57 million was EUR 164 million lower than 2009 APE of EUR 221 million, as no new products were sold from 31 March 2010 and the APE only represents additional payments on existing policies.

INSURANCE LATIN AMERICA

Insurance Latin Americas posted an underlying result before tax of EUR 342 million in 2010, a 24.8% rise on the 2009 underlying result of EUR 274 million. The increase was impacted by lower revaluations (EUR 52 million in 2010 compared to EUR 59 million in 2009), which were in part mitigated by higher realised capital gains (EUR 7 million in 2010 versus EUR 3 million in 2009).

The operating result rose markedly by 34.1% to EUR 283 million compared to EUR 211 million in 2009, mainly driven by higher fees from pension funds and to a lesser extent by increased investment and technical margins.

The increase in fees and premium based revenues (EUR 419 million in 2010 compared to EUR 311 million) included a currency impact of EUR 46 million. The remaining EUR 62 million of the increase was due to higher fee income in Mexico associated with positive pension fund growth, which more than offset a decrease in fee levels which were agreed with the regulator. Higher fee income in Chile and Peru as a result of economic growth and wage inflation also contributed to the increase.

Administrative expenses increased by 10.9% on a constant currency basis and were primarily attributable to investments to roll out wealth management projects throughout the region.

New sales (APE) climbed by 52.1% to EUR 683 million from EUR 449 million in 2009. This growth is mainly related to higher volumes in mandatory pension sales in Mexico and the inclusion of tax-favoured voluntary pension sales in Colombia and mutual fund sales in Chile.

INSURANCE ASIA/PACIFIC

Insurance Asia/Pacific posted an underlying result before tax of EUR 516 million in 2010, up 35.1% or 15.8% excluding currency effects compared to EUR 382 million in 2009. The result was achieved by improved operating results in most countries in 2010. Market-related items and other impacts contributed EUR 44 million to the result compared to EUR 18 million in 2009.

The operating result of EUR 472 million in 2010 rose by 29.3% or 11.6% excluding currency effects from EUR 365 million in 2009, driven by higher operating income, partly offset by a moderate growth in the expenses.

The life operating income increased 20.6% or 6.2% excluding currency effects to EUR 1,618 million in 2010 from EUR 1,342 million in 2009. The increase was attributable to higher fees and premium-based revenues driven by volume growth in most countries as well as an ongoing improvement in the investment margin reflecting increased investment income, growth in general account assets and reinvestment of cash in longer-duration assets.

Life administrative expenses increased by a modest 7.8% but fell by 3.6% excluding currency effects as a result of focus on cost discipline throughout the region. The life administrative expense ratio improved to 27.3% from 30.5% in 2009. Deferred Acquisition Cost (DAC) amortisation and trail commissions grew by 24.3% or 9.7% excluding currency effects from a year ago reflecting currency impacts and business growth. Total life expenses grew by 17.4% or 4.2% excluding currency effects to EUR 1,151 million versus EUR 980 million in 2009.

Investment management

New sales (APE) rose to EUR 1,389 million, up 35.6% or 20.6% excluding currency effects from EUR 1,024 million in 2009. Sales growth was driven by strong contributions from new products and bank distribution sales.

ING INVESTMENT MANAGEMENT

Assets under management (AuM) increased by 12.8% or EUR 43.8 billion to EUR 387 billion at year-end 2010. Foreign exchange impact and market performance were responsible for EUR 24.1 billion and EUR 24.6 billion of the increase respectively. There was a net outflow of EUR 3.7 billion as a result of EUR 125.5 billion of outflows and EUR 121.8 billion of inflows.

At year-end 2010, assets managed for retail clients increased slightly to 39% from 37% of total AuM at year-end 2009. General account assets (proprietary) increased to 37% of total AuM while the institutional clients segment decreased to 24%. The composition of fixed income, equity and money market investments of AuM was 64%, 31% and 5% respectively of total AuM.

Underlying result before tax increased by EUR 16 million to EUR 173 million in 2010. A EUR 30 million reduction in negative revaluations in private equity investments and the reversal of an impairment on assets in India (EUR 8 million) were offset by a EUR 35 million lower operating result.

The operating result fell by 17.4% to EUR 166 million as a result of a EUR 174 million rise in administrative expenses and a EUR 14 million reduction in the investment margin, which was in total largely offset by EUR 153 million in higher fees and premium-based revenues.

Fees and premium-based revenues increased by 20.6% or 15.8% excluding currency effects to EUR 895 million. The 12.8% increase in AuM was the main driver for these higher revenues, further assisted by the introduction of a fixed service fee in the third quarter which was related to the transfer of funds to the Luxembourg platform. As of the third quarter of 2010, expenses of these funds were no longer recorded as negative fee income.

Administrative expenses grew by 31.2% from EUR 557 million a year ago. Comparisons with 2009 were impacted by accrual adjustments, which reduced the expense level in the fourth quarter of 2009 by EUR 33 million. Excluding these accrual adjustments and currency effects, expenses rose 19.2% compared with 2009. This increase was mainly due to the introduction of a fixed service fee (EUR 17 million) and higher staff costs.

During 2010, ING IM continued to improve its investment performance. The percentage of AuM performing above benchmark on a one-year basis was 72% compared with 67% at year-end 2009. With 75% of rated mutual funds awarded three stars or more by ratings agency Morningstar, ING IM beat the market standard of 68%. Over the last twelve months, all asset classes (equity, fixed income, multi assets) outperformed their respective aggregated benchmark.

PROFIT RETENTION AND DISTRIBUTION POLICY

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

Corporate governance statement

CORPORATE GOVERNANCE STATEMENT

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

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

FINANCIAL REPORTING PROCESS

As ING 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 2010, which was audited by ING Group's external auditor. For more information, please refer to the 2010 Annual Report of ING Group which is available on its website (www.ing.com).

INSURANCE CODE

On 15 December 2010 the Dutch Association of Insurers adopted the Governance Principles (the Insurance Code), which became effective on 1 January 2011. As from the 2011 financial year ING Verzekeringen N.V. will report on the implementation of the Insurance Code.

AMSTERDAM, 14 MARCH 2011

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. 2010 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. 2010 Annual Report gives a true and fair view of the position at the balance sheet date, the development and performance of the business during the financial year 2010 of ING 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, 14 MARCH 2011

Jan H.M. Hommen

CEO, chairman of the Management Board

Patrick G. Flynn

CFO, member of the Management Board

J.V. (Koos) Timmermans

CRO, member of the Management Board

Matthew J. Rider

CAO, member of the Management Board

E. (Lard) Friese

member of the Management Board

Gilbert O.J.M. Van Hassel

member of the Management Board

Report of the Supervisory Board

TO SHAREHOLDERS

The Supervisory Board hereby presents you the 2010 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 2010.

Meetings

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

In 2010, the Audit Committee met five times, with no absentees, to discuss the annual and quarterly results. The real estate exposure and cost development as well as management actions concerned, were discussed several times during the year. The Audit Committee was regularly updated on the capital position of the insurance business as well as on the developments regarding the Solvency II regulations. After the summer an extensive discussion took place on the development of the insurance business in the US, focussing on the Variable Annuities business and the accounting method for insurance in the US. In November a number of measures to mitigate the issues at ING Insurance US were presented to the Audit Committee. Other topics discussed in the Audit Committee meetings were capital management, internal control and regulatory matters.

The Risk Committee met four times with no absentees. In each Risk Committee meeting the financial risk reports and the non-financial risk reports for insurance were discussed. In May an extensive discussion took place on the euro zone turmoil and the possible risks for ING. The Risk Committee closely monitored the effect of the non-financial risk mitigating activities during the year. Each meeting ended with a general discussion on possible future risks.

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

The Remuneration Committee met four times in 2010. Two members were absent once at the Remuneration Committee meetings. In February, the 2009 performance of the individual Management Board members was discussed on the basis of the

performance criteria and the individual targets. The proposed 2010 performance objectives for the Management Board were decided upon as well.

COMPOSITION OF THE MANAGEMENT BOARD INSURANCE

Matthew Rider became a member of the Management Board per 1 January 2010. As of 1 January 2011, Lard Friese was appointed to the Management Board with responsibility for the Benelux, Central and Rest of Europe and Asia/Pacific. Gilbert Van Hassel was appointed to the Management Board as of 1 January 2011 with responsibility for ING Investment Management. Tom McInerney stepped down as member of the Management Board and as Chief Operating Officer Insurance per 1 January 2011.

COMPOSITION OF THE SUPERVISORY BOARD

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

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

APPRECIATION FOR THE MANAGEMENT BOARD AND ING EMPLOYEES

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

AMSTERDAM, 14 MARCH 2011 THE SUPERVISORY BOARD

Consolidated balance sheet of ING Insurance

as at 31 December

Amounts in millions of euros	2010	2009
ASSETS		
Cash and cash equivalents 1	8,646	9,425
Financial assets at fair value through profit and loss: 2		
– trading assets	622	474
– investments for risk of policyholders	120,481	104,597
– non-trading derivatives	4,440	3,668
– designated as at fair value through profit and loss	2,960	2,378
Available-for-sale investments 3	123,347	105,521
Loans and advances to customers 4	31,020	29,014
Reinsurance contracts 16	5,789	5,480
Investments in associates 5	2,428	2,486
Real estate investments 6	1,063	1,069
Property and equipment 7	517	552
Intangible assets 8	3,256	3,875
Deferred acquisition costs 9	10,604	11,398
Assets held for sale 10	381	441
Other assets 11	10,210	10,031
Total assets	325,764	290,409
EQUITY		
Shareholders' equity (parent) 12	20,811	15,887
Minority interests	111	80
Total equity	20,922	15,967
LIABILITIES		
Subordinated loans 13	4,407	5,743
Debt securities in issue 14	3,967	4,079
Other borrowed funds 15	8,588	7,036
Insurance and investment contracts 16	270,582	240,858
Financial liabilities at fair value through profit and loss: 17		
– trading liabilities		
– non-trading derivatives	3,677	3,921
Liabilities held for sale 10	279	258
Other liabilities 18	13,342	12,547
Total liabilities	304,842	274,442
Total equity and liabilities	325,764	290,409

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

Consolidated profit and loss accounts of ING Insurance

for the years ended 31 December

Amounts in millions of euros	2010	2010	2009	2009	2008	2008
Gross premium income 32		27,947		30,492		43,812
Investment income 33		7,393		6,480		7,177
Net result on disposals of group companies 34		-3		278		15
Gross commission income	2,788		3,237		3,510	
Commission expense	-843		-1,302		-1,440	
Commission income 35		1,945		1,935		2,070
Valuation results on non-trading derivatives 36		222		-3,747		1,977
Net trading income 37		-477		337		-350
Share of profit from associates 5		216		-79		-187
Other income 38		288		235		150
Total income		37,531		35,931		54,664
Gross underwriting expenditure 39	44,998		50,440		18,831	
Investment result for risk of policyholders	-10,492		-17,742		32,408	
Reinsurance recoveries	-1,741		-1,714		-1,754	
Underwriting expenditure 39		32,765		30,984		49,485
Intangible amortisation and other impairments 40		707		72		310
Staff expenses 41		2,225		2,136		2,896
Interest expenses 42		1,028		949		1,121
Other operating expenses 43		2,122		2,255		2,578
Total expenses		38,847		36,396		56,390
Result before tax		-1,316		-465		-1,726
Taxation 44		-185		48		-499
Net result (before minority interests)		-1,131		-513		-1,227
Attributable to:						
Shareholders of the parent		-1,165		-550		-1,265
Minority interests		34		37		38
		-1,131		-513		-1,227
	2010	2009	2008			
Dividend per ordinary share (in euros)	0.00	2.27	18.20			
Total amount of dividend paid (in millions of euros)	0	350	2,800			

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

Consolidated statement of comprehensive income of ING Insurance

for the years ended 31 December

Amounts in millions of euros	2010	2009	2008
Net result	-1,131	-513	-1,227
Unrealised revaluations after taxation ⁽¹⁾	3,395	6,415	-11,648
Realised gains/losses transferred to profit and loss	379	677	898
Changes in cash flow hedge reserve	641	-434	1,350
Transfer to insurance liabilities/DAC	-1,644	-2,079	2,193
Exchange rate differences	1,783	-271	-448
Other revaluations	-3	-10	-23
Total amount recognised directly in equity (other comprehensive income)	4,551	4,298	-7,678
Total comprehensive income	3,420	3,785	-8,905
Comprehensive income attributable to:			
Shareholders of the parent	3,383	3,755	-8,708
Minority interests	37	30	-197
	3,420	3,785	-8,905

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

The Unrealised revaluations after taxation comprises EUR 8 million (2009: EUR 13 million; 2008: EUR 134 million) related to the share of other comprehensive income of associates.

The Exchange rate differences comprises EUR 70 million (2009: EUR 60 million; 2008: EUR -65 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 years ended 31 December

Amounts in millions of euros	2010	2009	2008
Result before tax	-1,316	-465	-1,726
Adjusted for:			
– depreciation	190	214	268
– deferred acquisition costs and value of business acquired	1,293	-1,131	-444
– increase in provisions for insurance and investment contracts	3,860	3,829	16,363
– other	2,018	2,378	2,479
Taxation paid	-155	-68	97
Changes in:			
– trading assets	-147	63	471
– non-trading derivatives	351	-296	1,276
– other financial assets at fair value through profit and loss	-206	318	-147
– loans and advances to customers	-641	4,495	-793
– other assets	133	4,566	-2,418
– other financial liabilities at fair value through profit and loss	-1,061	-2,968	1,535
– other liabilities	-1,462	-7,059	-3,832
Net cash flow from operating activities	2,857	3,876	13,129
Investments and advances:			
– group companies			-1,146
– associates	-60	-121	-651
– available-for-sale investments	-73,424	-107,820	-133,255
– real estate investments	-16	-15	-378
– property and equipment	-77	-99	-161
– investments for risk of policyholders	-52,370	-65,362	-64,735
– other investments	-131	-63	-266
Disposals and redemptions:			
– group companies	94	2,643	1,563
– associates	329	186	832
– available-for-sale investments	66,307	104,878	130,563
– real estate investments	6	8	225
– property and equipment	56	17	113
– investments for risk of policyholders	54,817	64,158	59,251
– other investments	3		11
Net cash flow from investing activities 47	-4,466	-1,590	-8,034
Proceeds from issuance of subordinated loans			2,948
Repayments of subordinated loans	-1,514	-1,038	-898
Proceeds from borrowed funds and debt securities	98,378	18,345	33,257
Repayments of borrowed funds and debt securities	-97,223	-24,793	-31,656
Issuance of ordinary shares/ capital injection	1,500	550	5,450
Payments to acquire treasury shares	-19	-10	-23
Sales of treasury shares	18	6	39
Dividends paid		-363	-2,842
Net cash flow from financing activities	1,140	-7,303	6,275
Net cash flow 48	-469	-5,017	11,370
Cash and cash equivalents at beginning of year	9,425	14,440	3,115
Effect of exchange rate changes on cash and cash equivalents	-310	2	-45
Cash and cash equivalents at end of year	8,646	9,425	14,440

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

Consolidated statement of changes in equity of ING Insurance

for the years ended 31 December

Amounts in millions of euros	Share capital	Share premium	Reserves	Total shareholders' equity (parent)	Minority interest	Total equity
Balance as at 1 January 2008	174	4,374	13,363	17,911	889	18,800
Unrealised revaluations after taxation			-11,570	-11,570	-78	-11,648
Realised gains/losses transferred to profit and loss			898	898		898
Changes in cash flow hedge reserve			1,350	1,350		1,350
Transfer to insurance liabilities/DAC			2,193	2,193		2,193
Exchange rate difference			-314	-314	-134	-448
Other revaluations					-23	-23
Total amount recognised directly in equity			-7,443	-7,443	-235	-7,678
Net result			-1,265	-1,265	38	-1,227
			-8,708	-8,708	-197	-8,905
Employee stock option and share plans			40	40		40
Changes in composition of the group					-130	-130
Dividends			-2,800	-2,800	-42	-2,842
Capital injection		5,450		5,450		5,450
Balance as at 31 December 2008	174	9,824	1,895	11,893	520	12,413
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			-274	-274	3	-271
Other revaluations					-10	-10
Total amount recognised directly in equity			4,305	4,305	-7	4,298
Net result			-550	-550	37	-513
			3,755	3,755	30	3,785
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	5,339	15,887	80	15,967
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			1,778	1,778	5	1,783
Other revaluations					-3	-3
Total amount recognised directly in equity			4,548	4,548	3	4,551
Net result			-1,165	-1,165	34	-1,131
			3,383	3,383	37	3,420
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	8,763	20,811	111	20,922

In 2010 an amount of EUR 1,500 million (2009: EUR 550 million) additional share premium was received from ING Group to strengthen solvency.

Reserves include Revaluation reserve of EUR 3,345 million (2009: EUR 207 million; 2008: EUR -4,645 million), Currency translation reserve of EUR -152 million (2009: EUR -1,511 million; 2008: EUR -1,191 million) and Other reserves of EUR 5,570 million (2009: EUR 6,643 million; 2008: EUR 7,731 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 2010 were authorised for issue in accordance with a resolution of the Management Board on 14 March 2011. The Management Board may decide to amend the annual accounts as long as these are not adopted by the General Meeting of shareholders. The General Meeting of shareholders may decide not to adopt the annual accounts, but may not amend these. ING 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 new or revised standards, interpretations and amendments to standards and interpretations became effective in 2010:

- Amendment to IFRS 1 'First-time adoption of IFRS'
- IFRS 3 'Business Combinations' (revised) and IAS 27 'Consolidated and Separate Financial Statements' (amended)
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' – 'Eligible Hedged Items'
- IFRIC 17 'Distributions of Non-cash Assets to Owners'
- 2009 Annual Improvements to IFRS
- Amendments to IFRS 2 'Group Cash-settled Share-based Payment Transactions'
- Amendments to IFRS 1 'Additional Exemptions for First-time adopters' effective as of 2012.

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

- Classification of Rights Issues (Amendment to IAS 32)
- Amendment to IAS 24 'Related Party Disclosures'
- Amendments to IFRIC 14 'Prepayments of a Minimum Funding Requirement'
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'
- Amendment to IFRS 1 'Limited Exemption from Comparative IFRS 7 Disclosure for First-time Adopters'
- 2010 Annual Improvements to IFRS
- Amendments to IFRS 7 'Disclosures – Transfers of Financial Assets'.

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

Furthermore, in 2009 IFRS 9 'Financial Instruments' was issued, which is effective as of 2013. However, this standard is not yet endorsed by the EU and, therefore, is not yet part of IFRS-EU. Implementation of IFRS 9 – if and when endorsed by the EU – may have a significant impact on equity and/or result of ING Insurance.

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.

The presentation of, and certain terms used in, the consolidated balance sheet, the consolidated profit and loss account, consolidated statement of cash flows, consolidated statement of changes in equity and certain notes have been changed to provide additional and more relevant information or (for changes in comparative information) to better align with the current period presentation. Operating segments have changed in 2010 to reflect changes in internal management reporting. The impact of these changes is explained in the relevant notes when significant.

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

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

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.

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 and other factors, and mortality and morbidity trends. The use of different assumptions in this test could lead to a different outcome.

Insurance provisions also include the impact of minimum guarantees which are contained within certain variable annuity products. This impact is dependent upon the difference between the potential minimum benefits payable and the total account balance, expected mortality and surrender rates. The determination of the potential minimum benefits payable also involves the use of assumptions about factors such as inflation, investment returns, policyholder behaviour, mortality and morbidity trends and other factors. The use of different assumptions about these factors could have a material effect on insurance provisions and underwriting 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; all changes in fair value are recognised directly in the profit and loss account. The fair value of real estate investments is based on regular appraisals by independent qualified valuers. The fair values represent the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and willing seller in an at-arm's-length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. The valuations are based on the assumption that the properties are let and sold to third parties based on the actual letting status. The valuations are based on a discounted cash flow analysis of each property. The discounted cash flow analyses are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values when leases expire.

For each reporting period every property is valued, either by an independent valuer or internally. Indexation is used when a property is valued internally. The index is based on the results of the independent valuations carried out in that period. Market transactions and disposals are monitored as part of the procedures to back test the indexation methodology. Valuations performed earlier in the year are updated if necessary to reflect the situation at year end.

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

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

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

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

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

Reference is made to Note 31 'Fair 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 carrying value is reviewed in order to determine whether an impairment loss has been incurred. Evaluation for impairment includes both quantitative and qualitative considerations. For debt securities, such considerations include actual and estimated incurred credit losses indicated by payment default, market data on (estimated) incurred losses and other current evidence that the issuer may be unlikely to pay amounts when due. Equity securities are impaired when management believes that, based on (the combination of) a significant or prolonged decline of the fair value below the acquisition price, there is sufficient reason to believe that the acquisition cost may not be recovered. 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities. Generally 25% and 6 months are used as triggers.

Upon impairment, the full difference between amortised cost and fair value is removed from equity and recognised in net profit and loss. Impairments on debt securities may be reversed if there is a decrease in the amount of the impairment which can be objectively related to an observable event. Impairments on equity securities cannot be reversed. Impairments on other debt instruments (Loans and 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 book value (including goodwill) of the reporting unit to the best estimate of the recoverable amount of that reporting unit. The book value is determined as the IFRS net asset value including goodwill. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount. A reporting unit is the lowest level at which goodwill is monitored. Intangible assets are tested for impairment by comparing the book value with the best estimate of the recoverable amount.

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

EMPLOYEE BENEFITS

Group companies operate various defined benefit retirement plans covering a significant number of ING 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

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

health care costs, consumer price index and the expected return on plan assets. The assumptions are based on available market data and the historical performance of plan assets, and are updated annually.

The actuarial assumptions may differ significantly from the actual results due to changes in market conditions, economic and mortality trends, and other assumptions. Any changes in these assumptions could have a significant impact on the defined benefit plan liabilities and future pension costs. The effects of changes in actuarial assumptions and experience adjustments are not recognised in the profit and loss account unless the accumulated changes exceed 10% of the greater of the defined benefit obligation and the fair value of the plan assets. If such is the case the excess is then amortised over the employees' expected average remaining working lives. Reference is made to Note 18 'Other liabilities' for the weighted averages of basic actuarial assumptions in connection with pension and other post-employment benefits.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULTS

CONSOLIDATION

ING 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. Disposal groups (and Non-current assets) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is only the case when the sale is highly probable and the disposal group (or asset) is available for immediate sale in its present condition; management must be committed to the sale, which should be expected to occur within one year from the date of classification as held for sale.

All intercompany transactions, balances and unrealised surpluses and deficits on transactions between 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. There are no material restrictions on subsidiaries to transfer funds to ING Verzekeringen N.V.

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

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities at the balance sheet date, as well as reported income and expenses for the year. The actual outcome may differ from these estimates.

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

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

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 in Group companies below, any exchange rate difference deferred in equity is recognised in the profit and loss account in Net result on disposals of group companies. Reference is 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 value of financial instruments are based on quoted market prices at the balance sheet date where available. The quoted market price used for financial assets held by ING Insurance is the current bid price; the quoted market price used for financial liabilities is the current ask price.

The fair 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.

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

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 so designated by management. Management will make this designation only if this eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis. Investments for risk of policyholders are investments against insurance liabilities for which all changes in fair value of invested assets are offset by similar changes in insurance liabilities. Transaction costs on initial recognition are expensed as incurred. Interest income from debt securities and loans and receivables classified as at fair value through profit and loss is recognised in Investment income in the profit and loss account using the effective interest method.

Dividend income from equity instruments classified as at fair value through profit and loss is generally recognised in Investment income in the profit and loss account when dividend has been declared. Investment result from investment for risk of policyholders is recognised in investment result for risk of policyholders. For derivatives reference is made to the 'Derivatives and hedge accounting' section. For all other financial assets classified as at fair value through profit and loss, changes in fair value are recognised in Net trading income.

Investments

Investments (including loans quoted in active markets) are classified 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

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.

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.

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

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).
- 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).

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.

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.

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

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.

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.

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

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 'Addition to loan loss provision'. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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 six months are used as triggers. If any objective evidence exists for available-for-sale debt and equity investments, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in net result - is removed from equity and recognised in the profit and loss account. Impairment losses on equity instruments can never be reversed. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

INVESTMENTS IN ASSOCIATES

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

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

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

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

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

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

REAL ESTATE INVESTMENTS

Real estate investments are stated at fair value at the balance sheet date. Changes in the carrying amount resulting from revaluations are recognised in the profit and loss account. On disposal the difference between the sale proceeds and book value is recognised in the profit and loss account.

The fair value of real estate investments is based on regular appraisals by independently qualified valuers. Each year every property is valued, either by an independent valuer or internally. Indexation is used when a property is valued internally. The index is based on the results of the independent valuations carried out in that period. Market transactions, and disposals made by the Group, are monitored as part of the procedures to back test the indexation methodology. All properties are valued independently at least every five years.

The valuations are based on the assumption that the properties are let and sold to third parties based on the actual letting status. Valuations drawn up earlier in the year are updated if necessary to reflect the situation at year end. The fair values are based on market values, being the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and willing seller in an at-arm's-length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. Market values are based on appraisals using valuation methods such as: comparable market transactions, capitalisation of income methods or discounted cash flow calculations, based on calculations of the future rental income and expenses in accordance with the terms in existing leases and estimations of the rental values when leases expire.

Any gain or loss arising from a change in fair value is recognised in the income statement. Subsequent expenditures are charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to ING Insurance and the cost of an item can be measured reliably. All other repairs and maintenance costs are charged to the income statement.

PROPERTY AND EQUIPMENT

Property in own use

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

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

The fair values of land and buildings are based on regular appraisals by independently qualified valuers or internally, similar to appraisals of real estate. 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 bookvalue.

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 profit and loss) 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 charged to the profit and loss account as incurred. Expenditure incurred on major improvements is capitalised and depreciated.

Disposals

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

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

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 IFRSs, taking into account the initial accounting period below. Changes in the fair value of the contingent consideration classified as equity are not recognised.

