ING

ING Group Annual Report

2010

Shaping our future

ING

> ING posts 2010 underlying net profit of EUR 3,893 million

> Operational separation Bank and Insurer effectuated in 2010

> Main priorities: creation of strong businesses and repayment of the Dutch State when prudent and possible

> Base case scenario: divestment of Insurance through two IPOs

> Steering on sound financial performance, increased customer focus, operational excellence and good corporate citizenship

Contents

Key figures

ING Group in accordance with IFRS-EU in EUR million unless otherwise indicated	2010	2009	2008	2007	2006
Income					
Banking operations	**17,734**	12,293	11,662	14,602	14,195
Insurance operations	**37,488**	35,808	54,920	62,208	59,642
Intercompany eliminations	**335**	336	291	223	216
Total	**54,887**	47,765	66,291	76,586	73,621
Staff expenses and operating expenses					
Banking operations	**10,153**	10,158	10,122	9,970	9,070
Insurance operations	**4,341**	4,387	5,449	5,498	5,269
Total	**14,494**	14,545	15,571	15,468	14,339
Addition to loan loss provision Banking operations	**1,751**	2,973	1,280	125	103
Result					
Banking result before taxation	**5,830**	–838	106	4,510	5,005
Insurance result before taxation	**–1,353**	–687	–1,593	6,533	4,935
Result before taxation	**4,477**	–1,525	–1,487	11,043	9,940
Taxation	**1,152**	–472	–721	1,535	1,907
Minority interests	**105**	–118	–37	267	341
Net result	**3,220**	–935	–729	9,242	7,692
Figures per ordinary share (in EUR)					
Basic earnings [1]	**0.73**	–0.57	–0.27	3.31	2.74
Dividend	–	–	0.74	1.48	1.32
Shareholders' equity (in parent)	**10.99**	8.95	8.55	17.73	17.78
Balance sheet (in EUR billion)					
Total assets per 31 December	**1,247**	1,164	1,332	1,313	1,226
Total equity per 31 December	**47**	40	29	40	41
Shareholders' equity (in parent) per 31 December	**42**	34	17	37	38
Core Tier 1 securities per 31 December	**5**	5	10		

[1] See note 49 in the Annual Accounts.

FTEs and Market capitalisation	2010	2009	2008	2007	2006
Employees (FTEs, per 31 December)	**107,106**	107,173	124,661	124,634	119,801
Market capitalisation (in EUR billion)	**28**	26	15	60	74

ING Group evaluates the results of its businesses using a non-GAAP financial performance measure called underlying result. Underlying result is derived from the result in accordance with IFRS-EU by excluding the impact of divestments and special items. Historic results have been restated for divestments in order to create a comparable sequence (i.e. 2010, 2009 and 2008 results exclude the results of a divestment which was completed in 2010). See note 51 in the consolidated annual accounts for a reconciliation between IFRS and underlying result.

Underlying net result, Underlying Return on Equity and Debt/equity ratio	2010	2009	% change	2008
Banking operations	**4,322**	1,194	262	776
Insurance operations	**–429**	–220	n.a.	–1,002
Underlying net result (in EUR million)	**3,893**	974	300	–226
Underlying Return on Equity based on IFRS-EU equity	**9.7%**	4.2%		–0.8%
Debt/equity ratio per 31 December [2]	**13.3%**	12.4%		13.5%

[2] ING Group evaluates its debt/equity ratio on the basis of 'core debt' and 'adjusted equity'.
Further information is provided in the section 'Capital management' in the consolidated annual accounts.