As of 2010, following changes to IFRS 3 'Business Combinations', where a business combination is achieved in stages, ING 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 profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of. Acquisition-related costs are recognised in profit or loss as incurred and presented in the profit and loss account as Other operating expenses.

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

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

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

Computer software

Computer software that has been purchased or generated internally for own use is stated at cost less amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over its useful life. This period will generally not exceed three years. Amortisation is included in Other operating expenses.

Value of business acquired (VOBA)

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

Other intangible assets

Other intangible assets are capitalised and amortised over their expected economic life, which is generally between three and ten years. Intangible assets with an indefinite life are not amortised.

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

DEFERRED ACQUISITION COSTS

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

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

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

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

Deferred income tax

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by ING Insurance and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be utilised.

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

FINANCIAL LIABILITIES

Financial liabilities at amortised 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.

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss comprise the following sub-categories: trading liabilities, non-trading derivatives, and other liabilities designated at fair value through profit and loss by management. Trading liabilities include equity securities and derivatives. Designation by management will take place only if it eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis. All other financial liabilities are measured at amortised cost.

Financial guarantee contracts

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

INSURANCE, INVESTMENT AND REINSURANCE CONTRACTS

Insurance contracts

Insurance policies which bear significant insurance risk 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 profit and loss.

Provision for life insurance

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

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

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

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

In 2009, the methodology for determining the liability for insurance contracts in Japan was revised. The liability for certain guarantees is now measured at fair value. The impact of this change in accounting policy (at 1 January 2009 and on prior year comparatives) was not material to shareholders' equity and the net result of ING Insurance.

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.

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

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 associated investments.

Reinsurance contracts

Reinsurance premiums, commissions and claim settlements, as well as the reinsurance element of technical provisions are accounted for in the same way as the original contracts for which the reinsurance was concluded. 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.

As at 31 December 2009, the Legacy Variable Annuity business in the US 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 Legacy Variable Annuity business in the US. 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. In addition, reserve adequacy in Insurance US Closed Block VA improved through the DAC write-down as disclosed in Note 45 'Operating segments'.

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.

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

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 charged or credited to the profit and loss account over employees' remaining working lives. The corridor was reset to nil at the date of transition to IFRS-EU.

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

Other post-employment obligations

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

Other provisions

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

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

INCOME RECOGNITION

Gross premium income

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

Interest

Interest income and expense are recognised in the profit and loss account using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, ING Insurance estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

Accounting policies for the consolidated annual accounts of ING Insurance (continued)

Fees and commissions

Fees and commissions are generally recognised as the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds and investment contract fees are recognised on a pro-rata basis over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

EXPENSE RECOGNITION

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

Share-based payments

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

GOVERNMENT GRANTS

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

FIDUCIARY ACTIVITIES

ING 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.

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		
	2010	2009
Cash and bank balances	4,057	3,752
Short term deposits	4,589	5,673
	8,646	9,425

2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial assets at fair value through profit and loss		
	2010	2009
Trading assets	622	474
Investments for risk of policyholders	120,481	104,597
Non-trading derivatives	4,440	3,668
Designated as at fair value through profit and loss	2,960	2,378
	128,503	111,117

Trading assets by type		
	2010	2009
Equity securities	568	437
Debt securities	54	37
	622	474

Investments for risk of policyholders by type		
	2010	2009
Equity securities	109,191	93,268
Debt securities	8,944	8,215
Loans or receivables	2,346	3,114
	120,481	104,597

The cost of investments for risk of policyholders as at 31 December 2010 was EUR 113,879 million (2009: EUR 106,904 million).

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

Non-trading derivatives per type		
	2010	2009
Derivatives used in:		
– fair value hedges	180	99
– cash flow hedges	1,563	1,426
– hedges of net investment in foreign operations	9	5
Other non-trading derivatives	2,688	2,138
	4,440	3,668

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

Designated as at fair value through profit and loss by type		
	2010	2009
Equity securities	250	155
Debt securities	1,318	1,060
Other	1,392	1,163
	2,960	2,378

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

Notes to the consolidated annual accounts of ING Insurance (continued)

3 AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments by type

	2010	2009
Equity securities	7,013	5,171
Debt securities	116,334	100,350
	123,347	105,521

Changes in available-for-sale investments

	Equity securities		Debt securities		Total	
	2010	2009	2010	2009	2010	2009
Opening balance	5,171	6,959	100,350	102,528	105,521	109,487
Additions	2,219	1,264	71,205	106,556	73,424	107,820
Amortisation			-201	-126	-201	-126
Transfers and reclassifications		-9		-6,135		-6,144
Changes in the composition of the group and other changes	4	-1,353	-24	-3,949	-20	-5,302
Changes in unrealised revaluations	867	1,517	4,705	7,725	5,572	9,242
Impairments	-43	-360	-589	-585	-632	-945
Reversal of impairments			11		11	
Disposals and redemptions	-1,322	-2,936	-64,988	-104,608	-66,310	-107,544
Exchange rate differences	117	89	5,865	-1,056	5,982	-967
Closing balance	7,013	5,171	116,334	100,350	123,347	105,521

Available-for-sale equity securities

	2010	2009
Listed	4,437	3,257
Unlisted	2,576	1,914
	7,013	5,171

As at 31 December 2010, the balance sheet value included debt securities which were lent or sold in repurchase transactions amounting to EUR 9,529 million (2009: EUR 8,543 million) and EUR 342 million (2009: EUR 236 million), respectively.

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

	Equity securities		Debt securities		Total	
	2010	2009	2010	2009	2010	2009
To/from loans and advances to customers				-6,135		-6,135
To/from investment in associates		-9				-9
		-9		-6,135		-6,144

Reclassifications to Loans and advances to customers (2009)

Reclassifications out of available-for-sale investments to loans and receivables are allowed under IFRS 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 an intent 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 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
Effective interest rate (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

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 reclassifications 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 reclassifications 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

2008

Unrealised fair value losses recognised in shareholders' equity (before tax) as at 31 December	–971
Recognised impairments (before tax)	nil

Derecognition available-for-sale debt securities - Transaction with the Dutch State (2009)

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

Borrowed debt securities are not recognised in the balance sheet and amounted to EUR 817 million as at 31 December 2010 (2009: nil).

Investments in connection with the insurance operations with a combined carrying value of EUR 6 million (2009: EUR 26 million) did not produce any income for the year ended 31 December 2010.

Notes to the consolidated annual accounts of ING Insurance (continued)

Exposure to debt securities

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

Debt securities		
	2010	2009
Available-for-sale investments	116,334	100,350
Loans and advances to customers	6,385	6,138
Available-for-sale investments and Assets at amortised cost	122,719	106,488
Trading assets	54	37
Investments for risk of policyholders	8,944	8,215
Designated as at fair value through profit and loss	1,318	1,060
Financial assets at fair value through profit and loss	10,316	9,312
	133,035	115,800

ING Insurance's total exposure to debt securities included in available-for-sale investments and assets at amortised cost of EUR 122,719 million (2009: EUR 106,488 million) is specified as follows by type of exposure.

Debt securities by type		
	2010	2009
Government bonds	48,455	41,417
Covered bonds	1,327	1,605
Corporate bonds	38,404	29,611
Financial institution bonds	13,047	13,696
Bond portfolio (excluding ABS)	101,233	86,329
US agency RMBS	4,799	4,347
US prime RMBS	1,625	1,310
US Alt-A RMBS	358	336
US subprime RMBS	1,560	1,368
NON-US RMBS	5,174	4,569
CDO/CLO	731	936
Other ABS	2,429	2,222
CMBS	4,810	5,071
ABS portfolio	21,486	20,159
	122,719	106,488

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

4 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers per type						
	Netherlands		International		Total	
	2010	2009	2010	2009	2010	2009
Policy loans	47	50	3,180	2,853	3,227	2,903
Loans secured by mortgages	6,594	6,700	7,169	7,368	13,763	14,068
Unsecured loans	3,001	2,182	3,137	2,072	6,138	4,254
Asset backed securities	6,385	6,138			6,385	6,138
Other	442	427	1,182	1,335	1,624	1,762
	16,469	15,497	14,668	13,628	31,137	29,125
Loan loss provisions	-71	-52	-46	-59	-117	-111
	16,398	15,445	14,622	13,569	31,020	29,014

Notes to the consolidated annual accounts of ING Insurance (continued)

Changes in loan loss provisions

	2010	2009
Opening balance	111	59
Changes in the composition of the group		-3
Write-offs	-42	-13
Recoveries	1	1
Increase in loan loss provisions	41	67
Exchange rate differences	6	
Closing balance	117	111

5 INVESTMENTS IN ASSOCIATES

Investments in associates

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

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

No accumulated impairments have been recognised (2009: nil).

For the above associates in which the interest held is below 20%, significant influence exists based on the combination of ING Insurance's financial interests for own risk and its role as investment manager.

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

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

Notes to the consolidated annual accounts of ING Insurance (continued)

Investments in associates							
	Interest held (%)	Fair value of listed investments	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
2009							
ING Lionbrook Property Partnership LP	33		151	572	148	27	20
ING Dutch Retail Master Fund C.V.	16		210	1,642	310	56	37
ING Dutch Residential Master Fund C.V.	13		111	1,019	194	-34	22
ING Retail Property Fund Iberica LP	30		140	1,635	1,156	-51	50
ING Vastgoed Winkels C.V.	10		87	870	5	53	19
ING Retail Property Fund France Belgium	15		71	1,381	909	2	87
Sul America S.A.	36	694	288	4,714	3,904	3,360	3,138
ING Dutch Office Master Fund C.V.	16		201	1,527	285	-12	30
ING Vastgoed Kantoren C.V.	10		89	952	44	10	33
ING Logistics Property Fund Europe C.V.	25		51	467	263	-22	23
ING Retail Property Partnership Southern	21		55	1,001	745	-27	69
ING Real Estate French Residential Fund	45		67	233	83	-1	8
ING Real Estate Nordic Property Fund FGR	16		56	940	588	-7	52
Lion Structured Finance Corp	14		174	179		1	
ING Dutch Residential Master Fund II C.V.	13		65	626	141	-25	26
ING Dutch Office Master Fund II C.V.	16		104	775	129	31	27
ING Property Fund Central Europe LP	25		67	806	540	-25	52
Other investments in associates			499				
			2,486				

Changes in investments in associates		
	2010	2009
Opening balance	2,486	2,723
Additions	79	131
Changes in the composition of the group	16	-91
Transfers to and from Investments		9
Revaluations	10	15
Share of results	216	-79
Dividends received	-101	-90
Disposals	-348	-192
Exchange rate differences	70	60
Closing balance	2,428	2,486

In 2010, the share of results of EUR 216 million (2009: EUR -79 million) is presented in the profit and loss account in the Share of profit from associates.

6 REAL ESTATE INVESTMENTS

Changes in real estate investments		
	2010	2009
Opening balance	1,069	1,118
Additions	16	15
Changes in the composition of the group		-40
Transfers to and from Property in own use		58
Transfers to and from Other assets		27
Fair value gains/(losses)	-48	-124
Disposals	-6	-8
Exchange rate differences	32	23
Closing balance	1,063	1,069

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2010 was EUR 70 million (2009: EUR 81 million). The total amount of contingent rent recognised in the profit and loss account for the year ended 31 December 2010 was EUR 14 million (2009: EUR 8 million).

Notes to the consolidated annual accounts of ING Insurance (continued)

The total amount of direct operating expenses (including repairs and maintenance) incurred from Real estate investments that generated rental income for the year ended 31 December 2010 was EUR 12 million (2009: EUR 12 million). The total amount of direct operating expenses (including repairs and maintenance) incurred from Real estate investments that did not generate rental income for the year ended 31 December 2010 was nil (2009: EUR 14 million).

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

In percentages	2010
Most recent appraisal in 2010	100
	100

7 PROPERTY AND EQUIPMENT

Property and equipment by type

	2010	2009
Property in own use	313	322
Equipment	204	230
	517	552

Changes in property in own use

	2010	2009
Opening balance	322	394
Additions	6	6
Changes in the composition of the group		-2
Transfers to and from real estate investments		-58
Transfers to and from other assets		2
Depreciation	-5	-6
Revaluations	4	-2
Impairments	-1	
Disposals	-26	-13
Exchange rate differences	13	
Other changes		1
Closing balance	313	322
Gross carrying amount as at 31 December	347	350
Accumulated depreciation as at 31 December	-31	-26
Accumulated impairments as at 31 December	-3	-2
Net book value	313	322
Revaluation surplus		
Opening balance	39	43
Revaluation in year	4	-2
Released in year		-2
Closing balance	43	39

The cost or the purchase price amounted to EUR 304 million (2009: EUR 311 million). Cost less accumulated depreciation and impairments would have been EUR 270 million (2009: EUR 283 million).

Notes to the consolidated annual accounts of ING Insurance (continued)

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

In percentages	2010
Most recent appraisal in 2010	59
Most recent appraisal in 2009	4
Most recent appraisal in 2008	35
Most recent appraisal in 2006	2
	100

Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2010	2009	2010	2009	2010	2009
Opening balance	51	57	179	259	230	316
Additions	45	29	26	64	71	93
Changes in the composition of the group		-9	-6	-88	-6	-97
Disposals	-4	-1	-26	-3	-30	-4
Depreciation	-29	-26	-44	-52	-73	-78
Exchange rate differences	4	1	9	4	13	5
Other changes			-1	-5	-1	-5
Closing balance	67	51	137	179	204	230
Gross carrying amount as at 31 December	260	214	414	417	674	631
Accumulated depreciation as at 31 December	-193	-163	-277	-238	-470	-401
Net book value	67	51	137	179	204	230

8 INTANGIBLE ASSETS

Changes in intangible assets

	Value of business acquired		Goodwill		Software		Other		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Opening balance	1,502	2,084	1,857	1,889	133	200	383	558	3,875	4,731
Additions					96	54		2	96	56
Capitalised expenses	90	79			34	7			124	86
Amortisation and unlocking	-113	-120			-46	-59	-66	-71	-225	-250
Impairments			-637		-3			-1	-640	-1
Effect of unrealised revaluations in equity	-286	-482							-286	-482
Changes in the composition of the group		-11		-96	-52	-76	-8	-140	-60	-323
Exchange rate differences	127	-48	205	64	7	7	36	35	375	58
Disposals					-3				-3	
Closing balance	1,320	1,502	1,425	1,857	166	133	345	383	3,256	3,875
Gross carrying amount as at 31 December	2,449	2,518	2,127	1,922	758	676	656	628	5,990	5,744
Accumulated amortisation as at 31 December	-1,129	-1,016			-589	-543	-265	-199	-1,983	-1,758
Accumulated impairments as at 31 December			-702	-65	-3		-46	-46	-751	-111
Net book value	1,320	1,502	1,425	1,857	166	133	345	383	3,256	3,875

Goodwill

Changes in Goodwill

There were no additions to goodwill in 2010.

A goodwill impairment of EUR 637 million was recognised in 2010. The impairment relates to the reporting unit Insurance US. There was no goodwill impairment in 2009.

All other changes in goodwill are mainly caused by foreign exchange rate differences.

Notes to the consolidated annual accounts of ING Insurance (continued)

Allocation of Goodwill to reporting units

Goodwill is allocated to reporting units as follows:

Goodwill allocation to reporting units		
	2010	2009
Insurance Benelux	48	48
Insurance Central & Rest of Europe	123	122
Insurance Latin America	680	591
Insurance US*		570
Insurance Asia/Pacific – South Korea	192	171
Insurance Asia/Pacific – Rest of Asia	2	2
ING Investment Management	380	353
Total Insurance	1,425	1,857

* Excluding US Closed Block VA

As of 2010 ING Investment Management is a separate reporting unit following the change in operating segments as explained in Note 45 'Operating Segments'.

Goodwill impairment testing

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

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

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

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 book 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 book value. The outcome of the impairment test performed in the third quarter of 2010 indicated that the fair value has become less than book 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.

Notes to the consolidated annual accounts of ING Insurance (continued)

9 DEFERRED ACQUISITION COSTS

Changes in deferred acquisition costs								
	Investment contracts		Life insurance		Non-life insurance		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Opening balance	0	89	11,355	11,489	43	265	11,398	11,843
Capitalised		9	1,550	1,609	12	12	1,562	1,630
Amortisation and unlocking		-11	-2,821	-435	-13	-12	-2,834	-458
Effect of unrealised revaluations in equity			-765	-1,140			-765	-1,140
Changes in the composition of the group		-104	-5	58		-231	-5	-277
Exchange rate differences		17	1,246	-227		9	1,246	-201
Disposal of portfolios			2	1			2	1
Closing balance	0	0	10,562	11,355	42	43	10,604	11,398

For flexible life insurance contracts the growth rate assumption used to calculate the amortisation of the deferred acquisition costs for 2010 is 8.3% gross and is 4.8% net of investment management fees (2009: 8.2% gross and 5.6% net of investment management fees).

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 (2009: EUR -461 million), which mainly relates to Insurance US and amortisation of EUR -1,321 million (2009: EUR 3 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. (PALIC) and ING Arrendadora S.A. de C.V. in Mexico. For 31 December 2009 this relates mainly to PALIC, and three U.S. independent retail broker-dealer units. Reference is made to Note 27 'Companies acquired and companies disposed' for more details.

Assets held for sale		
	2010	2009
Cash and cash equivalents	28	81
Financial assets at fair value through profit and loss	11	8
Available-for-sale investments	144	180
Loans and advances to customers	144	37
Reinsurance contracts		3
Property and equipment	3	2
Deferred acquisition costs	43	35
Other assets	8	95
	381	441

Liabilities held for sale		
	2010	2009
Other borrowed funds	35	
Insurance and investments contracts	217	191
Other liabilities	27	67
	279	258

Cumulative other comprehensive income include EUR 6 million (2009: EUR -1 million) related to Assets held for sale.

In addition to the entities presented as Held for sale above, ING is considering potential divestments, including those that are listed under the European Commission Restructuring plan in Note 30 'Related parties'. However, none of these businesses qualify as held for sale as at 31 December 2010 as the potential divestments are not yet available for immediate sale in their present condition and/or a sale is not yet highly probable to occur.

Notes to the consolidated annual accounts of ING Insurance (continued)

11 OTHER ASSETS

Other assets by type		
	2010	2009
Reinsurance and insurance receivables	2,201	2,125
Deferred tax assets	179	462
Property development and obtained from foreclosures	65	42
Income tax receivable	126	146
Accrued interest and rents	3,172	3,394
Other accrued assets	1,958	1,480
Pension assets	1,192	1,113
Other	1,317	1,269
	10,210	10,031

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

Accrued interest and rents includes EUR 2,202 million (2009: EUR 2,097 million) accrued interest on assets measured at amortised cost under the IAS 39 classification Loans and receivables.

The total amount of borrowing costs relating to Property under development for third parties capitalised in 2010 is nil (2009: nil).

Reinsurance and insurance receivables		
	2010	2009
Receivables on account of direct insurance from:		
– policyholders	1,272	1,443
– intermediaries	108	113
Reinsurance receivables	821	569
	2,201	2,125

The allowance for uncollectible reinsurance and insurance receivables amounted to EUR 52 million as at 31 December 2010 (2009: EUR 47 million). The allowance is deducted from this receivable.

Notes to the consolidated annual accounts of ING Insurance (continued)

EQUITY

12 SHAREHOLDERS' EQUITY

Shareholders' equity (parent)			
	2010	2009	2008
Share capital	174	174	174
Share premium	11,874	10,374	9,824
Revaluation reserve	3,345	207	-4,645
Currency translation reserve	-152	-1,511	-1,191
Other reserves	5,570	6,643	7,731
Shareholders' equity (parent)	20,811	15,887	11,893

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		
	2010	2009	2008	2010	2009	2008
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 2010, 2009 or 2008.

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 2010 154 million have been issued and fully paid. There were no changes in issued share capital during 2010, 2009 or 2008.

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				
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

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

	Property revaluation reserve	Available- for-sale reserve	Cash flow hedge reserve	Total
2009				
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 revaluation reserve

	Property revaluation reserve	Available- for-sale reserve	Cash flow hedge reserve	Total
2008				
Opening balance	23	2,801	10	2,834
Unrealised revaluations after taxation	2	-11,922		-11,920
Realised gains/losses transferred to profit and loss		898		898
Change in cash flow hedge reserve			1,350	1,350
Transfer to insurance liabilities/DAC		2,193		2,193
Closing balance	25	-6,030	1,360	-4,645

Changes in currency translation reserve

	2010	2009	2008
Opening balance	-1,511	-1,191	-1,086
Unrealised revaluations after taxation	-419	-194	209
Realised gains/losses transferred to profit and loss		148	156
Exchange rate differences	1,778	-274	-470
Closing balance	-152	-1,511	-1,191

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

	Retained earnings	Share of associates reserve	Total
2010			
Opening balance	6,643		6,643
Result for the year	-1,165		-1,165
Unrealised revaluations after taxation	24	27	51
Transfer to share of associates reserve	-113	113	
Employee stock options and share plans	41		41
Closing balance	5,430	140	5,570

Changes in other reserves

	Retained earnings	Share of associates reserve	Total
2009			
Opening balance	7,664	67	7,731
Result for the year	-550		-550
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	6,643	0	6,643

Notes to the consolidated annual accounts of ING Insurance (continued)

Changes in other reserves

2008	Retained earnings	Share of associates reserve	Total
Opening balance	11,048	567	11,615
Result for the year	-1,078	-187	-1,265
Unrealised revaluations after taxation	343	-202	141
Dividend	-2,689	-111	-2,800
Employee stock options and share plans	40		40
Closing balance	7,664	67	7,731

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	
					2010	2009
8.000%	2008	Perpetual	EUR	750		750
Variable	2008	Perpetual	USD	1,100	822	764
Variable	2007	Perpetual	USD	1,000	748	694
5.775%	2005	Perpetual	USD	1,000		695
4.176%	2005	Perpetual	EUR	300	309	303
6.125%	2005	Perpetual	USD	200	140	133
6.125%	2005	Perpetual	USD	100	75	66
6.375%	2002	7 May 2027	EUR	1,000	1,060	1,069
6.250%	2001	21 June 2021	EUR	1,250	1,253	1,269
					4,407	5,743

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

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		
	2010	2009
Fixed rate debt securities		
Within 1 year	46	264
More than 1 year but less than 2 years	1,341	454
More than 2 years but less than 3 years	2,109	816
More than 3 years but less than 4 years		2,015
More than 4 years but less than 5 years		95
More than 5 years	471	435
Total fixed rate debt securities	3,967	4,079

As of 31 December 2010, ING Insurance had unused lines of credit available totalling EUR 56 million (2009: EUR 46 million).

Notes to the consolidated annual accounts of ING Insurance (continued)

15 OTHER BORROWED FUNDS

Other borrowed funds by remaining term							
2010	2011	2012	2013	2014	2015	There after	Total
Loans contracted	3,969	495	23	96	23	523	5,129
Loans from credit institutions	2,640		1		131	687	3,459
	6,609	495	24	96	154	1,210	8,588

Other borrowed funds by remaining term							
2009	2010	2011	2012	2013	2014	There after	Total
Loans contracted	2,996		417		190	644	4,247
Loans from credit institutions	2,009	173	14			593	2,789
	5,005	173	431		190	1,237	7,036

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	
	2010	2009	2010	2009	2010	2009
Provision for non-participating life policy liabilities	80,144	69,641	5,150	4,798	85,294	74,439
Provision for participating life policy liabilities	51,191	50,102	173	200	51,364	50,302
Provision for (deferred) profit sharing and rebates	3,432	1,600	3	3	3,435	1,603
Life insurance provisions excluding provisions for risk of policyholder	134,767	121,343	5,326	5,001	140,093	126,344
Provision for life insurance for risk of policyholders	114,603	99,299	359	374	114,962	99,673
Life insurance provisions	249,370	220,642	5,685	5,375	255,055	226,017
Provision for unearned premiums and unexpired risks	345	361	4	4	349	365
Reported claims provision	2,606	2,580	97	96	2,703	2,676
Claims incurred but not reported (IBNR)	497	493	3	5	500	498
Claims provisions	3,103	3,073	100	101	3,203	3,174
Total provisions for insurance contracts	252,818	224,076	5,789	5,480	258,607	229,556
Investment contracts for risk of company	5,991	5,896			5,991	5,896
Investment contracts for risk of policyholders	5,984	5,406			5,984	5,406
Total provisions for investment contracts	11,975	11,302			11,975	11,302
Total	264,793	235,378	5,789	5,480	270,582	240,858

The deferred profit sharing amount on unrealised revaluation is included in Provision for (deferred) profit sharing and rebates and amounts to EUR 1,706 million as at 31 December 2010 (2009: EUR 313 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	
	2010	2009	2010	2009	2010	2009	2010	2009
Opening balance	121,343	122,533	99,299	84,279	5,375	5,582	226,017	212,394
Changes in the composition of the group	-24	-2,887	-2	23		-65	-26	-2,929
	121,319	119,646	99,297	84,302	5,375	5,517	225,991	209,465
Current year provisions	11,843	12,864	7,500	8,734	415	574	19,758	22,172
Change in deferred profit sharing liability	1,422	1,476					1,422	1,476
Prior year provisions:								
– benefit payments to policyholders	-11,938	-13,207	-10,681	-7,984	-557	-452	-23,176	-21,643
– interest accrual	4,466	4,311			35	39	4,501	4,350
– valuation changes for risk of policyholders			10,468	16,652			10,468	16,652
– effect of changes in discount rate assumptions	5	-2					5	-2
– effect of changes in other assumptions	356	102	21	-5	6	-2	383	95
	-7,111	-8,796	-192	8,663	-516	-415	-7,819	-548
Exchange rate differences	7,222	-1,364	8,488	-1,911	375	-124	16,085	-3,399
Other changes	72	-2,483	-490	-489	36	-177	-382	-3,149
Closing balance	134,767	121,343	114,603	99,299	5,685	5,375	255,055	226,017

Changes in the composition of the group in 2009 relate mainly to the sale of the annuity and mortgage business of Chile. Reference is made to Note 27 'Companies acquired and companies disposed'.

Where discounting is used in the calculation of life insurance provision, the rate is within the range of 2.3% to 4.7% (2009: 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'.

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 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, the Group 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, the Group 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 2010, the total Reinsurance exposure, including Reinsurance contracts and Receivables from reinsurers (presented in Other assets) amounted to EUR 6,610 million (2009: EUR 6,049 million) after the provision for uncollectible reinsurance of nil (2009: EUR 1 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	
	2010	2009	2010	2009	2010	2009
Opening balance	361	1,756	4	13	365	1,769
Changes in the composition of the group		-1,454		-11		-1,465
	361	302	4	2	365	304
Premiums written	1,676	1,702	65	70	1,741	1,772
Premiums earned during the year	-1,702	-1,704	-65	-68	-1,767	-1,772
Exchange rate differences	1	58			1	58
Other changes	9	3			9	3
Closing balance	345	361	4	4	349	365

Changes in the composition of the group in 2009 relate mainly to the sale of ING Canada. Reference is made to Note 27 'Companies acquired and companies disposed'.

Changes in claims provisions

	Provision net of reinsurance		Reinsurance contracts		Claims provision	
	2010	2009	2010	2009	2010	2009
Opening balance	3,073	5,340	101	202	3,174	5,542
Changes in the composition of the group		-2,366	1	-110	1	-2,476
	3,073	2,974	102	92	3,175	3,066
Additions:						
– for the current year	1,121	1,111	20	21	1,141	1,132
– for prior years	-35	-361	-11	-6	-46	-367
– interest accrual of provision	46	277			46	277
	1,132	1,027	9	15	1,141	1,042
Claim settlements and claim settlement costs:						
– for the current year	491	485	3	2	494	487
– for prior years	621	574	8	10	629	584
	1,112	1,059	11	12	1,123	1,071
Exchange rate differences	13	95		4	13	99
Other changes	-3	36		2	-3	38
Closing balance	3,103	3,073	100	101	3,203	3,174

Changes in the composition of the group in 2009 relate mainly to the sale of ING Canada. Reference is made to Note 27 'Companies acquired and companies disposed'.

ING Insurance had an outstanding balance of EUR 41 million as at 31 December 2010 (2009: EUR 42 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% (2009: 3.0% to 4.0%).

Notes to the consolidated annual accounts of ING Insurance (continued)

Changes in investment contracts liabilities

	2010	2009
Opening balance	11,302	21,085
Changes in the composition of the group		-8,208
	11,302	12,877
Current year liabilities	4,920	5,573
Prior year provisions:		
– payments to contract holders	-5,184	-9,711
– interest accrual	81	122
– valuation changes investments	24	1,089
	-5,079	-8,500
Exchange rate differences	593	981
Other changes	239	371
Closing balance	11,975	11,302

Changes in the composition of the group in 2009 relate mainly to the sale of ING Australia. Reference is made to Note 27 'Companies acquired and companies disposed'.

Gross claims development table

	Underwriting Year							
	2004	2005	2006	2007	2008	2009	2010	Total
Estimate of cumulative claims:								
At the end of underwriting year	1,234	1,125	1,117	1,040	1,095	1,185	1,183	
1 year later	1,096	1,056	1,073	939	1,076	1,193		
2 years later	942	933	994	875	1,042			
3 years later	920	925	981	870				
4 years later	919	910	981					
5 years later	910	900						
6 years later	898							
Estimate of cumulative claims	898	900	981	870	1,042	1,193	1,183	7,067
Cumulative payments	-766	-718	-770	-593	-705	-713	-494	-4,759
	132	182	211	277	337	480	689	2,308
Effect of discounting	-17	-24	-26	-39	-43	-44	-42	-235
Liability recognised	115	158	185	238	294	436	647	2,073
Liability relating to underwriting years prior to 2004								1,130
Total amount recognised in the balance sheet								3,203

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

17 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial liabilities at fair value through profit and loss

	2010	2009
Non-trading derivatives	3,677	3,921
	3,677	3,921

Notes to the consolidated annual accounts of ING Insurance (continued)

Non-trading derivatives by type		
	2010	2009
Derivatives used in:		
– fair value hedges	265	278
– cash flow hedges	344	435
– hedges of net investments in foreign operations	60	148
Other non-trading derivatives	3,008	3,060
	3,677	3,921

18 OTHER LIABILITIES

Other liabilities by type		
	2010	2009
Deferred tax liabilities	1,197	859
Income tax payable	143	463
Post-employment benefits	74	86
Pension benefits	400	348
Other staff-related liabilities	583	350
Other taxation and social security contributions	161	152
Deposits from reinsurers	1,007	871
Accrued interest	1,201	1,626
Costs payable	1,128	828
Amounts payable to brokers	111	200
Amounts payable to policyholders	2,130	2,182
Reorganisation provision	101	154
Other provisions	144	167
Other	4,962	4,261
	13,342	12,547

Other includes payables to credit institutions of EUR 1,043 million (2009: EUR 513 million) related to insurance operations, reinsurance creditors of EUR 568 million (2009: EUR 510 million), settlement accounts for derivatives of EUR 447 million (2009: EUR 147 million), settlement accounts for deposits of EUR 919 million (2009: EUR 708 million) and insurance creditors of EUR 436 million (2009: EUR 359 million). Other mainly relates to year-end accruals in the normal course of business.

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

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.

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	1,167	-1,556		121	-41	370
Financial assets and liabilities at fair value through profit and loss	21		6	-2	2	-3	24
Deferred acquisition costs and VOBA	2,968	-368	174		336	1	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	173	8	-31	2	96
	397	657	-84	5	66	-23	1,018
Comprising:							
– deferred tax liabilities	859						1,197
– deferred tax assets	-462						-179
	397						1,018

Changes in deferred tax

	Net liability 2008	Change through equity	Change through net result	Changes in the composition of the group	Exchange rate differences	Other	Net liability 2009
Investments	-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	3,480	-567	174	-12	-178	71	2,968
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
	-689	1,229	-205	20	17	25	397
Comprising:							
– deferred tax liabilities	1,275						859
– deferred tax assets	-1,964						-462
	-689						397

Notes to the consolidated annual accounts of ING Insurance (continued)

Deferred tax in connection with unused tax losses carried forward

	2010	2009
Total unused tax losses carried forward	4,440	5,286
Unused tax losses carried forward not recognised as a deferred tax asset	-2,146	-1,144
Unused tax losses carried forward recognised as a deferred tax asset	2,294	4,142
Average tax rate	29.2%	33.0%
Deferred tax asset	670	1,366

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	
	2010	2009	2010	2009
Within 1 year	2	34	40	23
More than 1 year but less than 5 years	217	333	384	126
More than 5 years but less than 10 years	85	9	911	730
More than 10 years but less than 20 years	1,827	740	664	3,049
Unlimited	15	28	295	214
	2,146	1,144	2,294	4,142

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 192 million (2009: EUR 689 million).

This can be specified by jurisdiction as follows:

Breakdown by jurisdiction

	2010	2009
The Netherlands	171	233
United States		456
Belgium	15	
Thailand	6	
	192	689

As a result of the partial write-off the deferred tax asset for tax loss carry forwards for Insurance in the US (as disclosed in Note 44 'Taxation' in the line "Write down/reversal of deferred tax assets") the loss carry forward amount for Insurance in the US is, in 2010, less dependent on future taxable profits compared to 2009.

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

As of 31 December 2010 and 31 December 2009, ING 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.

Notes to the consolidated annual accounts of ING Insurance (continued)

Changes in reorganisation provisions

	Reorganisations	
	2010	2009
Opening balance	154	31
Changes in the composition of the group	9	
Additions	117	304
Releases	-19	-46
Charges	-157	-180
Exchange rate differences	1	-2
Other changes	-4	47
Closing balance	101	154

As at 31 December 2010 the provision for reorganisation relates for EUR 93 million to termination benefits.

As at 31 December 2009 the provision for reorganisation, of which EUR 142 million relates to termination benefits, mainly related to the reorganisation of Nationale Nederlanden, RVS and Insurance US.

Changes in other provisions

	Litigation		Other		Total	
	2010	2009	2010	2009	2010	2009
Opening balance	36	18	131	391	167	409
Changes in the composition of the group		1		-38		-37
Additions	26	23	23	49	49	72
Releases	-1	-2	-15	-10	-16	-12
Charges	-9	-7	-40	-296	-49	-303
Exchange rate differences	2			5	2	5
Other changes		3	-9	30	-9	33
Closing balance	54	36	90	131	144	167

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.

Pension and post-employment benefits

Summary of pension benefits

	Pension benefits				
	2010	2009	2008	2007	2006
Defined benefit obligation	5,758	4,975	5,223	5,245	5,699
Fair value of plan assets	5,813	5,102	4,697	5,245	5,063
	-55	-127	526	0	636
Unrecognised past service costs	-3	-3	-5	-3	
Unrecognised actuarial gains/(losses)	-734	-635	-955	-62	-426
	-792	-765	-434	-65	210
Presented as:					
- Other liabilities	400	348	236	-65	210
- Other assets	-1,192	-1,113	-670		
	-792	-765	-434	-65	210

Notes to the consolidated annual accounts of ING Insurance (continued)

Summary of post-employment benefits

	2010	2009	2008	Post-employment benefits	
				2007	2006
Defined benefit obligation	69	69	112	126	176
	69	69	112	126	176
Unrecognised past service costs	2	7	1	3	8
Unrecognised actuarial gains/(losses)	3	10	7	7	-2
	74	86	120	136	182

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

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

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

Certain group companies sponsor defined contribution pension plans. The assets of all ING Insurance's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in current liabilities. The amount incurred in 2010 was EUR 1 million (2009: EUR 20 million).

Actuarial gains and losses related to pension and post-employment benefits for the year ended 31 December 2010 include EUR 410 million (2009: EUR 104 million; 2008: EUR -969 million; 2007: EUR -306 million; 2006: EUR 98 million) experience gain adjustments for assets and EUR 37 million (2009: EUR 135 million; 2008: EUR 3 million; 2007: EUR 72 million; 2006: nil) experience gain adjustments for liabilities.

Changes in defined benefit obligation

	Pension benefits		Post-employment benefits other than pensions	
	2010	2009	2010	2009
Opening balance	4,975	5,223	69	112
Current service cost	102	110		3
Interest cost	285	273	4	5
Benefits paid	-228	-224	-5	-4
Actuarial gains and losses	532	-99	-1	-8
Past service cost		-1		-27
Changes in the composition of the group and other changes	-3	-283	-1	-10
Effect of curtailment or settlement	-3	-8		
Exchange rate differences	98	-16	3	-2
Closing balance	5,758	4,975	69	69
Relating to:				
– funded plans	5,686	4,926		
– unfunded plans	72	49	69	69
	5,758	4,975	69	69

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

The estimated unrecognised past service cost and unrecognised actuarial gains/losses for the defined benefit related liability plans to be amortised to pension and other staff costs during 2011 are nil and EUR 18 million respectively.

Notes to the consolidated annual accounts of ING Insurance (continued)

Changes in fair value of plan assets

	Pension benefits	
	2010	2009
Opening balance	5,102	4,697
Expected return on plan assets	296	296
Employer's contribution	178	515
Participants contributions	1	1
Benefits paid	-223	-212
Actuarial gains and losses	410	104
Changes in the composition of the group and other changes		-299
Exchange rate differences	49	
Closing balance	5,813	5,102

The actual return on the plan assets amounted to EUR 706 million (2009: EUR 400 million).

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

Pension investment strategy

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

Categories of plan assets in percentages

	Target allocation	Percentage of plan assets		Weighted average expected long term rate of return	
	2011	2010	2009	2010	2009
Equity securities	34	34	35	7.5	7.8
Debt securities	51	54	56	4.3	4.8
Other	15	12	9	6.0	6.3
	100	100	100	5.7	6.2

Equity securities include ING Group ordinary shares of EUR 1 million (0.01% of total plan assets) as at 31 December 2010 (2009: EUR 1 million, 0.01% of total plan assets). Debt securities include investments in ING Groep of EUR 21 million (0.4% of total plan assets) as at 31 December 2010 (2009: nil, 0% of total plan assets). Other includes mainly real estate. Real estate occupied by ING Insurance as at 31 December 2010 which is included in Other includes EUR 2 million (0.04% of total plan assets) (2009: 0% of total plan assets).

Determination of expected return on assets

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

Notes to the consolidated annual accounts of ING Insurance (continued)

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

	Pension benefits		Post-employment benefits other than pensions	
	2010	2009	2010	2009
Discount rates	5.40	5.70	4.70	5.30
Mortality rates	1.00	1.30	1.00	1.30
Expected rates of salary increases (excluding promotion increases)	2.70	2.80	2.70	3.10
Medical cost trend rates			6.10	6.10
Indexation	1.80	2.00	2.00	2.10

The assumptions above are weighted by defined benefit obligations. The rates used for salary developments, interest discount factors and other adjustments reflect 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 2010 (2009: EUR 1 million) and no increase in the charge for the year (2009: 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 2010 (2009: EUR 1 million) and no decrease in the charge for the year (2009: no decrease).

The actuarial assumption for Mortality rates decreased from 1.3% in 2009 to 1.0% in 2010, mainly as a result of more recent information on mortality rates in the Netherlands that became available in 2010. The actuarial assumption for Indexation for inflation decreased from 2.0% in 2009 to 1.8% in 2010 mainly as a result of a revised best estimate assumption for future indexation in the pension plan in the Netherlands. As a result of the current circumstances the probability of granting indexation in the short-term future decreased. These changes in the actuarial assumptions for Mortality and Indexation resulted in an increase respectively decrease of the defined benefit obligation which was accounted for as an (unrecognised) actuarial gain (loss). As a result, these changes did not directly impact shareholders' equity and net result in 2010.

Expected cash flows

During 2011 the expected contributions to pension plans are EUR 205 million.

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

Benefit payments

	Pension benefits	Post-employment benefits other than pensions
	2010	2010
2011	229	4
2012	226	4
2013	226	4
2014	229	3
2015	236	3
Years 2016 – 2020	1,326	13

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							
2010	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	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 ⁽¹⁾						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	6,482	10,604
Assets held for sale			381				381
Other assets	3,012	1,044	1,379	2,927	1,014	834	10,210
Remaining assets (where maturities are not applicable) ⁽²⁾						4,008	4,008
Total assets	13,681	3,735	8,832	36,329	99,102	164,085	325,764

⁽¹⁾ Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of ING Insurance.

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

Assets by contractual maturity							
2009	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	9,425						9,425
Financial assets at fair value through profit and loss:							
– trading assets		1	5	5	26	437	474
– investments for risk of policyholders ⁽¹⁾						104,597	104,597
– non-trading derivatives	118	139	259	715	2,437		3,668
– designated as at fair value through profit and loss	13	1	108	89	678	1,489	2,378
Available-for-sale investments	634	3,625	8,341	21,870	53,044	18,007	105,521
Loans and advances to customers	750	476	1,067	6,134	16,406	4,181	29,014
Reinsurance contracts	13	27	122	626	2,591	2,101	5,480
Intangible assets	2	6	31	242	317	3,277	3,875
Deferred acquisition costs	28	20	128	451	2,752	8,019	11,398
Assets held for sale		218	223				441
Other assets	3,498	1,215	1,021	2,694	997	606	10,031
Remaining assets (where maturities are not applicable) ⁽²⁾						4,107	4,107
Total assets	14,481	5,728	11,305	32,826	79,248	146,821	290,409

⁽¹⁾ Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of ING Insurance.

⁽²⁾ 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 CONTRACTUAL MATURITY

The tables below include all financial liabilities by maturity based on contractual, undiscounted cash flows. Furthermore, the undiscounted future coupon interest on financial liabilities payable will be included in a separate line and in the relevant maturity bucket. Derivative liabilities are included on a net basis if cash flows are settled 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. Reference is made to the Liquidity Risk paragraph in the 'Risk Management' section for a description on how liquidity risk is managed.

Liabilities by contractual maturity								
2010	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjust- ment ⁽¹⁾	Total
Liabilities								
Subordinated loans					2,250	2,098	59	4,407
Debt securities in issue	1	1,000	527	1,945	476		18	3,967
Other borrowed funds	5,638	905	645	190	1,204		6	8,588
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	2,149	1,850	3,694	6,451	3,145	–2,692	20,639
Insurance and investment contracts	1,822	2,109	9,118	37,045	97,918	122,570		270,582
Liabilities held for sale			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	123,976		284,203
Total liabilities	10,555	4,923	14,005	44,632	106,298	127,121	–2,692	304,842
Coupon interest due on financial liabilities	19	40	345	843	1,208			2,455

⁽¹⁾ 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 contractual maturity								
2009	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjust- ment ⁽¹⁾	Total
Liabilities								
Subordinated loans					2,250	3,411	82	5,743
Debt securities in issue	1	253		3,342	441		42	4,079
Other borrowed funds	2,685	516	1,808	784	1,233		10	7,036
Financial liabilities at fair value through profit and loss:								
– non-trading derivatives	373	700	913	2,852	1,898	677	–3,492	3,921
Financial liabilities	3,059	1,469	2,721	6,978	5,822	4,088	–3,358	20,779
Insurance and investment contracts	1,618	1,830	7,300	33,723	90,322	106,065		240,858
Liabilities held for sale	2,626	478	4,701	2,266	1,908	568		12,547
Other liabilities		77	181					258
Total liabilities	7,303	3,854	14,903	42,967	98,052	110,721	–3,358	274,442
Coupon interest due on financial liabilities	36	21	430	1,290	1,355			3,132

⁽¹⁾ 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).

Notes to the consolidated annual accounts of ING Insurance (continued)

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

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS-EU hedge accounting rules. Derivatives that qualify for hedge accounting under IFRS-EU are classified and accounted for according to the nature of the instrument hedged and the type of IFRS-EU hedge model that is applicable. The three models applicable under IFRS-EU are: fair value hedge accounting, cash flow hedge accounting and net investment hedge accounting. These are described under the relevant headings below. The company's detailed accounting policies for these three hedge models are set out in section on 'Principles of valuation and determination of results'.

To qualify for hedge accounting under IFRS-EU, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS-EU. The fair value changes of derivatives relating to such non qualifying hedges are taken to the profit and loss account. However, in certain cases, ING Insurance mitigates the resultant profit and loss account volatility by designating hedged assets and liabilities at fair value through profit and loss. If hedge accounting is applied under IFRS-EU, it is possible that during the hedge a hedge relationship no longer qualifies for hedge accounting and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the profit and loss account may be higher than would be expected from an economic point of view.

With respect to exchange rate and interest rate derivative contracts, the notional or contractual amounts of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; however they do not represent amounts at risk. ING Insurance uses credit derivatives to manage its exposure to credit risk, including total derivatives and 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 2010, ING Insurance recognised EUR –69 million (2009: EUR 191 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 66 million (2009: EUR –226 million) fair value changes recognised on hedged items. This resulted in EUR –3 million (2009: EUR –35 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2010, the fair values of outstanding derivatives designated under fair value hedge accounting was EUR –85 million (2009: EUR –179 million), presented in the balance sheet as EUR 180 million (2009: EUR 99 million) positive fair values under assets and EUR 265 million (2009: EUR 278 million) negative fair values under liabilities.

Cash flow hedge accounting

ING Insurance's cash flow hedges principally consist of (forward) interest rate swaps and cross-currency interest rate swaps that are used to protect against its exposure to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across for the respective portfolios form the basis for identifying the notional amount subject to interest rate risk that is designated under cash flow hedge accounting.

Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting are recognised in Shareholders' equity. Interest cash flows on these derivatives are recognised in the profit and loss account in interest income consistent with the manner in which the forecast cash flows affect net result. The gains and losses on ineffective portions of such derivatives are recognised immediately in the profit and loss account.

Notes to the consolidated annual accounts of ING Insurance (continued)

For the year ended 31 December 2010, ING Insurance recognised EUR 641 million (2009: EUR –434 million) in equity as effective fair value changes on derivatives under cash flow hedge accounting. The balance of the cash flow hedge reserve in equity as at 31 December 2010 is EUR 2,052 million (2009: EUR 1,192 million) gross and EUR 1,567 million (2009: EUR 926 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 46 years with the largest concentrations in the range of 1 year to 3 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in a loss of EUR 9 million (2009: EUR 9 million loss) which was recognised in the profit and loss account.

As at 31 December 2010, the fair values of outstanding derivatives designated under cash flow hedge accounting was EUR 1,219 million (2009: EUR 991 million), presented in the balance sheet as EUR 1,563 million (2009: EUR 1,426 million) positive fair values under assets and EUR 344 million (2009: EUR 435 million) negative fair values under liabilities.

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

Included in Interest income and interest expense on non-trading derivatives is EUR 354 million (2009: EUR 348 million) and EUR 115 million (2009: EUR 267 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 2010, the fair values of outstanding derivatives designated under net investment hedge accounting was EUR –51 million (2009: EUR –143 million), presented in the balance sheet as EUR 9 million (2009: EUR 5 million) positive fair values under assets and EUR 60 million (2009: EUR 148 million) negative fair values under liabilities.

As at 31 December 2010, the fair values of outstanding non-derivatives designated under net investment hedge accounting was EUR –1,543 million (2009: nil), 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 2010 on derivatives and non-derivatives designated under net investment hedge accounting was nil (2009: EUR 1 million).

Notes to the consolidated annual accounts of ING Insurance (continued)

22 MAXIMUM CREDIT EXPOSURE

ING Insurance's maximum credit exposure as at 31 December 2010 and 2009 is represented as follows:

Maximum credit exposure		
	2010	2009
Cash and cash equivalents	8,646	9,425
Trading assets:		
– debt securities	54	37
Non-trading derivatives	4,440	3,668
Designated as at fair value through profit and loss	2,960	2,378
Available-for-sale debt securities	116,334	100,350
Loans and advances to customers:		
– policy loans	3,227	2,903
– loans secured by mortgages	13,711	14,003
– unsecured loans	6,073	4,206
– asset backed securities	6,385	6,139
– other	1,624	1,760
Reinsurance contracts	5,789	5,480
Reinsurance and insurance receivables	2,201	2,125
Accrued interest and rents	3,172	3,394
Other accrued assets	1,958	1,480
Other receivables	1,317	1,269
Maximum credit exposure on balance sheet	177,891	158,618
Off-balance sheet credit commitments		
– commitments	1,990	1,646
– guarantees	1,049	1,780
Maximum credit exposure off balance sheet	3,039	3,426
Maximum credit exposure	180,930	162,044

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

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

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 227 million (2009: EUR 250 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 a party to activities whose risks are not reflected in whole or part in the consolidated financial statements. In response to the needs of its customers, ING Insurance offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Contingent liabilities and commitments							
	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total 2010
Commitments	1,514	117	63	186	7	103	1,990
Guarantees			109	7	927	6	1,049
	1,514	117	172	193	934	109	3,039

Notes to the consolidated annual accounts of ING Insurance (continued)

Contingent liabilities and commitments

	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total 2009
Commitments	1,218	8	83	292	2	43	1,646
Guarantees					1,780		1,780
	1,218	8	83	292	1,782	43	3,426

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.

Future rental commitments for operating lease contracts

	2010
2011	51
2012	44
2013	35
2014	28
2015	21
years after 2015	58

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.

Notes to the consolidated annual accounts of ING Insurance (continued)

26 PRINCIPAL SUBSIDIARIES

The principal subsidiaries of ING Verzekeringen N.V. and their statutory seat are as follows:

Nationale-Nederlanden Levensverzekering Maatschappij N.V.	The Netherlands
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	The Netherlands
Parcom Capital B.V.	The Netherlands
ING Levensverzekering Retail N.V.	The Netherlands
ING Schadeverzekering Retail N.V.	The Netherlands
RVS Levensverzekering N.V.	The Netherlands
RVS Schadeverzekering 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 Powszechnie Towarzystwo Emerytów S.A.	Poland
ING Asigurari de Viata S.A.	Romania
ING Greek Life Insurance Company S.A.	Greece
ING Nationale-Nederlanden Magyarországi Biztosító Rt.	Hungary
Nationale-Nederlanden Vida, Compañía de Seguros y Reaseguros S.A.	Spain
Nationale-Nederlanden Generales, Compañía 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 Afore S.A. de C.V.	Mexico
ING Seguros de Vida S.A.	Chile
AFP Capital S.A.	Chile
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 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 US 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 US 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.

Notes to the consolidated annual accounts of ING Insurance (continued)

Acquisitions and disposals announced and occurring or expected to occur in 2011

In December 2009 ING announced the sale of its entire stake in China's Pacific Antai Life Insurance Company Ltd. (PALIC) to China Construction Bank. 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 is included in the segment Insurance Asia/Pacific. The transaction is expected to be closed in 2011. The closing subject is regulatory approval.

PALIC and ING Arrendadora S.A. de C.V. will be deconsolidated in 2011 when ING Insurance loses control. Both qualify as disposal groups held for sale at 31 December 2010 as ING expects to recover the carrying amount principally through a sale transaction. They are available for sale in their immediate condition subject to terms that are usual and customary for sales of such assets and the sale is considered to be highly probable.

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
Goodwill at date of disposal					
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 proceed, 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.

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.

Notes to the consolidated annual accounts of ING Insurance (continued)

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 profit for ING of EUR 337 million. The joint venture was previously included in the segment Insurance Asia/Pacific.

Most significant companies acquired in 2008

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

⁽¹⁾ Cash outflow/inflow on group companies in the cash flow statement includes cash outflows/inflows on individually immaterial acquisitions and real estate portfolios in addition to the cash flows presented herein.

⁽²⁾ Goodwill recognised in 2008 on immaterial acquisitions and real estate portfolios was EUR 105 million, resulting in total Goodwill recognised in 2008 of EUR 1,082 million as disclosed in Note 8 'Intangible assets'.

Acquisitions effective in 2008

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

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

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

Notes to the consolidated annual accounts of ING Insurance (continued)

In January 2008, ING Insurance closed the final transaction to acquire 100% of Banco Santander's Latin American pension and annuity businesses through the acquisition of the pension business in Chile.