Key figures continued

Banking operations in EUR million unless otherwise indicated	2010	2009	% Change	2008
Total underlying income	**17,298**	13,483	28	11,631
Underlying net interest result	**13,450**	12,507	8	11,062
Underlying operating expenses	**9,685**	9,263	5	9,803
Underlying addition to loan loss provision	**1,751**	2,859	–39	1,235
Underlying result before tax	**5,862**	1.361	331	593
Underlying net result	**4,322**	1,194	262	776
Balance sheet total ING Bank N.V. per 31 December (in EUR billion)	**933**	882	6	1,035
Core Tier 1 capital ING Bank N.V. per 31 December	**30,894**	25,958	19	24,934
Bank core Tier 1 ratio per 31 December [(1)]	**9.6%**	7.8%		7.3%
Risk-weighted assets per 31 December (in EUR billion) [(1)]	**321**	330	–3	343
Client balances per 31 December (in EUR billion)	**1,168**	1,108	5	1,074
Net production client balances (in EUR billion)	**49**	21	133	89
Interest margin	**1.42%**	1.32%		1.07%
Underlying Return on Equity based on 7.5% core Tier 1	**17.6%**	5.0%		3.4%
Underlying cost/income ratio	**56.0%**	68.7%		84.3%
Underlying cost/income ratio, excl. market impacts	**54.2%**	54.3%		65.8%
Employees (FTEs, per 31 December adjusted for divestments)	**72,343**	70,312	3	74,249

[(1)] Adjusted for divestments.

Insurance operations in EUR million unless otherwise indicated	2010	2009	% Change	2008
Total underlying income	**37,466**	35,119	7	47,838
Investment margin	**1,481**	1,196	24	1,662
Fees and premium-based revenues	**4,903**	4,362	12	4,723
Technical margin	**780**	902	–14	776
Income non-modelled life business	**136**	123	11	163
Operating income (Life/IM)	**7,300**	6,583	11	7,324
Total operating result	**1,743**	1,434	22	1,953
Underlying result before tax	**–519**	–202		–1,355
Underlying net result	**–429**	–220		–1,002
Shareholders' equity ING Verzekeringen N.V. per 31 December	**20,811**	15,887	31	11,892
Client balances per 31 December (in EUR billion)	**454**	408	11	382
Net production client balances (in EUR billion)	**–6**	–9		6
Investment spread (basis points)	**93**	83		116
New sales (APE)	**4,877**	4,426	10	5,917
Administrative expenses	**3,698**	3,431	8	3,783
Administrative expenses/operating income	**43.9%**	44.3%		44.2%
Underlying Return on Equity based on IFRS-EU equity	**–1.8%**	–0.9%		–6.3%
Insurance Group Directive Solvency ratio	**250%**	247%		n.a.
Employees (FTEs, per 31 December, adjusted for divestments)	**34,763**	35,445	–2	40,460

ING at a glance

INCOME
€54,887m
2009: €47,765m

NET RESULT
€3,220m
2009: €–935m

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.

WWW.ING.COM

COMPOSITION OF THE BOARDS*

on 31 December 2010

EXECUTIVE BOARD

Jan H.M. Hommen (67), CEO and chairman
Patrick G. Flynn (50), CFO
J.V. (Koos) Timmermans(1) (50), CRO

(1) Nominated for reappointment as of 9 May 2011.

SUPERVISORY BOARD

Peter A.F.W. Elverding(1) (62), chairman
Jeroen van der Veer (63), vice-chairman
J.P. (Tineke) Bahlmann (60)
Henk W. Breukink(1) (60)
Claus Dieter Hoffmann(2) (68)
Piet C. Klaver (65)
Godfried J.A. van der Lugt(3) (70)
Aman Mehta (64)
Joan E. Spero (66)
Jackson P. Tai(4) (60)
Lodewijk J. de Waal (60)

(1) Nominated for reappointment as of 9 May 2011.
(2) Retirement as of 9 May 2011.
(3) Resigned on 24 January 2011.
(4) Resigned on 6 January 2011.

ING at a glance continued

BANKING

UNDERLYING INCOME	UNDERLYING NET RESULT
€17,298m	€4,322m
2009: €13,483m	2009: €1,194m

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

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

INSURANCE

UNDERLYING INCOME	UNDERLYING NET RESULT
€37,466m	€–429m
2009: €35,119m	2009: €–220m

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.