Most significant companies disposed in 2008

	NRG	Mexican non-life business	Aconto BV	Total
Sales proceeds				
Sales proceeds	272	950	174	1,396
Cash proceeds	272	950	174	1,396
Cash in company disposed	12	26		38
Cash inflow on disposal ⁽¹⁾	260	924	174	1,358
Assets				
Cash assets	12	26		38
Investments	461	1,146		1,607
Loans and advances to customers	137	65	1,714	1,916
Amounts due to banks			164	164
Financial assets at fair value through profit and loss		41		41
Miscellaneous other assets	26	1,261	21	1,308
Liabilities				
Insurance and investment contracts	210	1,497		1,707
Amounts due to banks			1,527	1,527
Other borrowed funds			154	154
Miscellaneous other liabilities	10	274	44	328
Net assets	416	768	174	1,358
% disposed	100%	100%	100%	
Net assets disposed	416	768	174	1,358
Gain/loss on disposal ⁽²⁾	-144	182		38

⁽¹⁾ Cash outflow/inflow on group companies in the cash flow statement includes cash outflows/inflows on individually immaterial disposals in addition to the cash flows presented.

⁽²⁾ The gain/loss on disposal comprises the sales proceed, the net assets disposed, the expenses directly related to the disposal and the realisation of the unrealised reserves.

Disposals effective in 2008

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

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

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

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

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

Notes to the consolidated annual accounts of ING Insurance (continued)

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.

Proceedings in which ING Insurance 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 nationalization of the mandatory pension business. 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. Recently, an administrator of an ERISA plan filed a lawsuit seeking to represent a class of ERISA plan administrators claiming that an ING subsidiary had breached certain of its ERISA duties. These matters are being defended vigorously; however, at this time, ING is unable to assess their final outcome. Subject to court approval, litigation involving the interest crediting methodology used in connection with certain annuity products and disclosures about that methodology, in which a state court of appeals determined a nationwide class could be maintained, has been resolved.

In November 2006, the issue of amongst others the transparency of unit-linked products (commonly referred to as 'beleggingsverzekeringen') has received attention both in the Dutch public media and from the Dutch regulator for the insurance industry and consumer protection organisations. In mid-November 2008 ING reached an outline agreement with consumer organisations in the Netherlands to resolve a dispute regarding individual unit-linked products sold to customers in the Netherlands by ING's Dutch insurance subsidiaries. It was agreed that ING's Dutch insurance subsidiaries would offer compensation to policyholders where individual unit-linked policies have a cost charge in excess of an agreed maximum. The costs of the settlement have been valued at EUR 365 million. Although the agreement is not binding for policyholders, ING believes a significant step was made towards resolving the issue. Implementation will start in 2011. However, no agreement about implementation could be reached with one consumer protection organisation.

In January 2010 ING lodged an appeal with the General Court of the European Union against specific elements of the European Commission's decision regarding ING's restructuring plan. In its appeal, ING contests the way the Commission has calculated the amount of state aid ING received and the disproportionality of the price leadership restrictions specifically and the disproportionality of restructuring requirements in general.

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

29 JOINT VENTURES

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

Most significant joint ventures					
2010	Interest held (%)	Assets	Liabilities	Income	Expenses
KB Life Insurance Company ⁽¹⁾	49	1,236	1,118	436	425
ING-BOB Life Insurance Company Ltd ⁽²⁾	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.

⁽²⁾ Previously ING Capital Life Insurance Company Ltd.

Notes to the consolidated annual accounts of ING Insurance (continued)

Most significant joint ventures

2009	Interest held (%)	Assets	Liabilities	Income	Expenses
KB Life Insurance Company ⁽¹⁾	49	748	702	282	277
ING Capital Life Insurance Company Ltd	50	236	214	57	59
ING Vysya Life Insurance Company Ltd ⁽¹⁾	26	342	329	112	122
Total		1,326	1,245	451	458

⁽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 companies. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions. Transactions have taken place on an arm's length basis, and include rendering and receiving of services, leases, transfers under finance arrangements and provisions of guarantees or collateral.

Transactions with joint ventures and associates

	Joint ventures		Associates	
	2010	2009	2010	2009
Receivables			47	
Income received		13		

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

	ING Groep N.V.		ING Bank N.V.	
	2010	2009	2010	2009
Receivables		7	8,541	7,695
Liabilities	2,095	3,412	3,141	865
Guarantees in favour of			371	826
Income received			236	169
Expenses paid	184	299	343	231

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

In 2010 EUR 1.8 billion (2009: EUR 2.4 billion) ING Bank mortgages were sold through the ING Insurance intermediary sales agents.

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

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 8.7 billion (2009: EUR 8.0 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 and Supervisory Board) and post-employment benefit plans are transactions with related parties. Transactions with post-employment benefit plans are disclosed in Note 18 'Other liabilities'.

Three of the Management Board members of ING Verzekeringen N.V. are also Executive Board members of ING Groep N.V. For the year 2010, the total remuneration of the Executive Board of ING Groep N.V. and Supervisory Board is borne by ING Groep N.V. The remuneration of the members and former members of the Executive Board and Supervisory Board are charged in full by ING Group to its subsidiaries, on the basis of a general allocation formula.

For the year 2009, the total remuneration of the Executive Board of ING Groep N.V. the Management Boards of ING Bank N.V. and ING Verzekeringen N.V. and the Supervisory Board borne by ING Groep N.V. The remuneration of the members and former members of the Executive Board, Management Boards and Supervisory Board was charged in full by ING Group to its subsidiaries, on the basis of a general allocation formula

Notes to the consolidated annual accounts of ING Insurance (continued)

Key management personnel compensation (Executive Board and Management Board)

2010	Executive Board of ING Groep N.V.	Management Board of ING Verzekeringen N.V. ⁽¹⁾	Total
amounts in thousands of euros			
Base salary and cash bonus	4,121	2,260	6,381
Pension costs	292	721	1,013
Termination benefit		980	980
Fair market value of bonus in shares	1,268	226	1,494
Total compensation	5,681	4,187	9,868

⁽¹⁾ As of 1 June 2009, excluding three members that are also members of the Executive Board of ING Groep N.V.

Key management personnel compensation (Executive Board and Management Boards)

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

⁽¹⁾ Comprising eight members from 1 January 2009 to 31 May 2009 and 3 members from 1 June 2009 to 31 December 2009.

⁽²⁾ As of 1 June 2009, excluding three members that are also members of the Executive Board of ING Groep N.V.

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

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

Key management personnel compensation (Supervisory Board)

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

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

Loans and advances to key management personnel

	Amount outstanding 31 December		Average interest rate		Repayments	
	2010	2009	2010	2009	2010	2009
Executive Board members	1,968	380	3.6%	4.6%		
Supervisory board members	282	282	8.6%	8.6%		
Total	2,250	662				

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

Notes to the consolidated annual accounts of ING Insurance (continued)

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 transactions 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 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 in to make additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission to the Dutch State corresponding to an adjustment of the fees for the Illiquid Assets Back-up Facility. In total, these additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission amounted to a net present value of EUR 1.3 billion pre-tax, which was recognised as a one-off charge for ING Groep N.V. (as it was not charged to ING 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 2010, the remaining outstanding amount from the transaction price that remained payable by the Dutch State is EUR 1.7 billion for ING Insurance. The net amount of other unamortised components of the total sales proceeds, as explained above, amounts to EUR 0.1 billion payable by ING Insurance.

European Commission Restructuring Plan

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

- ING will eliminate double leverage and significantly reduce its balance sheet;
- ING will divest all Insurance and Investment Management activities;
- that a strategic decision will have to be taken to separate ING Group's Banking and Insurance operations and the divestment of all Insurance and Investment Management activities over time;
- ING needs to divest ING Direct USA by the end of 2013;
- ING will create a new company in the Dutch retail market composed of Interadvies (including Westland Utrecht and the mortgage activities of Nationale-Nederlanden) and the existing consumer lending portfolio of ING Retail in the Netherlands. This business, once separated, will be divested;
- ING will not be a price leader in any EU country for certain retail and SME banking products and will refrain from the acquisition of financial institutions or other businesses that would delay the repayment of the non-voting equity securities. These restrictions will apply for the shorter period of three years or until the non-voting equity securities have been repaid in full to the Dutch State;
- ING Groep N.V. will agree with the Dutch State to alter the repayment terms of 50% of the non-voting equity securities;
- EUR 5 billion of the non-voting equity securities issued in November 2008 by ING Group N.V. to the Dutch State will be repurchased;
- Additional Illiquid Assets Back-Up Facility payments as part of the overall agreement with the European Commission will have to be made to the Dutch State in the form of fee adjustments relating to the Illiquid Assets Back-Up Facility which resulted in a one-off pre-tax charge to ING Groep N.V. of EUR 1.3 billion in the fourth quarter of 2009;

Notes to the consolidated annual accounts of ING Insurance (continued)

- ING Groep N.V. would launch a EUR 7.5 billion rights issue, in order to finance the repayment of 50% of the non-voting equity securities and to mitigate the capital impact of the additional Illiquid Assets Back-Up Facility payment as part of the overall agreement with the European Commission to the Dutch State of EUR 1.3 billion;
- ING will execute the Restructuring Plan before the end of 2013;
- ING will refrain from acquisitions of financial institutions for a certain period;
- Whenever the overall return on the (remaining) non-voting equity securities (core Tier 1 securities) issued to the Dutch State is expected to be lower than 10% p.a., the European Commission may consider the imposition of additional behavioural constraints; and
- The calling of Tier 2 capital and Tier 1 hybrids will in the future be proposed case by case to the Commission for authorisation, for the shorter period of three years starting from the date of the Commission decision or up to the date on which ING has fully repaid the non-voting equity securities (core-Tier 1 securities) to the Dutch State (including the relevant accrued interest of core Tier 1 coupons and exit premium fees).

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

Other

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

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

- the Dutch State may recommend two candidates (the 'State Nominees') for appointment to the Supervisory Board of ING Groep N.V. Certain decisions of the Supervisory Board require approval of the State Supervisory Board members;
- ING must develop a sustainable remuneration policy for the Executive Board and Senior Management that is aligned to new international standards and submit this to its General Meeting for adoption. This remuneration policy shall include incentive schemes which are linked to long-term value creation, thereby taking account of risk and restricting the potential for 'rewards for failure'. This new remuneration policy 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 the lending to corporates and consumers (including mortgages) for an amount of EUR 25 billion, on market conforming terms;
- ING agreed to pro-actively use EUR 10 billion of the Dutch Guarantee Scheme over 2009;
- ING has committed itself to maintaining the Dutch payment system PIN on its payment debit cards as long as other market participants, representing a substantial market share, are still making use of this payment system; and
- appointment of the Chief Executive Officer of the Executive Board of ING Groep N.V. requires approval of the State Nominees.

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	
	2010	2009	2010	2009
Financial assets				
Cash and cash equivalents	8,646	9,425	8,646	9,425
Financial assets at fair value through profit and loss:				
– trading assets	622	474	622	474
– investments for risk of policyholders	120,481	104,597	120,481	104,597
– non-trading derivatives	4,440	3,668	4,440	3,668
– designated as at fair value through profit and loss	2,960	2,378	2,960	2,378
Available-for-sale investments	123,347	105,521	123,347	105,521
Loans and advances to customers	31,597	29,237	31,020	29,015
Other assets ⁽¹⁾	8,649	8,267	8,649	8,267
	300,742	263,567	300,165	263,345
Financial liabilities				
Subordinated loans	4,357	4,815	4,407	5,743
Debt securities in issue	3,984	4,080	3,967	4,079
Other borrowed funds	8,604	7,002	8,588	7,036
Investment contracts for risk of company	5,991	5,896	5,991	5,896
Investment contracts for risk of policyholders	5,984	5,406	5,984	5,406
Financial liabilities at fair value through profit and loss:				
– non-trading derivatives	3,677	3,921	3,677	3,921
Other liabilities ⁽²⁾	10,541	10,213	10,541	10,213
	43,138	41,333	43,155	42,294

⁽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.

Financial assets at fair value through profit and loss and Investments

Derivatives

Derivatives contracts can either be exchange traded or over the counter (OTC). The fair value of exchange-traded derivatives is determined using quoted market prices in an active market and those derivatives are classified in Level 1 of the fair-value hierarchy. For those instruments not actively traded, fair values are estimated based on valuation techniques. OTC derivatives and derivatives trading in an inactive market are valued using valuation techniques because quoted market prices in an active market are not available for such instruments. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instruments. The principle techniques used to value

Notes to the consolidated annual accounts of ING Insurance (continued)

these instruments are based on discounted cash flows, Black-Scholes option models and Monte Carlo simulation. These valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. These models are commonly used in the banking industry. Inputs to valuation models are determined from observable market data wherever possible. Certain inputs may not be observable in the market directly, but can be determined from observable prices via valuation model calibration procedures. The inputs used include prices available from exchanges, dealers, brokers or providers of consensus pricing, yield curves, credit spreads, default rates, recovery rates, dividend rates, volatility of underlying interest rates, equity prices and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes and consensus data, where available.

Equity securities

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

Debt securities

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

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

In order to determine which independent price in the range of prices obtained best represents fair value under IAS 39, ING 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 class. 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, judgment is applied in the event that the resulting indicative fair value is closest to the highest obtained vendor price and that price is a significant outlier compared to other obtained vendor prices. In such cases, the second highest obtained vendor price is deemed the most representative of fair value. The indicative price is not itself used for valuing the security; rather, it is used to select the most appropriate price obtained from independent external sources. As a result, each security in the portfolio is priced based on an external price, without modification by ING 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.

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

Other assets

The carrying amount of other assets is not materially different from their fair value.

Notes to the consolidated annual accounts of ING Insurance (continued)

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

Observable inputs reflect market data obtained from independent sources. Unobservable inputs are inputs which are based on ING 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.

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

Methods applied in determining fair values of financial assets and liabilities				
2010	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	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

Notes to the consolidated annual accounts of ING Insurance (continued)

Methods applied in determining fair values of financial assets and liabilities

2009	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	67	11	396	474
Investments for risk of policyholders	100,541	4,002	54	104,597
Non-trading derivatives	31	3,422	215	3,668
Financial assets designated as at fair value through profit and loss	337	901	1,140	2,378
Available-for-sale investments	63,580	36,447	5,494	105,521
	164,556	44,783	7,299	216,638
Liabilities				
Non-trading derivatives	64	2,968	889	3,921
Investment contracts (for contracts carried at fair value)	3,040	2,327	39	5,406
	3,104	5,295	928	9,327

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 US as described above under 'Debt Securities'. Level 3 Trading assets, Non-trading derivatives and Assets designated at fair value through profit and loss account and Level 3 Financial liabilities at fair value through profit and loss include financial instruments with different characteristics and nature, which are valued on the basis of valuation techniques that feature one or more significant inputs that are unobservable. An instrument in its entirety is classified as valued using significant unobservable inputs if a significant portion of the instrument's fair value is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which the price at which an arm's length transaction would be likely to occur can be derived. More details on the determination of the fair value of these instruments is included above under 'Derivatives', 'Debt securities' and 'Loans and advances to customers'.

Changes in Level 3 Assets

	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
2010						
Opening balance	396	54	215	1,140	5,494	7,299
Amounts recognised in profit and loss during 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.

Changes in Level 3 Assets

	Trading assets	Investment for risk of policy-holder	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
2009						
Opening balance	391	303		1,569	7,445	9,708
Amounts recognised in profit and loss during year	85	2	-131	-105	-297	-446
Revaluation recognised in equity during the year		1			919	920
Purchase of assets	9	65	-2	177	437	686
Sale of assets	-79	-113	95	-314	-2,119	-2,530
Maturity/settlement		-68		-55	-1,146	-1,269
Reclassifications					-6,135	-6,135
Transfers into Level 3		8	248	18	7,092	7,366
Transfers out of Level 3	-10	-124		2	-540	-672
Changes in de composition of the group				-90	-79	-169
Exchange rate differences		-20	5	-62	-83	-160
Closing balance	396	54	215	1,140	5,494	7,299

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

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

- **Decrease in Level 3** – reclassifications from Available-for-sale investments to Loans and advances: Certain asset backed securities (approximately EUR 6.1 billion) were reclassified from Level 2 to Level 3 during the first quarter because the relevant markets had become inactive; subsequently these were reclassified to Loans and advances during the second quarter. After reclassification to Loans and advances these are no longer recorded at fair value and therefore no longer subject to disclosure in the fair value hierarchy;
- **Decrease in Level 3** – derecognition of asset backed securities in the United States: The Illiquid Assets Back-up Facility agreed with the Dutch State resulted in the derecognition of asset backed securities in the United States that were classified in Level 3. As a result of this transaction, financial assets in Level 3 (Available-for-sale investments) decreased by approximately EUR 1.7 billion. This decrease includes the sale proceeds of EUR 2.6 billion and revaluation recognised in equity of EUR 0.9 billion;
- **Other** – Amounts in each of the levels are impacted by changes in the amount and composition of the relevant balance sheet items during the year.

Notes to the consolidated annual accounts of ING Insurance (continued)

Changes in Level 3 Liabilities

	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit and loss	Investment contracts (for contracts carried at fair value)	Total
2010					
Opening balance		889		39	928
Amounts recognised in profit and loss during 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 Level 3		-9			-9
Exchange rate differences		56		8	64
Closing balance		1,142		17	1,159

Changes in Level 3 Liabilities

	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit and loss	Investment contracts (for contracts carried at fair value)	Total
2009					
Opening balance		40		99	139
Amounts recognised in profit and loss during year		-88		2	-86
Issue of liabilities		528		21	549
Early repayment of liabilities		-25		-72	-97
Transfers into Level 3		416		7	423
Transfers out Level 3				-10	-10
Exchange rate differences		18		-8	10
Closing balance		889		39	928

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

	Held at balance sheet date	Derecognised during the year	Total
2010			
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

Notes to the consolidated annual accounts of ING Insurance (continued)

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

	Held at balance sheet date	Derecog- nised during the year	Total
2009			
Assets			
Trading assets	13	72	85
Investments for risk of policyholders		2	2
Non-trading derivatives	-131		-131
Financial assets designated as at fair value through profit and loss	-119	14	-105
Available-for-sale investments	-300	3	-297
	-537	91	-446
Liabilities			
Non-trading derivatives	-156	68	-88
Investment contracts (for contracts carried at fair value)		2	2
	-156	70	-86

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 2.5 billion at 31 December 2010 and EUR 4.7 billion at 31 December 2009 for investments in asset backed securities in the United States. These assets are valued using external price sources that are obtained from third party pricing services and brokers.

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

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

Reference is made to section 'Risk management' with regard to the exposure of these asset backed securities as at 31 December 2010 and 2009 and the impact from these asset backed securities on net result in 2010 and 2009.

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

32 GROSS PREMIUM INCOME

Gross premium income

	2010	2009	2008
Gross premium income from life insurance policies	26,206	28,720	38,869
Gross premium income from non-life insurance policies	1,741	1,772	4,943
	27,947	30,492	43,812

In 2009, Gross premium income decreased as a result of the divestments as disclosed in Note 27 'Companies acquired and companies disposed', including the divestment of ING Life Taiwan, ING Canada, Annuity and Mortgage business of Chile and Australia/New Zealand. Furthermore, gross premium income declined due to ING's decision to limit variable annuity sales in the United States and to cease variable annuity sales in Japan, as well as a lower appetite for investment-linked products.

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.

Notes to the consolidated annual accounts of ING Insurance (continued)

Effect of reinsurance on premiums written									
	Non-Life			Life			Total		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Direct gross premiums written	1,718	1,746	4,920	25,042	27,421	37,487	26,760	29,167	42,407
Reinsurance assumed gross premiums written	23	26	23	1,164	1,299	1,382	1,187	1,325	1,405
Total gross premiums written	1,741	1,772	4,943	26,206	28,720	38,869	27,947	30,492	43,812
Reinsurance ceded	-65	-70	-196	-2,041	-1,867	-1,802	-2,106	-1,937	-1,998
	1,676	1,702	4,747	24,165	26,853	37,067	25,841	28,555	41,814

Effect of reinsurance on non-life premiums earned			
	2010	2009	2008
Direct premiums earned gross	1,744	1,746	4,889
Reinsurance assumed premiums earned gross	23	26	20
Total gross premiums earned	1,767	1,772	4,909
Reinsurance ceded	-65	-68	-190
	1,702	1,704	4,719

See Note 39 'Underwriting expenditure' for disclosure on reinsurance ceded.

33 INVESTMENT INCOME

Investment income			
	2010	2009	2008
Income from real estate investments	71	62	75
Dividend income	212	173	646
	283	235	721
Income from investment in debt securities	5,651	5,428	6,534
Income from loans:			
– unsecured loans	302	331	393
– mortgage loans	844	873	850
– policy loans	190	177	200
– other	559	167	159
Income from investment in debt securities and loans	7,546	6,976	8,136
Realised gains/losses on disposal of debt securities	25	-49	48
Impairments of available-for-sale debt securities	-589	-585	-776
Reversal of impairments of available-for-sale debt securities	10		
Realised gains/losses and impairments of debt securities	-554	-634	-728
Realised gains/losses on disposal of equity securities	209	387	685
Impairments of available-for-sale equity securities	-43	-360	-1,587
Realised gains/losses and impairments of equity securities	166	27	-902
Change in fair value of real estate investments	-48	-124	-50
Investment income	7,393	6,480	7,177

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

Notes to the consolidated annual accounts of ING Insurance (continued)

34 NET RESULT ON DISPOSALS OF GROUP COMPANIES

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

Net result on disposal of group companies in 2009	
	2009
ING Australia and New Zealand	337
ING Canada	-38
Annuity and Mortgage business in Chile	-23
Other	2
	278

Net result on disposal of group companies in 2008	
	2008
Seguros ING, Mexico	182
ING Salud, Chile	55
NRG	-15
ING Life Taiwan	-214
Other	7
	15

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

35 COMMISSION INCOME

Gross fee and commission income			
	2010	2009	2008
Insurance broking	344	241	87
Asset management fees	1,495	1,874	2,129
Brokerage and advisory fees	386	582	763
Other	563	540	531
	2,788	3,237	3,510

Asset management fees related to the management of investments held for the risk of policyholders of EUR 358 million (2009: EUR 825 million; 2008: EUR 1,174 million) are included in Commission Income.

Fee and commission expenses			
	2010	2009	2008
Insurance broking	128	332	574
Management fees	241	241	217
Brokerage and advisory fees	196	496	573
Other	278	233	76
	843	1,302	1,440

Notes to the consolidated annual accounts of ING Insurance (continued)

36 VALUATION RESULTS ON NON-TRADING DERIVATIVES

Valuation results on non-trading derivatives			
	2010	2009	2008
Change in fair value of derivatives relating to:			
– fair value hedges	–69	191	–193
– cash-flow hedges (ineffective portion)	–9	–9	22
– hedges of net investment in foreign entities (ineffective portion)		1	–6
– other non-trading derivatives	84	–3,708	2,422
Net result on non-trading derivatives	6	–3,525	2,245
Change in fair value of assets and liabilities (hedged items)	66	–226	164
Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading)	150	4	–432
Net valuation results	222	–3,747	1,977

In 2009 Valuation results on non-trading derivatives was mainly a result of negative fair value changes on derivatives used to hedge direct and indirect equity exposures without applying hedge accounting. Indirect equity exposures relate to certain guaranteed benefits in insurance liabilities in the US, Japan, and the Netherlands. In 2009 the fair value changes on these derivatives were negative, as stock market returns became positive. The fair value changes on the derivatives related to the indirect equity exposures were generally offset by an opposite amount in underwriting expenditure (reference is made to Note 39 'Underwriting expenditure').

37 NET TRADING INCOME

Net trading income			
	2010	2009	2008
Securities trading results	180	155	–239
Foreign exchange transactions results	–591	182	–97
Derivatives trading results			80
Other	–66		–94
	–477	337	–350

The portion of trading gains and losses for the year ended 31 December 2010 relating to trading securities still held as at 31 December amounted to nil (2009: nil; 2008: EUR –1 million).

38 OTHER INCOME

There are no individually significant items within Other income.

39 UNDERWRITING EXPENDITURE

Underwriting expenditure			
	2010	2009	2008
Gross underwriting expenditure:			
– before effect of investment result for risk of policyholder	34,506	32,698	51,239
– effect of investment result for risk of policyholder	10,492	17,742	–32,408
	44,998	50,440	18,831
Investment result for risk of policyholders	–10,492	–17,742	32,408
Reinsurance recoveries	–1,741	–1,714	–1,754
Underwriting expenditure	32,765	30,984	49,485

The investment and valuation results regarding investment results for risk of policyholders of EUR 10,492 million (2009: EUR 17,742 million; 2008: EUR –32,408 million) have not been recognised in investment income and valuation results on assets and liabilities designated as at fair value through profit and loss but are recognised in Underwriting expenditure together with the equal amount of related change in insurance provisions for risk of policyholders.

Notes to the consolidated annual accounts of ING Insurance (continued)

Underwriting expenditure by class			
	2010	2009	2008
Expenditure from life underwriting			
Reinsurance and retrocession premiums	2,041	1,867	1,802
Gross benefits	25,688	24,044	27,159
Reinsurance recoveries	-1,733	-1,708	-1,662
Changes in life insurance provisions for risk of company	1,416	3,283	16,633
Costs of acquiring insurance business	2,775	350	1,877
Other underwriting expenditure	558	460	462
Profit sharing and rebates	538	438	358
	31,283	28,734	46,629
Expenditure from non-life underwriting			
Reinsurance and retrocession premiums	65	70	196
Gross claims	1,034	1,012	2,846
Reinsurance recoveries	-9	-6	-92
Changes in the provision for unearned premiums	-26	-2	28
Changes in the claims provision	44	-23	54
Costs of acquiring insurance business	281	290	742
Other underwriting expenditure	-2	-4	-22
	1,387	1,337	3,752
Expenditure from investment contracts			
Costs of acquiring investment contracts	5	3	9
Other changes in investment contract liabilities	90	910	-905
	95	913	-896
	32,765	30,984	49,485
Profit sharing and rebates			
	2010	2009	2008
Distributions on account of interest or underwriting results	9	91	198
Bonuses added to policies	328	289	131
Deferred profit sharing expense	201	58	29
	538	438	358

The total Cost of acquiring insurance business (life and non-life) and investment contracts amounted to EUR 3,061 million (2009: EUR 643 million; 2008: EUR 2,628 million). This includes amortisation and unlocking of DAC of EUR 2,834 million (2009: EUR 458 million; 2008: EUR 2,026 million) and the net amount of commissions paid of EUR 1,789 million (2009: EUR 1,815 million; 2008: EUR 3,273 million) and commissions capitalised in DAC of EUR 1,562 million (2009: EUR 1,630 million; 2008: EUR 2,671 million).

The total amount of commission paid and payable with regard to the insurance operations amounted to EUR 2,514 million (2009: EUR 2,483 million; 2008: EUR 3,804 million). This includes the commissions recognised in Cost of acquiring insurance business of EUR 1,789 million (2009: EUR 1,815 million; 2008: EUR 3,273 million) referred to above and commissions recognised in Other underwriting expenditure of EUR 725 million (2009: EUR 668 million; 2008: EUR 531 million). Other underwriting expenditure also includes reinsurance commissions received of EUR 192 million (2009: EUR 255 million; 2008: EUR 306 million).

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 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.

In 2008, the Change in life insurance provisions for risk of company includes an amount of EUR 136 million in relation to reserve strengthening for Insurance Asia/Pacific as described in further detail under Segment reporting. The 2010 and 2009 amounts are nil following the disposal of ING Life Taiwan.

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

Notes to the consolidated annual accounts of ING Insurance (continued)

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 2010 was EUR 17 million (2009: EUR 13 million; 2008: EUR 12 million). The cumulative amortisation as at 31 December 2010 was EUR 132 million (2009: EUR 107 million; 2008: EUR 96 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 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 2010 was EUR 52 million. The cumulative amortisation as at 31 December 2010 was EUR 52 million.

40 INTANGIBLE AMORTISATION AND OTHER IMPAIRMENTS

Intangible amortisation, and (reversals of) other impairments			
	2010	2009	2008
Property and equipment	1		7
Goodwill	637		155
Software and other intangible assets	3	1	44
(Reversals of) other impairments	641	1	206
Amortisation of other intangible assets	66	71	104
	707	72	310

In 2010 a goodwill impairment of EUR 637 million is 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.

41 STAFF EXPENSES

Staff expenses			
	2010	2009	2008
Salaries	1,665	1,521	2,068
Pension and other staff related benefit costs	118	142	140
Social security costs	177	160	205
Share-based compensation arrangements	41	39	49
External employees	125	96	160
Education	13	8	11
Other staff costs	86	170	263
	2,225	2,136	2,896

Number of employees									
	Netherlands			International			Total		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Average number of employees at full time equivalent basis	8,335	8,234	9,300	26,518	29,466	42,568	34,853	37,700	51,868

Notes to the consolidated annual accounts of ING Insurance (continued)

Pension and other staff-related benefit costs												
	Pension benefits			Post-employment benefits other than pensions			Other			Total		
	2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008
Current service cost	102	110	144		3	1	-3	-14	5	99	99	150
Past service cost		-1									-1	
Interest cost	285	273	286	4	5	8		2	4	289	280	298
Expected return on assets	-296	-296	-321							-296	-296	-321
Amortisation of unrecognised past service cost		2		-5	-21	-2				-5	-19	-2
Amortisation of unrecognised actuarial gains/losses	42	85	5	-9	-5					33	80	5
Effect of curtailment or settlement	-3	-8								-3	-8	
Other		-13	-18						3		-13	-15
Defined benefit plans	130	152	96	-10	-18	7	-3	-12	12	117	122	115
Defined contribution plans										1	20	25
										118	142	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.

ING Group holds its own shares in order to fulfil its obligations with regard to the existing stock option plan and to hedge the position risk of the options concerned (so-called delta hedge). As at 31 December 2010, 45,213,891 own shares (2009: 35,178,086; 2008: 32,367,870) were held in connection with the option plan compared to 124,836,694 options outstanding (2009: 122,334,486; 2008: 87,263,381). 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 has 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 has 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 has 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.

Notes to the consolidated annual accounts of ING Insurance (continued)

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

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

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

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

Changes in option rights outstanding ⁽¹⁾

	Options outstanding (in number)				Weighted average exercise price (in euros)	
	2010	2009	2008		2009	2008
Opening balance	48,941,322	34,357,225	33,383,527	16.36	25.26	25.90
Granted	8,182,454	7,088,225	6,037,973	7.36	3.88	21.65
Exercised and transferred	-652,948	306,850	-3,540,769	8.35	24.05	25.89
Forfeited	-2,068,947	-3,390,502	-1,523,506	12.77	24.07	28.60
Rights issue		11,360,192				
Expired	-5,238,894	-780,668		19.19	31.36	
Closing balance	49,162,987	48,941,322	34,357,225	14.97	16.36	25.26

⁽¹⁾ 2008 reflects original numbers and amounts, not restated for the rights issue adjustment.

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

Notes to the consolidated annual accounts of ING Insurance (continued)

Changes in option rights non vested ⁽¹⁾

	Options non-vested (in number)			Weighted average grant date fair value (in euros)		
	2010	2009	2008	2010	2009	2008
Opening balance	21,473,193	15,521,324	17,836,752	3.40	6.01	6.02
Granted	8,182,454	7,088,225	6,037,973	3.27	2.50	5.29
Vested and transferred	-6,549,537	-4,439,746	-7,340,514	5.41	6.46	3.95
Forfeited	-1,553,573	-1,680,996	-1,012,887	3.18	5.55	5.62
Rights issue		4,984,386				
Closing balance	21,552,537	21,473,193	15,521,324	3.01	3.40	6.01

⁽¹⁾ 2008 reflects original numbers and amounts, not restated for the rights issue adjustment.

Summary of stock options outstanding and exercisable

2010	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
Range of exercise price in euros						
0.00 – 5.00	7,594,004	8.18	2.90		0.00	0.00
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	Options outstanding as at 31 December 2009	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2009	Weighted average remaining contractual life	Weighted average exercise price
Range of exercise price in euros						
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		

The aggregate intrinsic value of options outstanding and exercisable as at 31 December 2010 was EUR 33 million and nil, respectively.

As at 31 December 2010 unrecognised compensation costs related to stock options amounted to EUR 27 million (2009: EUR 26 million; 2008: EUR 38 million). These costs are expected to be recognised over a weighted average period of 1.9 years (2009: 1.6 years; 2008: 1.8 years).

The fair value of options granted is recognised as an expense under staff expenses and is allocated over the vesting period of the options. The fair values of the option awards have been determined by using a Monte Carlo simulation model. This model takes the risk free interest rate into account (2.0% to 4.6%), as well as the expected life of the options granted (from 5 years 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.

Notes to the consolidated annual accounts of ING Insurance (continued)

42 INTEREST EXPENSES

Interest expenses mainly consist of interest on the subordinated loans.

Total interest income and total interest expense for items not valued at fair value through the profit and loss for 2010 were EUR 7,546 million and EUR 1,028 million respectively (2009: EUR 6,976 million and EUR 949 million respectively). Net interest income of EUR 6,518 million is presented in the following lines in the profit and loss account.

Total net interest income			
	2010	2009	2008
Investment income	7,546	6,976	8,136
Other interest expenses	-1,028	-949	-1,121
	6,518	6,027	7,015

43 OTHER OPERATING EXPENSES

Other operating expenses			
	2010	2009	2008
Depreciation of property and equipment	78	84	94
Amortisation of software	46	59	70
Computer costs	278	270	297
Office expenses	340	475	598
Travel and accommodation expenses	67	66	101
Advertising and public relations	108	90	204
External advisory fees	351	290	373
Addition/(releases) of provision for reorganisations and relocations	98	258	7
Other	756	663	834
	2,122	2,255	2,578

Other operating expenses include lease and sublease payments for the amount of EUR 8 million (2009: EUR 8 million; 2008: EUR 6 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.

44 TAXATION

Profit and loss account

Taxation by type								
	Netherlands			International			Total	
	2010	2009	2008	2010	2009	2008	2010	2008
Current tax	-21	79	54	-80	174	11	-101	65
Deferred tax	-87	-250	-64	3	45	-500	-84	-564
	-108	-171	-10	-77	219	-489	-185	-499

Notes to the consolidated annual accounts of ING Insurance (continued)

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

	2010	2009	2008
Result before tax	-1,316	-465	-1,726
Weighted average statutory tax rate	42.3%	40.0%	41.2%
Weighted average statutory tax amount	-557	-186	-711
Associates exemption	-199	-127	
Other income not subject to tax	-5	15	-50
Expenses not deductible for tax purposes	58	22	11
Impact on deferred tax from change in tax rates	1		-25
Write down/reversal of deferred tax assets	531	308	316
Adjustments to prior periods	-14	16	-40
Effective tax amount	-185	48	-499
Effective tax rate	14.1%	-10.3%	28.9%

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

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) exceeds the tax exempt income 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.

Adjustment to prior periods in 2010 relates to final tax assessments and other marginal corrections.

Comprehensive income

Income tax related to components of other comprehensive income

	2010	2009	2008
Unrealised revaluations	-1,190	-2,395	3,589
Realised gains/losses transferred to profit and loss (reclassifications from equity to profit and loss)	-9	-14	-610
Changes in cash flow hedge reserve	-218	150	-455
Transfer to insurance liabilities/DAC	719	1,017	-1,129
Exchange rate differences	13	13	-2
Total income tax related to components of other comprehensive income	-685	-1,229	1,393

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. During 2010 the internal management reporting structure was changed in order to improve transparency. The operating segments have changed accordingly. As at 31 December 2010, ING Insurance identifies the following operating segments:

Operating segments of ING Insurance

Insurance Benelux
Insurance Central & Rest of Europe (CRE)
Insurance United States (US)*
Insurance US Closed Block VA
Insurance Latin America
Insurance Asia/Pacific
ING Investment Management (IM)
Corporate Line Insurance

* Excluding US Closed block VA.

In 2009 ING Insurance identified the following operating segments: Insurance Europe, Insurance Americas and Insurance Asia/Pacific.

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

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

The Management Board 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.

The accounting policies of the operating segments are the same as those described under Accounting policies for the 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 excluding the impact of divestments and special items.

As of 2010:

- Capital gains on public equity securities (net of impairments) are reported in the relevant business line. Until 2009 capital gains on public equity securities in Insurance were reported in the Corporate Line Insurance, whereas a notional return was allocated to the Insurance business lines.
- An at arm's length fee is charged by ING IM by the relevant business line. Until 2009 a cost-based fee was charged.
- The Corporate Line Insurance includes reinsurance by ING Re of ING Life Japan guaranteed benefits associated with single-premium variable annuity (SPVA) contracts, along with the corresponding SPVA hedging results. Until 2009 these were reported under Insurance Asia/Pacific.

The comparative figures were adjusted accordingly.

Notes to the consolidated annual accounts of ING Insurance (continued)

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)*	Income from life insurance and retirement services in the US.
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 Latin America	Income from life insurance and retirement services in Latin America.
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 and ING Re.

* 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.

Operating segments											
2010	Insurance Benelux	Insurance CRE	Insurance US*	Insurance US Closed Block VA	Insurance Latin America	Insurance Asia/Pacific	ING IM	Corporate Line Insurance	Total segments	Eliminations	Total
Underlying income:											
– Gross premium income	7,177	2,115	11,285	676	161	6,506		27	27,947		27,947
– Commission income	46	147	263	181	398	12	887	3	1,937		1,937
– Total investment and other income	2,965	348	3,017	–607	317	911	25	1,229	8,205	–580	7,625
Total underlying income	10,188	2,610	14,565	250	876	7,429	912	1,259	38,089	–580	37,509
Underlying expenditure:											
– Underwriting expenditure	8,305	2,082	13,074	1,950	245	6,369	3	737	32,765		32,765
– Operating expenses	941	271	1,107	90	222	541	731	125	4,028		4,028
– Other interest expenses	152		76	3	67	3	5	1,302	1,608	–580	1,028
– Other impairments		4						66	70		70
Total underlying expenses	9,398	2,357	14,257	2,043	534	6,913	739	2,230	38,471	–580	37,891
Underlying result before taxation	790	253	308	–1,793	342	516	173	–971	–382		–382
Taxation	135	63	–155	–185	54	135	62	–194	–85		–85
Minority interest	15	10			7	1	1		34		34
Underlying net result	640	180	463	–1,608	281	380	110	–777	–331		–331

* Excluding US Closed block VA.

As of the fourth quarter of 2010, the Legacy Variable Annuity business 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 Legacy VA business as a separate business line to improve transparency and ongoing business. This segment is reported separately for the entire year 2010 and comparative years 2009 and 2008. 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 US Closed Block VA business line to the 50% level. This charge is reflected as a DAC write-down of EUR 975 million before tax.

While the reserves for the segment Insurance US Closed Block VA are adequate at the 50% confidence level, a net reserve inadequacy exists using a prudent (90%) confidence level. In line with Group Policy, Insurance US Closed Block VA is taking measures to improve adequacy in that region. 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.

Notes to the consolidated annual accounts of ING Insurance (continued)

Reconciliation between IFRS and Underlying income, expenses and net result

2010	Income	Expenses	Net result
Underlying	37,509	37,891	-331
Divestments	23	28	-7
Special Items	-1	928	-827
IFRS-EU	37,531	38,847	-1,165

Divestments in 2010 mainly include three U.S. independent retail broker-dealer units.

Special items in 2010 includes 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'.

Impairments and reversal of impairments on investments per operating segment

2010	Impairments	Reversal of impairments
Insurance Benelux	53	
Insurance CRE	18	
Insurance US*	553	
Insurance Asia/Pacific	8	-2
ING IM		-8
	632	-10

* Excluding US Closed block VA.

The impairments on investments are presented within Investment income.

Operating segments

	Insurance Benelux	Insurance CRE	Insurance US*	Insurance US Closed Block VA	Insurance Latin America	Insurance Asia/Pacific	ING IM	Corporate Line Insurance	Total segments	Eliminations	Total
2009											
Underlying income:											
- Gross premium income	7,721	2,016	11,430	2,382	161	6,422		38	30,170		30,170
- Commission income	70	158	269	132	350	22	741	-16	1,726		1,726
- Total investment and other income	2,061	354	2,573	-1,809	300	701	-22	205	4,363	-1,159	3,204
Total underlying income	9,852	2,528	14,272	705	811	7,145	719	227	36,259	-1,159	35,100
Underlying expenditure:											
- Underwriting expenditure	8,223	1,929	12,879	1,216	261	6,235	3	-320	30,426		30,426
- Operating expenses	1,028	271	965	138	175	517	550	134	3,778		3,778
- Other interest expenses	295	37	114	5	101	10	9	1,536	2,107	-1,159	948
- Other impairments						1		69	70		70
Total underlying expenses	9,546	2,237	13,958	1,359	537	6,763	562	1,419	36,381	-1,159	35,222
Underlying result before taxation	306	291	314	-654	274	382	157	-1,192	-122		-122
Taxation	62	57	138	-79	53	112	56	-310	89		89
Minority interest	15	12			7	1	1		36		36
Underlying net result	229	222	176	-575	214	269	100	-882	-247		-247

* Excluding US Closed block VA.

Notes to the consolidated annual accounts of ING Insurance (continued)

Reconciliation between IFRS and Underlying income, expenses and net result

2009	Income	Expenses	Net result
Underlying	35,100	35,222	-247
Divestments	952	846	88
Special Items	-121	328	-391
IFRS-EU	35,931	36,396	-550

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.

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

Impairments and reversal of impairments on investments per operating segment

2009	Impairments	Reversal of impairments
Insurance Benelux	360	
Insurance CRE	36	
Insurance US*	527	
Insurance Asia/Pacific	15	-2
ING IM	3	
Corporate Line Insurance	6	
	947	-2

* Excluding US Closed block VA.

The impairments on investments are presented within Investment income.

Operating segments

	Insurance Benelux	Insurance CRE	Insurance US*	Insurance US Closed Block VA	Insurance Latin America	Insurance Asia/Pacific	ING IM	Corporate Line Insurance	Total segments	Eliminations	Total
2008											
Underlying income:											
- Gross premium income	7,707	2,467	11,660	7,076	199	8,591		44	37,744		37,744
- Commission income	89	168	197	140	358	21	772	-23	1,722		1,722
- Total investment and other income	2,964	307	1,798	755	200	364	3	2,977	9,368	-1,252	8,116
Total underlying income	10,760	2,942	13,655	7,971	757	8,976	775	2,998	48,834	-1,252	47,582
Underlying expenditure:											
- Underwriting expenditure	9,141	2,400	13,356	8,318	375	8,314	4	1,719	43,627		43,627
- Operating expenses	1,253	332	967	184	211	602	606	88	4,243		4,243
- Other interest expenses	468	23	201	-1	18	62	26	1,575	2,372	-1,252	1,120
- Other impairments		1	-2				2	80	81		81
Total underlying expenses	10,862	2,756	14,522	8,501	604	8,978	638	3,462	50,323	-1,252	49,071
Underlying result before taxation	-102	186	-867	-530	153	-2	137	-464	-1,489		-1,489
Taxation	31	45	-80	-204	4	6	39	-228	-387		-387
Minority interest	-18	12			5	14	1		14		14
Underlying net result	-115	129	-787	-326	144	-22	97	-236	-1,116		-1,116

* Excluding US Closed block VA.

Notes to the consolidated annual accounts of ING Insurance (continued)

Reconciliation between IFRS and Underlying income, expenses and net result

2008	Income	Expenses	Net result
Underlying	47,582	49,071	-1,116
Divestments	7,082	7,226	-89
Special Items		93	-60
IFRS-EU	54,664	56,390	-1,265

Divestments in 2008 relate to the sale of Chile Health business (ING Salud), part of the Mexican business (ING Seguros SA) and the Taiwanese life insurance business (ING Life Taiwan).

Special items in 2008 relate to the nationalisation of the annuity business in Argentina.

Impairments and reversal of impairments on investments per operating segment

2008	Impairments
Insurance Benelux	898
Insurance CRE	31
Insurance US*	966
Insurance Asia/Pacific	432
ING IM	17
Corporate Line Insurance	18
	2,362

* Excluding US Closed block VA.

In 2008 no reversals of impairments on investments were recognised.

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

2010	Insurance Benelux	Insurance CRE	Insurance US*	Insurance US Closed Block VA	Insurance Latin America	Insurance Asia/Pacific	ING IM	Corporate Line Insurance	Total
Interest income	2,156	359	3,423	28	160	808	12	600	7,546
Interest expense	26	-2	56	5	68	3	4	868	1,028
	2,130	361	3,367	23	92	805	8	-268	6,518

* Excluding US Closed block VA.

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

2009	Insurance Benelux	Insurance CRE	Insurance US*	Insurance US Closed Block VA	Insurance Latin America	Insurance Asia/Pacific	ING IM	Corporate Line Insurance	Total
Interest income	2,090	368	3,326	2	250	655	5	280	6,976
Interest expense	43	-3	206	5	68	5	7	618	949
	2,047	371	3,120	-3	182	650	-2	-338	6,027

* Excluding US Closed block VA.

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

2008	Insurance Benelux	Insurance CRE	Insurance US*	Insurance US Closed Block VA	Insurance Latin America	Insurance Asia/Pacific	ING IM	Corporate Line Insurance	Total
Interest income	2,164	376	2,980	760	573	910	4	369	8,136
Interest expense	72	3	260	-1	70	3	17	697	1,121
	2,092	373	2,720	761	503	907	-13	-328	7,015

* Excluding US Closed block VA.

IFRS balance sheets by segment are not reported internally to, and not managed by, the chief operating decision maker. IFRS 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

	2010		2009		2008	
	Total assets	Total liabilities	Total assets	Total liabilities	Total assets	Total liabilities
Insurance Benelux	92,476	83,518	85,037	78,497	83,453	77,147
Insurance Central and Rest of Europe	12,671	11,288	12,212	10,789	11,553	10,328
Insurance US*	114,870	102,780	101,322	97,213	105,315	102,768
Insurance US Closed Block VA	42,582	39,708	39,827	36,532	33,871	30,901
Insurance Latin America	4,056	2,239	3,504	2,043	5,139	4,339
Insurance Asia/Pacific	57,029	52,332	44,267	41,381	64,461	59,963
ING IM	2,054	1,189	926	434	1,724	1,160
Corporate Line Insurance	47,396	24,294	38,149	20,383	45,334	31,919
Total Insurance segments	373,134	317,348	325,244	287,272	350,850	318,525
Eliminations	-47,370	-12,506	-34,835	-12,830	-38,630	-18,718
Total	325,764	304,842	290,409	274,442	312,220	299,807

* Excluding US Closed block VA.

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

2010	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Eliminations	Total
Total income	10,843	1,686	2,707	15,152	963	8,922		-2,742	37,531
Total assets	147,822	11,253	13,600	170,993	7,205	62,591	2,009	-89,709	325,764

Geographical areas

2009	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Eliminations	Total
Total income	10,268	1,679	2,603	15,230	965	7,838	777	-3,429	35,931
Total assets	129,763	10,203	12,958	141,811	5,531	47,769	1,678	-59,304	290,409

Geographical areas

2008	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Eliminations	Total
Total income	12,365	1,446	3,073	24,843	2,445	13,437	566	-3,511	54,664
Total assets	141,148	8,815	12,251	139,879	6,761	60,332	8,519	-65,485	312,220

47 NET CASH FLOW FROM INVESTING ACTIVITIES

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

48 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

Interest and dividend received and paid

	2010	2009	2008
Interest received	7,519	6,998	8,045
Interest paid	-1,078	-986	-1,145
	6,441	6,012	6,900
Dividend received	313	262	756
Dividend paid		-363	-2,842

Risk management

amounts in millions of euros, unless stated otherwise

EXECUTIVE SUMMARY / RISK MANAGEMENT IN 2010

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

ING has implemented a revised risk appetite frameworks for ING Insurance. The revised concept is that risk appetite is expressed as the tolerance to allow key capital ratios to deviate from their target levels under adverse scenarios. This framework is discussed in more detail in this risk management section.

The economic capital model for credit risk was updated, and now relies less on diversification benefits.

ING Insurance needs to prepare for significant changes in the regulatory requirements. ING Insurance runs an extensive program to allow the implementation of Solvency II (which is the fundamental reform of European insurance solvency and risk governance legislation; which is effective as of 1 January 2013). ING continued its stress testing efforts, with stress testing becoming more important and more embedded in the risk culture.

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

In the first half of 2010 concerns arose regarding the creditworthiness of several southern European countries, which later spread to a few other European countries. As a result of these concerns the value of sovereign debt decreased. The impact on ING's revaluation reserve in relation to sovereign debt is limited per 31 December 2010: the negative impact on troubled countries is offset by opposite positive movements in bonds of financially stronger European countries and by the positive impact from lower interest rates in general. Furthermore, in the course of 2010, ING reduced its sovereign debt exposure to these troubled countries.

IMPACT ON PRESSURISED ASSET CLASSES

Exposures, revaluations and losses on pressurised asset classes

	31 December 2010		Change in 2010			31 December 2009	
	Balance Sheet Value ⁽¹⁾	Revaluations through equity (pre-tax)	Revaluation through equity (pre-tax)	Write-downs through P&L (pre-tax)	Other changes	Balance Sheet Value ⁽¹⁾	Revaluations through equity (pre-tax)
US Subprime RMBS	1,560	-233	572	-378	-2	1,368	-805
US Alt-A RMBS	359	22	84	-51	-11	337	-62
CDO/CLOs	731	-16	37	0	-242	936	-53
CMBS	4,909	-384	1,163	-52	-1,357	5,155	-1,547
Total pressurised ABS	7,559	-611	1,856	-481	-1,612	7,796	-2,467
Pressurised Government and Financial Institution bonds for both Greece and Ireland ⁽²⁾	705	-279	-233	0	-666	1,604	-46

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

⁽²⁾ Country is based on the country of residence of the obligor; Covered bonds are excluded; government only includes central government.

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

changes in the ABS portfolio

The total ABS portfolio remained relatively stable, changing slightly from EUR 20.6 billion at year-end 2009 to EUR 21.9 billion per end of year 2010. The value of the ING Insurance portfolio increased by EUR 1.3 billion. In the 2009 presentation of the CDO/CLOs exposure, synthetic CDOs at notional value were included. As of 2010 this exposure is not included anymore, and the Balance sheet value at 31 December 2009 is adjusted correspondingly.

Risk management (continued)

guaranteed paper. During the year ING Insurance reduced the exposure to CMBS through sales of part of the portfolio (approximately EUR 1.6 billion). The remaining CMBS portfolio increased in value as a result of revaluations and currency effects. Similar effects in revaluation reserve improvements are visible for the other pressurised ABS classes, and the total revaluation reserve for US Alt-A RMBS changed from negative to positive. Despite the improved market values, ING Insurance still took impairments on the ABS portfolio. These impairments amount to EUR 481 million for the ING Insurance ABS portfolio. The credit quality of the ING ABS portfolio did not materially change, with 84% of the portfolio rated A or better at year-end 2010 (84% in 2009).

Of the exposure on pressurised ABS EUR 6.8 billion is measured at fair value (with the revaluation recognised in equity, except impairments on these trades going through P&L). The table shows how the total fair values are determined through the following Level 1,2,3 hierarchy:

Level 1 – Quoted prices in active markets

Level 2 – Valuation technique supported by observable inputs

Level 3 – Valuation technique supported by unobservable inputs

An analysis of the method applied in determining the fair values of financial assets and liabilities is provided in Note 31 'Fair value of financial assets and liabilities'

Fair value hierarchy of pressurized 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		4,964	1,826	6,790

Fair value hierarchy of pressurized bonds				
2009	Level 1	Level 2	Level 3	Total
US Subprime RMBS			1,368	1,368
US Alt-A RMBS		257	80	337
CDO/CLOs		328	22	350
CMBS		4,871		4,871
Total pressurised ABS		5,456	1,470	6,926

Changes in the bond portfolio (excluding ABS)

The ING bond portfolio increased 14.9 billion from EUR 86.3 billion at year-end 2009 to EUR 101.2 billion at end of year 2010. For the government bonds the revaluation changes are triggered by a loss of confidence with regards to several southern European countries and Ireland. During 2010, ING closely monitored the developments with regards to these countries and its sovereign debt exposure to these countries. Ireland and Greece are the only countries that used the European Financial Stability Fund (EFSF) during 2010, only the government and financial institution unsecured bonds for these countries are considered as pressurised assets by ING.

For ING Insurance, the bonds portfolio includes Government and Financial Institutions unsecured bond exposures in Greece and Ireland classified as available-for-sale of EUR 705 million (fair value), with a related negative revaluation reserve in equity of EUR -279 million.

The Greek and Irish Government and Financial Institution bonds measured at fair value are all in Level 1 of the fair value hierarchy.

ONGOING CHANGES IN THE REGULATORY ENVIRONMENT

After the turmoil in the financial markets over the last couple of years and the need for governments to provide aid to financial institutions, financial institutions have been under more scrutiny from the public, supervisors and regulators. The resulting revised regulations are intended to make sure that a crisis in the financial system can be avoided in the future. To accomplish this, regulations focus primarily on Solvency II. Following the approval of the Solvency II Framework Directive in 2009, the European Commission has continued development and consultation on the detailed implementing measures in 2010. ING has always been a firm supporter of the Solvency II initiative, being an economic, risk-based solvency system. However some of the proposed measures currently under discussion are considered unduly conservative. ING is committed to working actively together with all stakeholders to develop pragmatic solutions that would result in Solvency II meeting its original intent, and a smooth transition to the new system.

The legislation is now expected to become in force by 1 January 2013. ING has launched a full implementation programme to be fully compliant before that date, and is also developing its business strategies to operate optimally under the new environment.

RISK GOVERNANCE

To ensure measured risk-taking throughout the organisation, ING Insurance operates through a comprehensive risk management framework. This ensures the identification, measurement and control of risks at all levels of the organisation so that ING Insurance's financial strength is safeguarded.

Risk management (continued)

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

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

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

RISK GOVERNANCE

ING's risk management framework is based on the 'three lines of defence' concept which ensures that risk is managed in line with the risk appetite as defined by the Management Board (and ratified by the Supervisory Board) and is cascaded throughout ING. This concept provides a clear allocation of responsibilities for the ownership and management of risk, to avoid overlaps and/or gaps in risk governance. Business line management and the regional and local managers have primary responsibility for the day-to-day management of risk and form the first line of defence. The risk management function, both at corporate and regional/local level, belongs to the second line of defence and has the primary responsibility to align risk taking with strategic planning e.g. in limit setting. Risk managers in the business lines have a functional reporting line to the Corporate Risk General Managers described below. The internal audit function provides an ongoing independent (i.e. outside of the risk organisation) and objective assessment of the effectiveness of internal controls, including financial and operational risk management and forms the third line of defence.

Risk Management Function

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

Chief Risk Officer

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

Risk Organisation

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



The risk organisation is structured independently from the business lines and is organised through five risk departments:

- Corporate Credit Risk Management (CCRM) is responsible for credit risk management for ING Insurance.
- Corporate Insurance Risk Management (CIRM) is responsible for insurance, market and liquidity risk management of ING Insurance.
- Corporate Operational Risk Management (CORM) is responsible for the operational risk management of ING Insurance.
- Group Compliance Risk Management (GCRM) is responsible for (i) identifying, assessing, monitoring and reporting on the compliance risks faced by ING, (ii) supporting and advising management on fulfilling its compliance responsibilities, and (iii) advising employees on their (personal) compliance obligations.

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

Risk management (continued)

In addition two staff departments report to the CRO:

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

Risk Committees

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

- ING Credit Committee – Policy (GCCP): Discusses and approves policies, methodologies and procedures related to credit, country and reputation risks within ING Insurance. The GCCP meets on a monthly basis.
- ING Credit Committee – Transaction Approval (GCCTA): Discusses and approves transactions which entail taking credit risk (including issuer investment risk). The GCCTA meets twice a week.
- ING Investment Committee (GIC): Discusses and approves investment proposals for ING Real Estate. The GIC meets on a monthly basis.
- Asset and Liability Committee ING Insurance (ALCO Insurance): Discusses and approves all risks associated with ING's Insurance activities. This includes volatility (affecting earnings and value), exposure (required capital and market risk) and insurance risks. ALCO Insurance meets ten times a year.
- Operational and Residual Risk Committee (ORRC): Discusses and approves issues related to Methods, Models and Parameters for Operational risk, inter-risk diversification and consistency across risk types and businesses. The committee meets at least twice a year.

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

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

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

Risk management (continued)

Board level risk oversight

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

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

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

The CRO makes sure that the boards are well informed and understand ING Insurance's risk position at all times. Every quarter the CRO reports to the board committees on ING's risk appetite levels and on ING Insurance's risk profile. In addition the CRO briefs the board committees on developments in internal and external risk related issues and makes sure the board committees understand specific risk concepts.

ING has integrated its risk management into the annual strategic planning process. This process aligns strategic goals, business strategies and resources throughout ING Insurance. The Management Board issues a Planning Letter which provides the organisation with the corporate strategic direction, and addresses key risk issues. Based on the Planning Letter, the business lines and business units develop their business plans which align with the Insurance's strategic direction. The process includes a qualitative and quantitative assessment of the risks involved. It is part of the process to explicitly discuss strategic limits and risk appetite levels. At each level, strategies and metrics are identified to measure success in achieving objectives and to assure adherence to the strategic plan. Based on the business plans, the Management Board formulates the Strategic Plan which is submitted to the Supervisory Board for approval.

Risk policies

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

RISK PROFILE

ING Insurance uses an integrated risk management approach for its Insurance activities. The Management Board uses the risk appetite frameworks to monitor and manage the actual risk profile in relation to the Insurance risk appetite. It enables the Management Board to identify possible risk concentrations and to support strategic decision making. The risk appetite level is reported to the Management Board on a quarterly basis and are subsequently presented to the Risk Committee. ING Insurance's risk appetite is defined by the Management Board as part of the strategic planning process.

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

Risk types

ING measures the following main types of risks that are associated with its business activities:

- Credit risk: the risk of potential loss due to default by ING's debtors (including bond issuers) or trading counterparties.

Risk management (continued)

- **Market risk:** the risk of potential loss due to adverse movements in market variables. Market risks include interest rate, equity, real estate, implied volatility, credit spread, and foreign exchange risks
- **Liquidity risk:** the risk that ING or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions.
- **Insurance risk:** risks such as mortality, morbidity and property and casualty 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.
- **Operational risk** is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk, as well as legal risk.
- **Business risk:** the exposure to value loss due to fluctuations in volumes, margins and costs, as well as client behaviour risk. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency, and as such strategic risk is included in business risk.

Stress Testing

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

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

Risk models

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

FINANCIAL RISKS

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 are classified as insurance risk (actuarial and underwriting), market risk, liquidity risk, credit risk, and business risk. Compliance risk, legal risk and operational risk are classified as Non-Financial Risks.

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

Risk management governance

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

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

Finally, IRM ensures that these steps are understood by ING's stakeholders, including shareholders, rating agencies, regulators and policy holders.

Risk management (continued)

Risk management policies and tools

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

A critical aspect of risk management is that all new products are designed, underwritten and priced appropriately. This is explicitly covered by the Standard of Practice for the Product Approval and Review Process (PARP). This standard includes requirements related to risk profile, traditional and value-oriented pricing metrics and targets and documentation. Customer Suitability is integral part of the PARP requirements since December 2009. In addition to insurance and market risks, the requirements refer to credit risks, operational risks, compliance and legal risks. For these risks, the IRM network works closely together with the other relevant risk departments. The PARP also includes requirements to assess sensitivities to changes in financial markets, insurance risk (e.g. mortality and claims development), compliance risks, legal risks and operational risks, as well as assessment of the administration and accounting aspects of the product.

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

ING Insurance has developed an Economic Capital approach as one of its core risk measurement tools. An exception is the US Insurance business which is managed based on Regulatory Capital. More details on the Economic Capital model are described in the Model Disclosure section. The ECAPS system provides a well controlled and automated basis for Economic Capital and risk measurement. Beyond measurement and reporting, the ECAPS system also provides greatly enhanced portfolio and capital analysis tools for management purposes.

CIRM expects this system to be the foundation of its internal fair value and solvency model, including the calculation of capital requirements following the introduction of Solvency II. Through 2010 the system has been enhanced and its functionalities expanded.

To further manage risk, ING Insurance has implemented several limit structures. Examples include but are not limited to the following:

- Market Risk limits on sensitivities of Available Financial Resources, IFRS Earnings and Regulatory Capital. These limits provide the fundamental framework to manage the market and credit risks resulting from the Insurance operations' asset / liability mismatch;
- Credit risk concentration limits;
- Mortality concentration limits;
- Catastrophe and mortality exposure retention limits for its insurance risk; and
- Investment and derivative guidelines and limits.

Reserve adequacy

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

As of the fourth quarter of 2010, the Closed Block Variable Annuity business 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 US Closed Block VA business as a separate business line to improve transparency and ongoing business. ING's accounting policy for reserve adequacy as set out in the Accounting policies for the consolidated annual accounts of ING Insurance requires each business line to be adequate at the 50% confidence level. The separation of the Closed Block VA business into a separate segment triggered a charge in the fourth quarter of 2010 to bring reserve adequacy on the new US Closed Block VA business line to the 50% level. This charge is reflected as a DAC write-down of EUR 975 million before tax.

While the reserves for the segment US Closed Block VA are adequate at the 50% confidence level, a net reserve inadequacy exists using a prudent (90%) confidence level. In line with ING Policy, US Closed Block VA is taking measures to improve adequacy in that region. This inadequacy was offset by reserve adequacies in other segments, such that at the ING Insurance level there is a net adequacy at the prudent (90%) confidence level.

Risk management (continued)

ING INSURANCE RISK PROFILE

The risk appetite of ING Insurance is set by the Management Board Insurance and is aligned with how its business is being managed, and anticipating regulatory developments going forward. The risk appetite of ING Insurance is bound by local regulatory restrictions and by the target ratings for both the Insurance holding companies and certain rated operating subsidiaries.

- For the EurAsia and LatAm insurance business we align the Economic Capital (EC) definition with the Solvency II Capital Requirement which is based on a 99.5% confidence level. The target ratio of Available Financial Resources (AFR) over Economic Capital is set based on the business strategy and resulting risk appetite defined by the Management Board Insurance.
- For the US insurance business the risk appetite is aligned with local US Regulatory Capital requirements.

The EurAsia and LatAm business includes the Benelux, Central & Rest of Europe, Asia Pacific and Latin America business lines. For the risk profile it is currently not yet feasible to show the Latin America business separately from the EurAsia business. The US business includes the Insurance US and US Closed Block VA business lines. The risk of ING Investment Management (IIM) business line for EurAsia and LatAm has no material impact and is therefore incorporated in the numbers of EurAsia and LatAm. The same applies to the risk of IIM for the US, which is therefore incorporated in numbers of the US.

ING Insurance risk metrics in 2010

For the EurAsia and LatAm insurance business the insurance risk appetite is managed based on the metrics disclosed below:

- Economic Capital: the amount of capital that is required for the current net asset value (based on fair value) to absorb unexpected losses in a severe stress scenario based on a 99.5% confidence level. This metric is aligned with Solvency II.
- AFR Sensitivities: the potential reduction of the current net asset value (based on fair values) during a moderate stress scenario. This metric drives the ratio of Available Financial Resources over Economic Capital.
- Earnings Sensitivities: the potential reduction in IFRS earnings during a moderate stress scenario. Maintaining a high quality of earnings helps ING to safeguard against being downgraded by the rating agencies.

The US insurance business is managed to a risk appetite based on two key risk metrics:

- US Regulatory Capital Sensitivities: the potential reduction, under a moderately 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.
- Earnings Sensitivities: the potential reduction in IFRS earnings during a moderate stress scenario. Maintaining a high quality of earnings helps ING to safeguard against being downgraded by the rating agencies.

During 2010 the regulatory capital sensitivities effectively replaced Economic Capital as a key risk based metric on which the US insurance business is measured. Therefore, we have excluded the US insurance business from our Economic Capital risk metrics and related AFR sensitivities in order to better align reported risk metrics with those to which the US businesses are primarily managed and which are the most common benchmarks in the regulatory and competitive environments in which the US businesses operate. To allow for reconciliation with the Economic Capital numbers shown in the Risk Management Section of the Annual Report 2009, we show US Economic Capital for 2009 split by risk type.

ING Insurance's risk metrics cover the most important aspects in terms of performance measures where risk can materialise and are representative of the regulatory constraints that our business is subject to. The sensitivities for AFR, Earnings and US Regulatory Capital are important metrics since they provide insight into the level of risk ING takes under 'moderate stress' scenarios. They also are the basis for internal risk management.

When interpreting the Economic Capital and sensitivities for AFR, Earnings and US Regulatory Capital it is important to note that these metrics do not take into account discretionary risk mitigation in a specific crisis situation, and are based on instantaneous shock scenarios.

Economic Capital ING Insurance – EurAsia and LatAm Insurance Business

The objective of the ING Insurance Economic Capital framework is to achieve an advanced risk and capital measurement and management structure that:

- Covers all identified risks in the business units and is applied consistently across all risks and business units within its scope, i.e. EurAsia and LatAm;
- Facilitates and encourages adequate risk- and capital management, including the proper pricing of products and sound capital allocation decisions.

Risk management (continued)

The ING Insurance Economic Capital model is based on a 99.5% one-year Value at Risk framework. During 2010 we changed the Value at Risk confidence interval from 99.95% to 99.5% to align with the Solvency II standard for internal models which will become the ING Insurance regulatory constraint for the EurAsia and LatAm insurance business. For the total Economic Capital figures, we also provide ratios based on both confidence intervals to provide comparability between the figures reported in the risk management section of the annual report 2009 and the figures provided below. It is important to note that since industry practice relating to Economic Capital is still evolving and moreover, Solvency II standards are still under discussion, ING Insurance models are expected to evolve as a result.

ING has carried out a rigorous review of the internal model in the context of a Solvency II gap analysis. In the review we benchmarked our models against the Solvency II Standard Formula, the CEIOPS consultation papers and commentary of expert groups like CRO Forum and Group Consultative. We consequently plan further refinements of our Economic Capital model that address improvements of our market risk calibration, in particular for spread risk; business risk, to improve our capturing of policyholder behaviour risk and to address country risk; and operational risk. These changes will result in a material increase of our EC on top of the amount shown in the tables below which we estimate to be between one and two billion euro as at year end 2010. This estimate is not included in the tables below.

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

Economic Capital disclosures include diversification benefits that arise within ING Insurance (EurAsia and LatAm). Although the diversification benefits in 2010 are very similar to those in 2009 it is important to point out that this is the result of two offsetting impacts. Firstly, the 2010 Economic Capital no longer includes the US business which results in a higher diversification benefit between risk types and business units. Secondly, the 2010 Economic Capital has a lower recognition of market risk diversification due to an updated method to define market risk correlations which results in a lower diversification benefit between risk types and business units.

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

Economic Capital break-down ING Insurance EurAsia and LatAm (99.5%) by risk category ⁽¹⁾⁽²⁾		
	2010	2009
Credit risk (including Transfer risk)	394	325
Market risk (including credit spread risk)	7,079	4,228
Insurance risk	1,283	982
Other risks ⁽²⁾	1,606	1,419
Total insurance operations EurAsia and LatAm	10,363	6,955

⁽¹⁾ The Economic Capital outcomes do not reflect any potential tax benefit resulting from the loss that occurs under the specified circumstances.

⁽²⁾ Other risk includes operational risk as well as business risk (covering expense risk and lapse risk).

Diversification across the risk categories is 30% for 2010 for EurAsia and LatAm (32% for 2009 for combined ING insurance business, including US).

The Economic Capital for ING Insurance EurAsia and LatAm is mostly related to market risks, both hedgeable and non-hedgeable. Overall, Economic Capital and risk profile of the EurAsia and LatAm insurance business increased during 2010. The primary change came from increased market risk, relating mainly to an increased equity and foreign exchange exposure and due to a partial unwinding of economic hedges in combination with a lower recognition of market risk diversification within the Economic Capital model. Lower diversification is also the main driver of the increases in the other risk categories.

The change in confidence interval from 99.95% to 99.5% reduced our 2010 Economic Capital for the EurAsia and LatAm business by 24% across risk types (25% for 2009). For market risk, insurance risk and other risks the reduction due to this change is in the same order of magnitude. For credit risk the reduction is more significant due to its fat tailed distribution.

As we no longer include the US business in our Economic Capital, we provide for 2009 the numbers for both the EurAsia and LatAm and US insurance business. The 2009 US figures are provided in the table below.

Risk management (continued)

Economic Capital break-down ING Insurance US (99.5%) by risk category ⁽¹⁾⁽²⁾

	2009
Credit risk (including Transfer risk)	510
Market risk (including credit spread risk)	4,528
Insurance risk	214
Other risks ⁽²⁾	1,215
Total insurance operations	6,467

⁽¹⁾ The Economic Capital outcomes do not reflect any potential tax benefit resulting from the loss that occurs under the specified circumstances.

⁽²⁾ Other risk includes operational risk as well as business risk (covering expense risk and lapse risk).

The change in confidence interval reduced our US 2009 Economic Capital number by 27% across risk types. Allowing for the change in confidence interval for both US 2009 figures and EurAsia and LatAm 2009 figures, and then adding these figures will allow for reconciliation with the Economic Capital numbers shown in the Risk Management Section of the Annual Report 2009.

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

Economic Capital break-down by ING Insurance business line for EurAsia and LatAm business

	2010	2009
Insurance Latin America	611	670
Insurance Asia/Pacific	1,750	1,688
Insurance Benelux	3,604	2,205
Insurance Central & Rest of Europe	783	765
Corporate Line Insurance ⁽¹⁾	3,615	1,627
Total insurance EurAsia and LatAm	10,362	6,955

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

While the figures above are shown by business line, the diversification of risks across ING businesses is calculated across business units. Total diversification between ING Insurance's business units and the Corporate Line Insurance is 31% for 2010 for EurAsia and LatAm (32% for 2009 for combined ING insurance business, including US).

Insurance Benelux and Corporate Line are the largest users of Economic Capital. Increased interest rate, equity, credit spread exposure and a lower recognition of diversification has increased Economic Capital for Benelux. The Corporate Line risk includes foreign exchange translation risk related to the potential loss of market value surplus in non-Euro denominated business units. The corporate line increase in Economic Capital has four main causes: the reinsured Japan variable annuity business, which is now included in the corporate line (in 2009 included in Asia/Pacific), the increased Economic Capital related to the minority stake in our Brazil business which is included in the corporate line, and a higher translation risk exposure mainly from increased market value surplus in non-Euro business and a decreased recognition of diversification. The Asia/Pacific risk is unchanged as a lower recognition of diversification offsets the move of the reinsurance Japan variable annuity business to the corporate line.

Regulatory Capital Sensitivities – US Insurance Business

For the capital adequacy assessment of ING'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 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 the US Insurance business manages its available capital primarily with respect to capital metrics that are aligned with the models of the various ratings agencies.

The US Insurance business calculates regulatory capital sensitivities on the Risk-Based Capital model of the National Association of Insurance Commissioners (NAIC) 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. Our regulatory capital sensitivities are calculated in aggregate for the US domiciled regulated insurance entities.

Statutory capital in the US domiciled regulated insurance entities ended 2010 with an estimated EUR 4,009 million in excess of Company Action Level RBC. The Capital Management section describes the ratio of available statutory capital over required capital at the Company Action Level.

Risk management (continued)

The table below presents market risk sensitivity figures before diversification between risks and legal entities. The stress events are described in the Model Disclosure section. Interest rates are shocked 30% relative compared to the ten-year swap rate. The credit risk sensitivities are based on the new methodology introduced in 2010 which can be found in the Model Disclosure section. Equities are shocked 25% down. As the US regulatory capital sensitivities as described have only been set up during 2010 there are no 2009 comparable figures available. In 2009 the US Insurance Business was included in the Economic Capital framework which was used to manage the risk.

Regulatory Capital Sensitivities – US Insurance Business ⁽¹⁾	
	2010
Interest Rate Up	138
Interest Rate Down	-76
Equity	298
Credit	466

⁽¹⁾ Real Estate, Credit Spread, FX and Implied Volatility Sensitivities do not have a material impact

⁽²⁾ Sensitivities are calculated at legal entity level and cover US domiciled insurance entities.

Taking into account diversification between risk factors as described in the Model Disclosure section, we are exposed to a EUR 818 million decrease in our excess capital.

ING INSURANCE – MARKET RISKS

ING Insurance is exposed to market risk to the extent to which the market value of surplus can be adversely impacted due to movements in financial markets; these include interest rates, credit spreads, equity prices, Real Estate prices, implied volatilities of options and foreign exchange rates. Changes in financial market prices impact the market value of ING's current asset portfolio and hedging derivatives directly as well as the calculated market value of ING's insurance liabilities.

In 2010 ING moved away from managing the market risk purely on an AFR basis (Market Value at Risk limits based on a 99.95% confidence interval) and moved to a new risk limit framework based on limits set on market risk sensitivities for AFR, IFRS Earnings and Regulatory Capital. On at least an annual basis, the Asset Liability Committee (ALCO) Insurance sets market risk limits at business line level, which are ultimately allocated to the business units. The market risk limits are managed by ALCO Insurance at the relevant organisational level. ALCO Insurance determines the aggregate limit and ensures that the ING Insurance stays within its risk tolerance limits and allocates the sub-limits to business lines, with similar roles for the business line and business unit ALCOs. Limit breaches by business lines are reported to ALCO Insurance and resolved in accordance with the policy within the next quarter.

The market risk limit framework is based on moderate stress scenarios for market risk drivers. The section below shows the impact of these stress scenarios on AFR and IFRS Earnings. These stress scenarios are described in more detail in the Model Disclosure section

AFR Sensitivities

AFR Sensitivities are defined as the potential reduction of the current net asset value (based on fair values) during a moderate stress scenario. Interest rates are shocked 30% upwards and downwards relative to the ten year swap rates. The credit sensitivity in table below is based on a new method introduced in 2010 such that there is no comparable 2009 number available. Equity and Real estate are based on a 25% and 15% downward shock respectively. The FX shock is based on a 10% up or down movement for each currency. Implied volatilities for swaptions are shocked by 30%. The shock for implied volatilities for equities is related to the underlying tenor. More details on the stress scenarios can be found in the Model Disclosure section.

The AFR sensitivities are only applicable for the EurAsia and LatAm insurance business as these sensitivities drive the ratio of Available Financial Resources over Economic Capital. The capital management section discusses the AFR over Economic Capital ratio.

AFR sensitivities for insurance market risks – EurAsia and LatAm Insurance Business		
	2010	2009
Interest Rate Up	329	-626
Interest Rate Down	-1,538	-291
Equity	-1,822	-988
Real Estate	-813	-842
FX	-1,547	-1,332
Credit Spread	-1,746	n/a
Implied Volatility	-68	-427

Risk management (continued)

Interest rate sensitivities are mainly related to the Benelux and Asia/Pacific business. In 2010 the AFR has become significantly more sensitive to downward interest rate movements. Lower interest rate levels have contributed to this increase. Furthermore economic hedges have been unwound in the Benelux.

Equity sensitivity has increased due to unwinding of hedging activities, relating to both direct and indirect exposure and a higher equity value due to positive equity markets in 2010. Direct exposure relates to the holding of shares and is most significant for ING in the Netherlands. Indirect exposure relates to the potential loss of fee income from unit linked, variable annuity, and pension fund business across all regions. Direct exposure represents approximately half of the equity sensitivity, after taking the hedge positions into account.

Credit Spread sensitivity relates to increases in credit spreads from investments in fixed income securities and also includes offsetting movements in the liquidity premium on the liabilities. Sensitivity is largely driven by the general account business in Benelux and to a smaller degree our Asia/Pacific business.

Real Estate sensitivity exists mostly in the Netherlands and relates in a large part to direct Real Estate investments.

Implied volatility sensitivity relates to the risk that market values of assets or liabilities change due to movements in the volatility implied from market option prices. In general, ING is exposed to increases in implied volatility as the guarantees provided to customers become more expensive.

Foreign exchange sensitivity is small in the business units. The main exposure is at the corporate level and relates to the FX translation risk which increase due to a change in the market value surplus of non-Euro businesses and a lower recognition of diversification.

Earnings sensitivities

Complementing Economic Capital, which is based on a market value analysis, ING Insurance also measures risk based on IFRS earnings. More specifically, using scenario analysis, ING Insurance measures the potential sensitivity of realised pre tax earnings of the insurance operations to a change in different risk factors over a full year.

Earnings sensitivities are defined on moderate stress scenarios for pre-tax IFRS earnings. Below tables present figures before diversification between risks and business units. Interest rates are shocked 30% upwards and downwards relative to the ten year swap rates. The credit sensitivity in the table below is based on new method introduced in 2010 such that there is no comparable 2009 number available. Equity and Real estate are based on a 25% and 15% downward shock respectively. The FX shock is based on a 10% up or down movement for each currency.

Earnings sensitivities for insurance market risks – EurAsia and LatAm Insurance Business

	2010	2009
Interest Rate Up	-205	-291
Interest Rate Down	285	317
Equity	-137	-172
Real Estate	-806	-812
FX	-152	-181
Credit Default	-258	n/a

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

The interest rate sensitivity is dominated by the Dutch separate account business where interest rate derivatives are used to hedge a liability on Group life contracts that is not marked to market.

Earnings sensitivities for insurance market risks – US Insurance Business

	2010	2009
Interest Rate Up	17	76
Interest Rate Down	-68	-44
Equity	-934	-1,084
Real Estate	-2	-2
Credit Default	-795	-737

Risk management (continued)

The US earnings sensitivities are dominated by credit and equity exposure. 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. Equity exposure relates mostly to the US Closed block VA where an equity stress scenario results in DAC unlocking. As earnings sensitivities are forward looking, the US Closed Block VA business line sensitivities are based on the situation on 1 January 2011, which reflects the DAC write-down as well as the change to apply current market interest rates and current estimates for other assumptions in valuation of insurance liabilities and hedging of the interest rate exposure for the Guaranteed Minimum Withdrawal Benefit (GMWB).

In the US there is no significant earnings sensitivity to Foreign Exchange Rates as the 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.

Real Estate

Real Estate price risk arises from the possibility that the value of Real Estate assets fluctuate because of a change in earnings related to Real Estate activities and/or a change in required investor yield.

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

The second category can be divided on the one hand in minority stakes in Real Estate assets that are revalued through equity and on the other hand stakes in funds managed by ING 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.

The crisis in the financial markets has led to a further slowdown of the world economy in general. These global economic factors also had negative consequences for the value of Real Estate assets.

Per year end 2010 ING Insurance has EUR 3.8 billion of Real Estate related investments (excluding leverage). ING Insurance' Real Estate exposure (i.e. including leverage) is EUR 5.9 billion of which EUR 4.3 billion is recognised as fair value through P&L and EUR 1.6 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 decreased by EUR 179 million mainly as a result of negative fair value changes (EUR 71 million), impairments (EUR 22 million) and divestments (EUR 140 million) compensated by net investments (EUR 16 million) and FX appreciation (EUR 32 million).

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

Continent	2010	2009	Sector	2010	2009
Europe	4,105	4,236	Residential	349	379
Americas	108	94	Office	1,321	1,366
Australia	10	25	Retail	1,933	1,958
Asia	84	68	Industrial	422	450
Other			Other	282	270
Total	4,307	4,423	Total	4,307	4,423

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

Continent	2010	2009	Sector	2010	2009
Europe	1,444	1,524	Residential	785	747
Americas	139	125	Office	329	373
Australia			Retail		3
Asia	23	20	Industrial		5
Other			Other	492	541
Total	1,606	1,669	Total	1,606	1,669

ING Insurance - Liquidity risk

As with other ING Insurance market risks, liquidity risk falls under the supervision of the ALCO function. Liquidity risk is the risk that ING Insurance or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. ING Insurance defines three 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 of various expected and adverse business conditions, which will result in the inability of realizing 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.

Risk management (continued)

ING INSURANCE – INSURANCE RISKS

General

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

Measurement

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

For the main non-life units (in the Benelux) the risk tolerance for property and casualty (P&C) business is derived from the total Non-Life earnings of 2009. For 2010, this translated into an aggregated (pre-tax) risk tolerance level of EUR 180 million for the Benelux (2009: EUR 190 million).

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

For the smaller non-life units, the (pre-tax) risk tolerance level for catastrophe related events for 2010 was set at EUR 5 million (2009: EUR 5 million) per event per business unit.

With respect to life business, ING's (pre-tax) risk tolerance level for 2010 was set at EUR 22 million (2009: EUR 22 million) per insured life for mortality risk. While life insurance risks are considered to be naturally diversifiable by virtue of each life being a separate risk, group contracts may result in significant exposures. For potential losses, resulting from significant mortality events (e.g. pandemics or events affecting life insurance contracts involving multiple lives), ING applies a separate risk tolerance level which equalled EUR 1,100 million in 2010 (2009: EUR 1,100 million). The potential impact of pandemics continues to be modelled by ING based on studies published by respected international organisations.

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

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

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

Economic Capital Insurance risks EurAsia and LatAm		
	2010	2009
Mortality	797	578
Morbidity	361	298
P&C	125	106
Total EurAsia and LatAm	1,283	982

For insurance risk the EC is shown by risk type above. The tables below show Earnings sensitivities for both EurAsia/LatAm and US Insurance business. The EC are based on a 99.5% confidence level. The change in confidence level from 99.95% to 99.5% reduced the 2010 Economic Capital for insurance risks by 25% (29% for 2009).

Risk management (continued)

The mortality risk relates to the potential for increasing deaths (life risk) or decreasing deaths (longevity risk). This risk relates to a potential mortality catastrophe or to changes in long term mortality rates. As noted, ING manages these risks via limits and external reinsurance. Morbidity risk relates to disability products in the Netherlands and some health riders sold in Asia. Finally, property and casualty risk exists primarily in the Benelux.

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

Earnings sensitivities are defined on a shock scenario at the 90% confidence level on IFRS pre-tax earnings. The table below shows the impact on earnings over a one year horizon.

Earnings sensitivities for Insurance risks – EurAsia and LatAm Insurance Business

	2010	2009
Mortality	-31	-34
Morbidity	-100	-97
P&C	-49	-42

The table above presents figures after diversification between insurance risks and diversification across business units of ING Insurance. The largest earnings sensitivity to P&C claims relates to health and P&C claims in the Netherlands. Earnings sensitivity from Mortality and Morbidity is more evenly spread over the regions.

Earnings sensitivities for Insurance risks – US Insurance Business

	2010	2009
Mortality	-16	-12
Morbidity	-48	-37
P&C		

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.

ING INSURANCE – CREDIT RISKS

Credit risk is the risk of loss from default by debtors (including bond issuers) or trading counterparties. Credit risks are split into five principal risk categories: a) lending (including guarantees and letters of credit); b) investments; c) pre-settlement (derivatives, securities financing and foreign exchange trades); d) money markets and e) settlement. Corporate Credit Risk Management (CCRM) is responsible for the measurement and management of credit risk incurred by all ING Insurance entities, including country-related risks. CCRM is organised along the business lines of ING Insurance. The CCRM General Manager is functionally responsible for the global network of credit risk staff, and the heads of the credit risk management functions for the business lines report directly to him.

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

ING's credit policy is to maintain an internationally diversified loan and bond portfolio, while avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of top-down concentration limits for countries, individual borrowers and borrower groups.

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

Risk categories for credit risk

Lending risk

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

Risk management (continued)

Investment risk

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

Money market risk

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

Pre-settlement risk

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

Settlement risk

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

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

Country risk

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

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

Credit Risk Mitigation

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

Credit Risk Measurement and Reporting

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

Risk management (continued)

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

Compensation and Master agreements

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

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

Collateral policies

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

As part of its securities financing business, ING entities actively enter into agreements to sell and buy back marketable securities. These transactions can take many legal forms. Repurchase and reverse repurchase agreements, buy/sellback and sell/buyback agreements, and securities borrowing and lending agreements are the most common. The amount of marketable securities that ING held as collateral under these types of agreements was EUR 92.0 billion at 31 December 2010 and EUR 72.7 billion at 31 December 2009. The increase is commensurate with the overall increase in open securities financing trades at year end 2010 compared to year end 2009. These amounts exclude the cash leg of the respective transactions, as well as any pledges of securities under Tri-Party agreements (as the underlying is not directly pledged to or owned by ING). As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or repledged in other (similar) transactions. ING is obliged to return equivalent securities in such cases.

Repossession policy

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

Credit Risk Profile

Within ING Insurance, the goal is to maintain a low risk, well diversified credit risk portfolio that meets or exceeds market based benchmark returns. ING Insurance's credit exposure arises from the investment of insurance premiums in assets subject to credit risk, largely in the form of unsecured bond investments, and smaller amounts of residential mortgages and structured finance products. In addition, credit exposure also arises from derivatives, sell/repurchase transactions, securities lending/borrowing and reinsurance contracts used to hedge the portfolio. ING Insurance has a policy of maintaining a high quality investment grade portfolio.

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

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

Risk management (continued)

Risk classes: ING Insurance portfolio, as % of total outstandings⁽¹⁾

		Insurance US		Insurance EurAsia and LatAm		Total ING Insurance	
		2010	2009	2010	2009	2010	2009
1	(AAA)	23.4%	25.1%	29.7%	30.5%	27.0%	28.1%
2-4	(AA)	14.5%	13.3%	14.4%	17.2%	14.5%	15.4%
5-7	(A)	24.6%	23.2%	32.1%	30.1%	28.7%	26.9%
8-10	(BBB)	22.3%	20.0%	11.8%	11.0%	16.3%	15.1%
11-13	(BB)	4.2%	7.1%	6.1%	6.5%	5.3%	6.8%
14-16	(B)	4.7%	5.0%	3.0%	2.7%	3.8%	3.7%
17-22	(CCC & Problem Grade)	6.3%	6.3%	2.9%	2.0%	4.4%	4.0%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

⁽¹⁾ Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities.

The ratings reflect probabilities of default and do not take collateral into consideration.

ING Insurance risk class distribution remained fairly stable during 2010, as downgrades experienced in the securitization market were compensated by active divestment programs and other de-risking measures. The CCC and Problem Grade class mainly contains downgraded securitizations but also some unrated private equity and real estate investments.

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

		Insurance US		Insurance EurAsia and LatAm		Total ING Insurance	
		2010	2009	2010	2009	2010	2009
Non-Bank Financial Institutions		43.6%	48.5%	21.9%	21.6%	31.2%	34.0%
Central Governments		8.8%	12.2%	40.6%	40.7%	26.9%	27.7%
Commercial Banks		3.6%	3.6%	10.8%	11.6%	7.7%	7.9%
Private Individuals		2.4%	2.5%	8.6%	10.1%	5.9%	6.6%
Real Estate		8.3%	9.4%	2.4%	0.9%	5.0%	4.8%
Utilities		5.4%	4.0%	2.2%	2.4%	3.6%	3.1%
Natural Resources		5.7%	3.7%	1.2%	1.2%	3.2%	2.3%
Food, Beverages & Personal Care		3.3%	2.6%	1.1%	0.9%	2.1%	1.7%
Other		18.9%	13.5%	11.2%	10.6%	14.4%	11.9%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

⁽¹⁾ Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities.

⁽²⁾ Economic sectors below 2% are not shown separately but grouped in "Other".

Where overall risk concentrations within ING Insurance shifted towards Central Governments in 2009, this was partially reversed in 2010 again. The upward shift in Real Estate for Insurance EurAsia and LatAm is related to real estate investments in The Netherlands.

Largest economic exposures: ING Insurance portfolio, by country⁽¹⁾

		Insurance US		Insurance EurAsia and LatAm		Total ING Insurance	
		2010	2009	2010	2009	2010	2009
Netherlands		3.7%	4.0%	22.6%	19.6%	14.3%	12.4%
Belgium		0.1%	0.1%	3.8%	3.3%	2.2%	1.8%
Rest of Europe		7.1%	5.8%	43.2%	47.9%	27.3%	28.5%
Americas		85.8%	87.6%	7.6%	7.8%	41.9%	44.7%
Asia/Pacific		3.2%	2.4%	22.7%	21.2%	14.2%	12.5%
Rest of World		0.1%	0.1%	0.1%	0.2%	0.1%	0.1%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

⁽¹⁾ Country is based on the country of residence of the obligor.

The US portfolio stayed constant in terms of local currency, but increased in Euro terms due to the appreciation of the US Dollar against the Euro. The relative concentration in the US has diminished, however, due to faster growth in other regions. The portfolio in the Netherlands mainly increased due to investments in state bonds. There were no other significant shifts in the portfolio concentration.

NON-FINANCIAL RISKS

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

Risk management (continued)

GENERAL

Policy implementation

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

Non-financial Risk Dashboard

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

OPERATIONAL RISKS

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the related risk of reputation loss, as well as legal risk whereas strategic risks are not included. Effective operational risk management leads to more stable business processes (including IT systems) and lower costs. Generic mandatory controls are described in the ORM policy house.

Clear and accessible policies and minimum standards are embedded in ING business processes in all business lines. An infrastructure is in place to enable management to track incidents and operational risk issues. A comprehensive system of internal controls creates an environment of continuous improvement in managing operational risk. ING uses this knowledge (including lessons learned from incidents) to improve the control of key risks.

Organisation of Operational Risk Management

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

The CORM function consists of functional departments for Operational risks (including policies, systems, SOX testing, capital allocation and reporting), for Information (Technology) risks and for Security & Investigations. The CORM function is responsible for developing and communicating ING's operational risk framework, policies, minimum standards and guidelines. The corporate function advises the Management Board and senior management, supports the business line ORM staff, monitors the quality of operational risk management and leads the group-wide reporting of operational risks to the Management Board and the Risk Committee.

ORM uses a layered functional approach within business lines to ensure systematic and consistent implementation of the group-wide ORM framework, policies and minimum standards. To avoid potential conflicts of interests, it is imperative that the ORM officer is impartial and objective when advising business management on operational risk matters in their business unit or business line. To facilitate this, a strong functional reporting line to the next higher level ORM officer is in place. The functional reporting line has clear accountabilities with regard to objective setting, remuneration, performance management and appointment of new ORM staff.

Operational risk framework

ING has developed a comprehensive framework supporting and governing the process of identifying, mitigating, measuring and monitoring operational risks thus reflecting the stages described in the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission).

At all levels in the organisation Operational Risk Committees (ORC's) are established that identify, measure and monitor the operational risks of the region or business unit with appropriate quality of coverage (granularity) and to ensure that appropriate management action is taken by the responsible line managers at the appropriate level of granularity. ORC's, chaired by the business management, steer the risk management activities of the first and second line of defence in their entities. The Operational & Residual Risk Committee approves the operational risk capital model.

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

The operational risk appetite within ING is defined as the acceptable and authorised maximum level of risk, in each of the operational risk areas that must be adhered to in order for ING to achieve its business plan within approved budgets. This risk appetite is quarterly monitored through the Non-Financial Risk Dashboard which reports the key non financial risk exposures.

Risk management (continued)

Processes are in place to identify key threats, vulnerabilities and the associated risks which might cause adverse events. Event identification is performed proactively and precedes a risk assessment. Different techniques for event identification exist within ING, e.g. the structured team approach, scenario analysis, external events inventories, internal incident analysis (e.g. based on information from incident reporting), key risk indicator events and threat scans.

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

Based on the results of the risk assessment, response measures must be determined for the identified risks beyond the risk appetite. Risk response actions balance the expected cost for implementing these measures with the expected benefits regarding the risk reduction. Risk response can be achieved through several combinations of mitigation strategies, for example reducing likelihood of occurrence, reducing impact, risk avoidance, risk acceptance or through the transfer of risk. Tracking takes place through a global Action Tracking system.

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

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

The yearly objective setting process for both business management and ORM professionals aims to keep improving the management of operational risk throughout ING to ensure that ING stays in control of its current and future operational risks. ING's ORM Framework is further maturing towards an integrated controls framework according to pre-agreed requirements and development stages in the individual business units. This development is measured through the scorecard process.

Capital calculation

The Operational Risk Capital model of ING is based on a Loss Distribution Approach (LDA). The Loss Distribution is based on both external and internal loss data exceeding EUR 1 million. The model is adjusted for the scorecard results, taking into account the specific quality of control in a business line and the occurrence of large incidents ('bonus/malus'). This provides an incentive to local (operational risk) management to better manage operational risk.

Main developments in 2010

- **Cybercrime** – Based on a High-Tech Crime Prevention assessment a number of potential risks has been identified. Secure Code Review was found as an area of concern and during 2010 a dedicated taskforce has taken action across ING Insurance. After remediation of the identified gaps, dynamic code scan and review (in order to detect vulnerabilities in websites) has been implemented.
- **Anti-Fraud** – ING has a 'zero tolerance' approach towards fraud and therefore implemented the ING's Global Anti-Fraud Programme in 2010. This programme aims for a high level of fraud resilience and further mitigation of losses deriving from fraud. Design and implementation of additional fraud controls, training and building the anti-fraud community and risk awareness communication are key elements to the programme.
- **IT security monitoring** – To ensure that the approved enterprise's information security baseline is maintained, ING installed monitoring agents on almost all platforms. This improved monitoring capabilities contributed to the reduction of the IT- risk profile.
- **Disentanglement** - The ORM function monitored during 2010 the operational risks around the disentanglement process of ING Bank and ING Insurance (project Readiness). The Readiness project completed the Day-1 sign off in which CEO's confirmed to be operating at arm's length.

COMPLIANCE RISKS

Compliance Risk is defined as the risk of damage to ING's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies, procedures and ethical standards. In addition to reputational damage, failure to effectively manage Compliance Risk could expose ING to fines, civil and criminal penalties, and payment of damages, court orders and suspension or revocation of licenses, which would adversely impact customers, staff and shareholders of ING.

ING believes that fully embedded Compliance Risk Management preserves and enhances the trust of its customers, staff and shareholders. Being trusted is essential to building sustainable businesses. ING's Business Principles set the foundation for the high ethical standards ING expects of all our business activities. ING's Business Principles require all staff at every level to conduct themselves, not only in compliance with laws and regulations, but also by acting with integrity, being open and clear, respectful, and responsible.

Risk management (continued)

Clear and practical policies and procedures are embedded in ING business processes in all Business Lines. Systems are in place to enable management to track current and emerging Compliance Risk issues, to communicate these to internal and external stakeholders, and to drive continuous improvement. ING understands that good Compliance Risk Management involves understanding and delivering on the expectations of customers and other stakeholders, thereby strengthening the quality of key relationships.

The Scope of the Compliance Risk Management function

The Compliance Risk Management function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry. The Compliance Risk Management function actively educates and supports the business in managing compliance risks including anti-money laundering, preventing terrorist financing, conflicts of interest, proper sales and trading conduct and protection of customer interest.

ING separates Compliance Risk into four conduct-related integrity risk areas: client conduct, personal conduct, organisational conduct as well as conduct required because of laws and regulations in the financial services industry. In addition to effective reporting systems, ING has a Whistleblower procedure which encourages staff to speak up if they know of or suspect a breach of external regulations or internal policies or Business Principles.

The Compliance Risk Management function

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

ING uses a functional approach within Business Lines to ensure systematic and consistent implementation of the company-wide Charter & Framework, policies, Minimum Standards and related procedures. The Local Compliance Officer has the responsibility to assist local management in managing Compliance Risk within that business unit. The regional or division Compliance Officer has a management and supervisory role over all functional activities of the Compliance Officers in the respective region or division. Reporting functionally into the CCO, the Business Line Compliance Officers perform this task for their Business Line and also provide leadership and overall direction to the regional or divisional Compliance Officers.

To avoid potential conflicts of interest, it is imperative that the Compliance Officers are impartial and objective when advising business management on Compliance Risk in their Business Unit, region, division or Business Line. To facilitate this, a strong functional reporting line to the next higher level Compliance Officer is in place. The functional reporting line has clear accountabilities relating to objective setting, remuneration, performance management and the appointment of new Compliance Risk Management staff as well as obligations to veto and escalate.

Compliance Risk Management Framework

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

1. The Compliance Risk Management process

The process has five key activities carried out in accordance with the requirements of the Framework:

- A. Identification of Compliance Risk Obligations;
- B. Risk Assessment;
- C. Compliance Risk Mitigation (includes Training and Education);
- D. Compliance Risk Monitoring (includes Action Tracking);
- E. Compliance Risk Reporting (includes Incident Management).

2. Advisory

Compliance Officers proactively advise their CEO, Management, local boards and committees, the next higher level Compliance Officer, and employees on Compliance Risk, responsibilities, obligations and concerns.

3. Scorecard

The Compliance Risk Management function works with the Operational Risk Management Scorecard process to evaluate how well the Compliance Risk Management Framework is embedded in each business. Scoring is based on the ability of the business unit to demonstrate that the required policies and procedures are implemented. The scoring indicates the level of control within the business units and the result is integrated with the Operational Risk Management results into ING's Dutch Central Bank approved regulatory capital model.

Risk management (continued)

Extra-territorial regulations

Financial institutions continue to be closely scrutinized by regulatory authorities, governmental bodies, shareholders, rating agencies, customers and others to ensure they comply with the relevant laws, regulations, standards and expectations. Insurance regulators and other supervisory authorities in Europe, the US and elsewhere continue to oversee the activities of financial institutions to ensure that they operate with integrity and conduct business in an efficient, orderly and transparent manner. ING seeks to meet the standards and expectations of regulatory authorities and other interested parties through a number of initiatives and activities, including scrutinizing account holder information, payment processing and other transactions to support compliance with regulations governing money laundering, economic and trade sanctions, bribery and other corrupt practices. The failure or alleged failure by ING to meet applicable standards in these areas could result in, among other things, suspension or revocation of ING's licenses, cease and desist orders, fines, civil or criminal penalties and other disciplinary action which could materially damage ING's reputation and financial condition, and accordingly ING's primary focus is to support good business practice through its Business Principles and policies.

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

As a result of our frequent evaluation of all businesses from economic, strategic and risk perspectives ING continues to believe that for business reasons doing business involving certain specified countries should be discontinued, which includes that ING has a policy not to enter into new relationships with clients from these countries and processes remain in place to discontinue existing relationships involving these countries. At present these countries include Myanmar, North Korea, Sudan, Syria, Iran and Cuba. Each of these countries is subject to a variety of EU, US and other sanctions regimes. Cuba, Iran, Sudan, and Syria are identified by the US as state sponsors of terrorism and are subject to US economic sanctions and export controls.

Main developments in 2010

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

MODEL DISCLOSURES

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

This model disclosure section explains the models applied in deriving the disclosed metrics. The methodologies used to determine Economic Capital are described, as are the methodologies for sensitivities. The risk models for the Economic Capital calculations are reviewed on a periodic basis and validated by the internal Model Validation department.

CREDIT AND TRANSFER RISK

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

Risk management (continued)

Economic Capital for credit risk and for transfer risk are calculated using internally developed models with a 99.5% confidence level and a time horizon of one year, which represents ING's desired credit rating. ING uses a series of credit risk models that can be grouped into three principal categories: Probability of Default (PD) models, which measure the standalone creditworthiness of individual debtors; Exposure at Default models (EAD) which estimate the size of the financial obligation at the moment of default in the future; and Loss Given Default Models (LGD), which estimate the recovery value of the underlying collateral or guarantees received (if any) and the unsecured part. Collectively, ING uses over 100 models for credit risk. The various models can be grouped into three categories: statistical, expert and hybrid.

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

The underlying formulas and models that are used for determining Economic Capital for credit and transfer risk are similar to those used for determining the level of regulatory capital for banks that is required under Basel II (Pillar 1).

Governance of Economic Capital for Credit and Transfer Risk

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

OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the risk of reputation loss, as well as legal risk, whereas strategic risks are not included. While operational risk can be limited through management controls and insurance, operational risk incidents may have a substantial impact on the profit and loss account of financial institutions.

The capital model, an actuarial model, consists of a combination of three techniques:

- Loss Distribution approach (LDA), which applies statistical analysis to historical loss data;
- Scorecard approach, which focuses on the quality of risk control measures within a specific business unit;
- 'Bonus/Malus' approach, which focuses on the actual operational incidents of a specific business unit.

Loss Distribution approach

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

The calculation of operational risk capital for the units follows five basic principles:

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

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

Scorecard approach (principle 4)

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

'Bonus/Malus' approach (principle 5)

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

INSURANCE RISK, MARKET RISK AND AGGREGATION

In 2007, ING Insurance introduced ECAPS as an intranet-based Economic Capital reporting system utilising replicating portfolio techniques. Since then, ECAPS has been constantly enhanced to improve its robustness, usability and accuracy. Since 2010 Economic Capital is only reported for EurAsia and LatAm businesses.

Risk management (continued)

The ECAPS system provides a well controlled and automated basis for Economic Capital and risk sensitivity measurement. Each business unit enters the risk characteristics of its assets and liabilities into the ECAPS system on a regular basis. These risk characteristics are then translated to a uniform basis in the form of replicating portfolios of standardised financial instruments. Based on the constellation of replicating portfolios (including representations of non-market risks), the ECAPS system then is capable of calculating Economic Capital at every level of aggregation.

Economic Capital (EC) is defined by ING Insurance as the amount of assets that needs to be held in addition to the market value of liabilities to assure a non-negative surplus at a 99.5% level of confidence on a 1 year time horizon. ING Insurance measures Economic Capital by quantifying the impact of adverse events on the Market Value Surplus (MVS), a 'Surplus-at-Risk' concept. The change in MVS or Available Financial Resources (AFR) is the combined effect of changes in Market Value of Assets (MVA) minus Market Value of Liabilities (MVL) and an adjustment for illiquidity spreads due to current dislocated asset markets.

ING continues to adjust Available Financial Resources to reflect the illiquidity in its insurance portfolios as reporting AFR with MVLs discounted at the swap rates results in an asymmetry between the assets and liabilities.

Illiquidity is also reflected through Interest Rate Risk, (adding the liquidity spread to the discount curve effectively reduces the duration of our liabilities and therefore reduces the duration mismatch between our assets and liabilities resulting in a reduced interest rate risk); through Credit Spread Risk (the Economic Capital model stresses both the asset spreads and the illiquidity spread: the netting of asset spread risk with illiquidity liability spread risk results in a lower credit spread risk) and through Foreign Exchange Risk (the adjustment of the MVS for illiquidity results in a reduced net exposure to foreign currency movements and in particular the US dollar: this results in a lower foreign exchange risk).

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

ING quantifies the impact of the following types of risk in its Economic Capital model:

- Market risk
- Credit risk (including transfer risk)
- Business risk
- Operational risk
- Life risk (both catastrophe and non-catastrophe)
- Morbidity risk (both catastrophe and non-catastrophe)
- P&C risk (both catastrophe and non-catastrophe)

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

Non-market risk Economic Capital is calculated by business units, CCRM and CORM and inputted into ECAPS at the sub risk level. ECAPS then aggregates 21 sub-risk types (e.g. mortality and trend risk) to 9 non-market risk types using a bottom-up Economic Capital diversification approach based on a matrix of correlations. The inputs are used to calibrate marginal distributions for these risk types. These distributions, in combination with the Gaussian copula, are then used in the Economic Capital calculation to measure diversification between market and non-market risks.

The following fundamental principles have been established for the model:

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

The following is a brief description of the model.

1. Market Data Retrieval, Calibration and Scenario Generation

- Automated retrieval and extrapolation of all current and historical market data
- Generation of a comprehensive (Market and Non-Market Risks) correlation matrix
- Calibration of market risk drivers for scenario generation
- Generation of 500 Risk Neutral and Risk Volatile scenarios that are sent to each business unit to locally develop stochastic asset and liability cash flows
- Generation of 20,000 Real World Monte-Carlo scenarios for Economic Capital calculation

Risk management (continued)

2. Stochastic Cash flows Generation and Aggregation of Non-market Risk Capital

- Actuarial software used to produce the stochastic cash flows based on Risk Neutral and Risk Volatile scenarios produced in step 1.
- Business units upload stochastic asset and liability cash flows to determine the optimised replicating portfolio
- Asset derivatives are directly processed as replicating instruments.
- Non-market risk capital calculated in accordance with ING Standards of Practice

3. Replicating Portfolio Definition

- Capture the risk profile of the financial component of insurance liabilities by mapping onto a finite set of standard financial instruments
- Standard instruments contain zero coupon bonds, swaptions, callable bonds, CMS options, equity forwards/options and FX options. Business units can define the strikes and tenors of the instruments themselves to fit best to the risk profile of their liabilities.
- Compile a replicating portfolio of standard financial instruments that matches the present value of cash flows as closely as possible for the 500 Risk Neutral and Risk Volatile scenarios

4. Economic Capital calculation

- For each Real World Scenario the market value of assets and liabilities is recalculated and the change in value of the Market Value Surplus (MVS) is stored. The changes in MVS are sorted and the 99.5% worst case is identified to provide the market risk Economic Capital level for the given level of aggregation.
- Non-market risks are aggregated and integrated with market risk.
- The total diversified Economic Capital then results.

Further details on the Insurance Economic Capital model

Market Data Retrieval, Calibration and Scenario Generation

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

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

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

- Risk Neutral Economic Scenario Generator (RN ESG): capable of generating multiple equity indices and exchange rates, consistent with a multi-currency dynamic term structure model. Scenarios are used in the cash flow projection to determine replicating portfolios. RN ESG scenarios are consistent with observed market prices of equity, FX and interest options;
- Real World Economic Scenario Generator (RW ESG): capable of jointly simulating all risk types, i.e. all market risks, credit risk, business risk, operational risk, life risk, morbidity risk and P&C risk. Diversification between risks is taken into account through a Gaussian copula, allowing for different marginal probability distributions at the risk driver level. RW ESG scenarios are calibrated based on 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.

Stochastic Cash Flows Generation and Aggregation of Non-Market Risk Capital

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

Replicating Portfolios Definition

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

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

Risk management (continued)

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

Replicating portfolios are currently determined from a single factor RN ESG interest rate model. The RW ESG interest rate scenarios for the Value at Risk calculations are generated using a multi-factor model which allows for non-parallel interest rate moves.

Economic Capital calculation

ECAPS uses Monte-Carlo simulation to determine diversification benefits for the complete 'portfolio hierarchy', from business unit level up to an ING Insurance level. All diversification calculations are done within ECAPS and are driven by the Gaussian copula of all risk drivers using the underlying distributions applicable for each risk type. Diversification benefit allocation to business units, business lines and risk types is done outside ECAPS.

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

Using Monte-Carlo simulation, ING's Economic Capital model generates 20,000 possible 'states-of-the-world', by randomly simulating all risk drivers - simultaneously. For each state-of-the-world, the market value of assets and liabilities are recalculated and the change in value of the Market Value Surplus (MVS) is stored. All these changes in MVS are then sorted, and the 99.5% worst-case change in MVS is identified, to provide the Economic Capital level for the given level of aggregation.

AFR SENSITIVITIES AND EARNINGS SENSITIVITIES (ING INSURANCE)

Scenarios for AFR sensitivities and Earnings sensitivities

The sensitivities shown for AFR and Earnings are based on simple to explain shocks to underlying risk factors. The following risk factors are taken into account:

- Interest rates;
- Credit (including spread changes, liquidity premium and default);
- Equity;
- Real Estate;
- Foreign exchange;
- Implied volatility (of both equity and interest rates).

Changes in implied volatility levels mostly impact the AFR through embedded options in our liabilities. The same has no material impact for IFRS Earnings and is currently not measured.

Below table provides an overview of the shock scenarios applied for the AFR and Earnings sensitivities. These shocks are also the basis for the US regulatory capital market risk scenarios.

<u>Risk factor</u>	<u>Description shock</u>
Interest Rates	Up and down parallel shock equal to 30% of the 10 year swap rate. Shock is floored at 50bps and capped at 150bps.
Credit	For AFR we apply a credit spread shock based on the rating of the debt security (e.g. single A shock 110bps). Home government bonds (e.g. KRW government bonds in Korea) are excluded. The liquidity premium is shocked by 50bps. For financial capital securities the underlying assumption is that they are called at their legal maturity and not at earlier call-dates. For structured credit we increase credit spread shocks by 50%. For Earnings we apply a credit default scenario in which we multiply the probability of Default, Loss Given Default and Historical Cost. For impaired assets we apply a credit spread shock with default probabilities based on a 1-in-10 event.
Equity	The asset positions data used for the AFR credit spread shocks and Earnings credit default scenarios is for a large part based on third quarter 2010 positions.
Real Estate	All equity 25% down
Foreign Exchange	All real estate 15% down
Implied volatility	The worst case of a 10% up or down movement for each currency Swaption volatilities up by 30% Equity implied volatility up by 80% for tenors less than 1 year, up 30% for tenors between 1 and 3 years, up 20% for tenors between 3-7 years and up 10% for tenors of 7 years and above.

Risk management (continued)

REGULATORY CAPITAL SENSITIVITIES – US INSURANCE BUSINESS

The sensitivities shown are calculated at legal entity level and cover US domiciled insurance entities. The sensitivities are based on simple to explain shocks to underlying risk factors. The following risk factors are taken into account:

- Interest rates;
- Credit
- Equity;
- Real Estate;
- Foreign exchange
- Implied volatility

Below table provides an overview of the shock scenarios applied for Statutory Surplus sensitivities.

<u>Risk factor</u>	<u>Description shock</u>
Interest Rates	Up and down parallel shock equal to 30% of the 10 year swap rate. Shock is floored at 50bps and capped at 150bps.
Credit	The credit risk sensitivity consistent out of two components: Firstly we apply a credit default scenario in which we multiply the probability of Default, Loss Given Default and Historical Cost. For impaired assets we apply a credit spread shock with default probabilities based on a 1-in-10 event. Secondly we apply rating migrations on the current portfolio using the rating transition matrix as observed by S&P in the year 2002 for US Corporate Bonds.
Equity	All equity 25% down
Real Estate	All real estate 15% down
Foreign Exchange	The worst case of a 10% up or down movement for each currency
Implied volatility	Swaption volatilities up by 30% Equity implied volatility up by 80% for tenors less than 1 year, up 30% for tenors between 1 and 3 years, up 20% for tenors between 3-7 years and up 10% for tenors of 7 years and above,

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.

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 the basis of the consolidated 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. This measurement of available capital is different from previous years. In previous years we treated fixed income revaluations similar to ING Bank to allow adding up Bank and Insurance on a consistent basis. However with the upcoming separation and hence the decreased importance of Bank and Insurance consistency we changed the IGD to align with European Insurance peers.
- AFR (ING Insurance other than the US) – This is a market value concept, defined as market value of assets (MVA) less the market value of liabilities (MVL) on the balance sheet. The liabilities do not include perpetual hybrid capital which is included in AFR. The valuation of ING Insurance includes an adjustment for portfolio illiquidity. AFR is used as the measure of available capital in comparison with Economic Capital employed.
- EC, or Economic Capital (ING Insurance other than the US), is the required capital, based on a 99.5% confidence interval. This interval is aligned with the Solvency II capital requirement. The excess of AFR over EC is set based on the business strategy and resulting risk appetite defined by the Management Board Insurance.
- Risk Based Capital (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. During 2010, ING decided that the US regulatory frameworks better reflect the evolving capital management approach for ING Insurance's US Business. 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 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 starting 2010.

DEVELOPMENTS

In 2010 Capital Management's main focus was to strengthen the capital position of ING Group, ING Bank and ING Insurance. ING's capital positions are well placed to deal with the uncertain financial environment, increasing regulatory requirements and the ambition to repurchase the remaining outstanding Core Tier 1 securities.

POLICIES

The activities of Capital Management are executed on the basis of established policies, guidelines and procedures. The main documents that serve as guidelines for capital planning are the Capital Letter (comprising the approved targets and limits for capital), the Capital Planning Policy, the Dividend Policy and the Capital Request Policy. For the Corporate Treasury there are many policies and limits that guide the management of the balance sheets and the execution of capital market transactions.

The above capital definitions and policies have been approved by the ING Group Executive Board or delegated authorities.

PROCESSES FOR MANAGING CAPITAL

In addition to measuring capital adequacy, Capital Management also ensures that sufficient capital is available through setting targets and limits relevant to the above mentioned metrics for ING Group, ING Bank, and ING Insurance and ensuring adherence to the set limits and targets through planning and executing capital management transactions. The process is supplemented by stress testing and scenario analysis. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process and results in a quarterly capital update report which is presented to both the ING Group Finance and Risk Committee and the ING Group Executive and Supervisory Boards. The main objective of the assessment is to ensure that ING Group as a whole has sufficient capital relative to its risk profile both in the short and the medium term.

Capital management (continued)

A key priority of Capital Management is to make sure that strong stand-alone companies are created for banking and insurance in preparation of the separation. All operating entities need to stay adequately capitalised based on local regulatory and rating agency requirements and interdependencies should be reduced to a minimum. The entities should also be able to access capital markets independently.

CAPITAL ADEQUACY ASSESSMENT

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

ING Insurance

The table below shows the Insurance Group Directive which represent the consolidated regulatory Solvency I position of ING Insurance business. The Insurance companies comply with their respective local regulatory requirements.

Capital position of ING Insurance

	2010	2009
Shareholders' equity (parent)	20,811	15,887
Hybrids issued by ING Group	2,094	3,410
Hybrids issued by ING Insurance	2,094	1,944
Required regulatory adjustments	-4,094	-2,052
IGD capital	20,906	19,188
EU required capital base	8,374	7,774
IGD Solvency I ratio	250%	247%

ING Insurance continues to ensure that all 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.

Capital base and financial leverage of ING Insurance

	2010	2009
Shareholders' equity (parent)	20,811	15,887
Revaluation reserve debt securities	-1,164	2,334
Revaluation reserve crediting to life policyholders	1,488	-156
Revaluation reserve cashflow hedge	-1,567	-926
Goodwill	-1,425	-1,857
Minority interests	111	80
Capital base	18,254	15,362
Group Hybrid capital ⁽¹⁾	2,094	3,405
Insurance hybrid capital ⁽²⁾	2,313	2,337
Total hybrids	4,407	5,742
External debt issued by ING Verzekeringen NV	3,347	3,508
External debt issued by US Holding companies	1,384	1,408
Other net financial debt ⁽³⁾	2,273	-166
Total financial debt ⁽⁴⁾	7,004	4,750

⁽¹⁾ Hybrids issued by ING Group at amortised cost value consistent with IFRS carrying value

⁽²⁾ Hybrids issued by ING Insurance at amortised cost value consistent with IFRS carrying value

⁽³⁾ Includes net internal borrowings from the operating subsidiaries, net of cash and current tax liability at the holding level and current tax liability of the holding companies, mainly ING Verzekeringen and ING America Holdings Inc.

⁽⁴⁾ The difference between the 2009 financial debt (of EUR 4,750 million) and the core debt EUR 2,586 million reported in the 2009 Annual Report is mainly due to pension assets and deferred tax assets of the holding companies in the calculation of financial debt.

For ING Insurance (excluding the US business), 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). ING has carried out a review of the internal model (own funds and capital requirements) in the context of a Solvency II gap analysis. In the review we benchmarked our models against the Solvency II Standard Formula as presented in QIS 5, the CEIOPS consultation papers and commentary of expert groups like CRO Forum and Group Consultative. We consequently plan further refinements of our Economic Capital (EC) model that address improvements of our market risk calibration, in particular for spread risk; business risk, to improve our capturing of policyholder behaviour risk and to address country risk; and operational risk. These changes will result in a material increase of our EC, estimated to be between one and two billion euro as at year end 2010.

Capital management (continued)

At the end of 2009 the Available Financial Resources (AFR) for ING Insurance other than the US was EUR 19.0 billion. As described in the Risk Paragraph. Economic Capital (EC), based on 99.5% confidence interval was EUR 7.0 billion, which leads to excess of AFR over EC for 2009 of EUR 12.0 billion. For 2010 the AFR is EUR 19.7 billion, EC is EUR 10.4 billion and the excess of AFR over EC is EUR 9.4 billion. The EC for 2010 does not include the potential adjustment between one and two billion, as described in the previous paragraph.

For the capital adequacy assessment of ING Insurance's US domiciled regulated insurance business, available capital and required capital are measured based on 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 426% for the period ended 31 December 2010. 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 362% at the end of 2009.

Main credit ratings of ING at 31 December 2010

	Standard& Poor's	Moody's	Fitch
ING Insurance			
– short term	A–2	P–2	
– long term	A– negative	Baa1 negative	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.

Subsequent events

SUBSEQUENT EVENTS

ING 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 will better reflect the economic value of these guarantees and more closely align accounting practice with US peers. Under the revised accounting, the insurance provisions will 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, with a transitional impact being reflected in shareholders' equity. Comparative periods' results will be restated. The estimated combined impact on shareholders' equity as at 1 January 2011 will be EUR 0.7 billion (lower equity), of which EUR 0.4 billion and EUR 0.1 billion will be reflected in the restated 2010 and 2009 net result after tax (lower net result). This impact reflects the revised accounting for the GMWBL retrospectively, but does not reflect the additional hedging of interest rate risk.

On 11 March 2011 a severe earthquake and tsunami struck Japan. While ING does not have any non-life operations in Japan, ING has life insurance and asset management businesses in Japan. The life insurance business sold primarily two product types: Single Premium Variable Annuities (SPVA, closed for new business in 2009) and Corporate Owned Life Insurance (COLI). ING's financial position may be impacted by these events and any related developments, including through (but not limited to) death and health-related claims, policyholder behaviour, re-insurance coverage, investment losses and impact from general market developments. As of the date of this Annual Report, the full impact of these catastrophic events was not yet known and, therefore, it is too early to determine the impact of these events on ING.

AUTHORISATION OF ANNUAL ACCOUNTS

Amsterdam, 14 March 2011

THE SUPERVISORY BOARD

Peter A.F.W. Elverding, *chairman*
 Jeroen van der Veer, *vice-chairman*
 J.P. (Tineke) Bahlmann
 Henk W. Breukink
 Claus Dieter Hoffmann
 Piet C. Klaver
 Aman Mehta
 Joan E. Spero
 Lodewijk J. de Waal

THE MANAGEMENT BOARD

Jan H.M. Hommen, *chairman*
 Patrick G. Flynn, *CFO*
 J.V. (Koos) Timmermans, *CRO*
 Matthew J. Rider, *CAO*
 E. (Lard) Frieze
 Gilbert O.J.M. Van Hassel

Parent company balance sheet of ING Insurance

as at 31 December before appropriation of result

amounts in millions of euros	2010	2009
Assets		
Investments in wholly owned subsidiaries 1	26,515	19,138
Other assets 2	10,745	12,259
Total assets	37,260	31,397
Equity 3		
Share capital	174	174
Share premium	11,874	10,374
Legal reserves ⁽¹⁾	3,240	-1,533
Other reserves	6,688	7,422
Unappropriated result	-1,165	-550
	20,811	15,887
Liabilities		
Subordinated loans 4	4,407	5,743
Other liabilities 5	12,042	9,767
Total equity and liabilities	37,260	31,397

⁽¹⁾ Legal reserves includes Share of associates reserve of EUR 3,609 million (2009: EUR -534 million) and Currency translation reserve of EUR -369 million (2009: EUR -999 million).

References relate to the notes starting on page 132. 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	2010	2009
Result of group companies after taxation	-882	-261
Other results after taxation	-283	-289
Net result	-1,165	-550

Parent company changes in equity of ING Insurance

for the years ended 31 December

Amounts in millions of euros	Share capital	Share premium	Share of associates reserve	Currency translation reserve	Other reserves ⁽¹⁾	Total
Balance as at 1 January 2009	174	9,824	-5,275	-646	7,816	11,893
Unrealised revaluations after taxation			6,802		-154	6,648
Realised gains/losses transferred to profit and loss			529			529
Transfer to insurance liabilities/DAC			-2,079			-2,079
Changes in cash flow hedge reserve			-434			-434
Unrealised revaluations from net investment hedges			-237	43		-194
Exchange rate difference			270	-396		-126
Total amount recognised directly in equity			4,851	-353	-154	4,344
Net result					-550	-550
			4,851	-353	-704	3,794
Transfer to share of associates reserve			-110		110	
Dividends					-350	-350
Capital injection		550				550
Balance as at 31 December 2009	174	10,374	-534	-999	6,872	15,887
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	694		1,778
Total amount recognised directly in equity			4,030	630	-71	4,589
Net result					-1,165	-1,165
			4,030	630	-1,236	3,424
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	-369	5,523	20,811

⁽¹⁾ Other reserves includes Retained earnings, Other reserves and Unappropriated result.

In 2010, an amount of EUR 1,500 million (2009: EUR 550 million) additional share premium 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 has been drawn up in accordance with Section 402, Book 2, of the Dutch Civil Code.

A list containing the information referred to in Section 379 (1), Book 2, of the Dutch Civil Code has been filed with the 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.

Notes to the parent company annual accounts of ING Insurance

amounts in millions, unless stated otherwise

ASSETS

1 INVESTMENTS IN WHOLLY OWNED SUBSIDIARIES

Investments in wholly owned subsidiaries		
	2010	2009
Nationale Nederlanden Nederland B.V.	8,248	5,915
ING America Insurance Holding Inc	6,676	4,069
ING Insurance International B.V.	9,305	7,228
ING Continental Europe B.V.	1,779	1,777
Other	507	149
	26,515	19,138

Changes in investments in wholly owned subsidiaries		
	2010	2009
Opening balance	19,138	16,790
Repayments-capital contribution	-364	-2,899
Revaluations	5,160	4,510
Result of the group companies	-882	-261
Capital contribution	4,088	2,400
Dividend	-625	-1,402
	26,515	19,138

2 OTHER ASSETS

Other assets		
	2010	2009
Receivables from group companies	10,558	12,192
Other receivables, prepayments and accruals	187	67
	10,745	12,259

As at 31 December 2010, an amount of EUR 1,226 million (2009: EUR 2,541 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		
	2010	2009
Share capital	174	174
Share premium	11,874	10,374
Share of associates reserve	3,609	-534
Currency translation reserve	-369	-999
Other reserves	5,523	6,872
Equity	20,811	15,887

The Share of associates reserve includes the following components: Reserve for non-distributable profit of associates of EUR 140 million (2009: nil) and Revaluation reserve of associates of EUR 3,469 million (2009: EUR -534 million).

Share capital				
	Ordinary shares (par value EUR 1.13)			
	Number x 1,000		Amount	
	2010	2009	2010	2009
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					
2010	Retained earnings	Other reserves	Total Other reserves	Unappropriated result	Total
Opening balance	7,422		7,422	-550	6,872
Result for the year				-1,165	-1,165
Unrealised revaluations	-71		-71		-71
Transfer to Share of associates reserve	-113		-113		-113
Transfer to retained earnings	-550		-550	550	
Closing balance	6,688		6,688	-1,165	5,523

Changes in other reserves and unappropriated result					
2009	Retained earnings	Other reserves	Total Other reserves	Unappropriated result	Total
Opening balance	9,081		9,081	-1,265	7,816
Result for the year				-550	-550
Unrealised revaluations	-154		-154		-154
Transfer to Share of associates reserve	110		110		110
Transfer to retained earnings	-1,615		-1,615	1,615	
Dividend				-350	-350
Closing balance	7,422		7,422	-550	6,872

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

The total amount of non-distributable reserves is EUR 3,978 million (2009: EUR 1,533 million).

See Note 12 'Shareholders' equity (parent)' 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	
				2010	2009
8.000%	2008	Perpetual	EUR 750		750
Variable	2008	Perpetual	USD 1,100	822	764
Variable	2007	Perpetual	USD 1,000	748	694
5.775%	2005	Perpetual	USD 1,000		695
4.176%	2005	Perpetual	EUR 300	309	303
6.125%	2005	Perpetual	USD 200	140	133
6.125%	2005	Perpetual	USD 100	75	66
6.375%	2002	7 May 2027	EUR 1,000	1,060	1,069
6.250%	2001	21 June 2021	EUR 1,250	1,253	1,269
				4,407	5,743

Subordinated loans consists 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 2,094 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

	2010	2009
Debenture loans	3,347	3,508
Amounts owed to group companies	8,346	5,394
Other amounts owed and accrued liabilities	349	865
	12,042	9,767

Debenture loans

Interest rate	Year of Issue	Due date	Balance sheet value	
			2010	2009
2.500%	2006	Apr 2012	243	206
Floating	2006	Sep 2013	1,000	1,000
4.000%	2006	Sep 2013	1,008	1,017
3.500%	2005	Nov 2012	504	504
4.750%	2005	Mar 2010		264
2.000%	2005	Nov 2011	250	212
2.000%	2005	Nov 2011	239	202
3.500%	2005	Nov 2012	103	103
			3,347	3,508

Amounts owed to group companies by remaining term

	2010	2009
Within 1 year	8,325	5,329
More than 1 year but less than 5 years	21	65
	8,346	5,394

Notes to the parent company annual accounts of ING Insurance (continued)

6 OTHER

Guarantees

As at 31 December 2010, ING Verzekeringen N.V. had guarantees given (mainly funding and redemption guarantees) on behalf of group companies to third parties of EUR 6,356 million (2009: EUR 5,685 million).

ING Verzekeringen N.V. has issued statements of liabilities in connection with Section 403, Book 2 of the Dutch Civil Code.

Fiscal unity

ING Verzekeringen N.V. forms a fiscal unity with several Dutch insurance entities for corporation tax purposes. ING Verzekeringen N.V. and its subsidiaries that form part of the fiscal unity are jointly and severally liable for taxation payable by the fiscal unity.

REMUNERATION OF SENIOR MANAGEMENT, MANAGEMENT BOARD AND SUPERVISORY BOARD

See Note 30 'Related parties' to the consolidated Annual Accounts for additional information.

AUTHORISATION OF PARENT COMPANY ANNUAL ACCOUNTS

Amsterdam, 14 March 2011

THE SUPERVISORY BOARD

Peter A.F.W. Elverding, *chairman*
Jeroen van der Veer, *vice-chairman*
J.P. (Tineke) Bahlmann
Henk W. Breukink
Claus Dieter Hoffmann
Piet C. Klaver
Aman Mehta
Joan E. Spero
Lodewijk J. de Waal

THE MANAGEMENT BOARD

Jan H.M. Hommen, *chairman*
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J.V. (Koos) Timmermans, *CRO*
Matthew J. Rider, *CAO*
E. (Lard) Frieze
Gilbert O.J.M. Van Hassel

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 2010 of ING Verzekeringen N.V., Amsterdam (as set out on pages 12 to 137). The annual accounts include the consolidated annual accounts and the parent company annual accounts. The consolidated annual accounts comprise the consolidated balance sheet as at 31 December 2010, the profit and loss account, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The parent company annual accounts comprise the parent company balance sheet as at 31 December 2010, the parent company profit and loss account for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

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

Opinion with respect to the consolidated annual accounts

In our opinion, the consolidated annual accounts give a true and fair view of the financial position of ING Verzekeringen N.V. as at 31 December 2010 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 2010 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the report of the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the report of the Management Board, to the extent we can assess, is consistent with the annual accounts as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 14 March 2011

for Ernst & Young Accountants LLP

signed by C.B. Boogaart

Proposed appropriation of result and Subsequent events

PROPOSED APPROPRIATION OF RESULT

The result is appropriated pursuant to Article 21 of the Articles of Association of ING Verzekeringen N.V., the relevant stipulations of which state that the part of the result remaining after the cash dividend to the preference shareholders is made payable, shall be at the disposal of the General Meeting of Shareholders. For 2010, the Management Board, with the approval of the Supervisory Board, has determined to appropriate the entire result to reserves, so that no final dividend will be paid.

Proposed appropriation of result

amounts in millions of euros

Net result	-1,165
Deduction from reserves pursuant to Article 21(2) of the Articles of Association	-1,165
At the disposal of the General Meeting of Shareholders pursuant to Articles 21(2) and 21(3) of the Articles of Association	

SUBSEQUENT EVENTS

ING changed its accounting policy for the insurance provisions for Guaranteed Minimum Withdrawal Benefits for Life (GMWBL) in the Insurance US Closed Block VA book as of 1 January 2011 in order to better reflect the economic value of guarantees. Reference is made to section 'Subsequent events' in the consolidated annual accounts.

On 11 March 2011 a severe earthquake and tsunami struck Japan. While ING does not have any non-life operations in Japan, ING has life insurance and asset management businesses in Japan. The life insurance business sold primarily two product types: Single Premium Variable Annuities (SPVA, closed for new business in 2009) and Corporate Owned Life Insurance (COLI). ING's financial position may be impacted by these events and any related developments, including through (but not limited to) death and health-related claims, policyholder behaviour, re-insurance coverage, investment losses and impact from general market developments. As of the date of this Annual Report, the full impact of these catastrophic events was not yet known and, therefore, it is too early to determine the impact of these events on ING.

DISCLAIMER

Certain of the statements contained in this Annual Report that 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 expressed or implied 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) the implementation of ING's restructuring plan to separate banking and insurance operations, (4) 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,

(5) the frequency and severity of insured loss events, (6) changes affecting mortality and morbidity levels and trends, (7) changes affecting persistency levels, (8) changes affecting interest rate levels, (9) changes affecting currency exchange rates, (10) changes in general competitive factors, (11) changes in laws and regulations, (12) changes in the policies of governments and/or regulatory authorities, (13) conclusions with regard to purchase accounting assumptions and methodologies, (14) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (15) ING's ability to achieve projected operational synergies, and (16) the move towards fair value accounting for Guaranteed Minimum Withdrawal Benefits for the Insurance US Closed Block VA business line. 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.

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