US CLOSED BLOCK VA
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 independent 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.

COMMITTEES OF THE SUPERVISORY BOARD**
on 31 December 2010

Audit Committee
Jackson Tai, chairman
Tineke Bahlmann
Henk Breukink
Godfried van der Lugt
Jeroen van der Veer

Risk Committee
Peter Elverding, chairman
Tineke Bahlmann
Claus Dieter Hoffmann
Piet Klaver
Godfried van der Lugt
Jackson Tai

Remuneration Committee
Jeroen van der Veer, chairman
Peter Elverding
Piet Klaver
Joan Spero
Lodewijk de Waal

Nomination Committee
Peter Elverding, chairman
Piet Klaver
Joan Spero
Jeroen van der Veer
Lodewijk de Waal

Corporate Governance Committee
Peter Elverding, chairman
Henk Breukink
Claus Dieter Hoffmann
Aman Mehta
Lodewijk de Waal

* You can find more information on the members of the Executive Board on page 65 and on the members of the Supervisory Board on pages 68–69. The names of the nominated candidates for appointment at the General Meeting on 9 May 2011 can be found on page 57.

** The current composition of the Supervisory Board Committees can be found on the Company's website (www.ing.com).

Chairman's statement

The customer is the vital axis around which all our activities revolve

Jan Hommen, chairman

Dear stakeholder,

Looking back on 2010, we can conclude that ING closed a remarkable year in the history of the company. It was a real transition year. Throughout those 12 months we worked hard at shaping our future. We took important steps to create strong stand-alone companies in preparation for the final separation of our Banking and Insurance/Investment Management businesses. The Bank will continue as one integrated banking organisation with one management team and one balance sheet. For our Insurance/Investment Management activities we plan to have two initial public offerings (IPOs).

After three challenging years during which the global financial crisis had its impact on the company, 2010 marked a significant turning point for ING. In particular, I am very grateful for the continued trust and loyalty of our customers.

A number of achievements and key priorities stood out in 2010. First of all, the Group's business performance in 2010 was strong. Although the economic recovery remains fragile, and financial markets continue to be volatile, ING posted an underlying net profit of EUR 3,893 million in 2010, up from EUR 974 million a year earlier.

The operational separation of the bank and insurer was effectuated at year-end, with arm's-length agreements in place between the two businesses for all commercial cooperation and shared infrastructure. The focus for 2011 will be on preparing the insurance company for two IPOs so we will be ready to move forward when market conditions are favourable.

The measures taken under the Back to Basics programme, which was completed in 2010, to reduce risks, decrease costs, deleverage and reduce the size of the balance sheet, enabled us to quickly restore a healthy profitability profile. We substantially reduced our leverage and risk, actively managed our sovereign portfolio and set clear future performance targets for our banking and insurance businesses. A number of divestments were carried out. ING also comfortably passed the stress test conducted by the Committee of European Banking Supervisors. In addition, we repaid 50% of the Dutch State aid in December 2009. In May 2011, we intend to repay another 20%. Provided that the strong capital generation continues, we intend to repay the final 30% by May 2012.

In 2010, we were faced with changes in the regulatory environment which will have an impact on the business models of both our banking and insurance businesses and the way we manage our company. Proposals were made by the regulatory authorities to increase capital, liquidity and risk requirements for banks and insurance companies (Basel III, Solvency II). ING spent much effort to prepare for these changes in the regulatory environment.

The requirements proposed by the Basel Committee will demand stronger capital reserves and liquidity buffers to protect banks during economic downturns. Most of the requirements will not come into force until 2013, but ING is relatively well positioned to meet them.

Also with regard to our remuneration policy we take into account the globally changing views on remuneration policies as well as the guidelines proposed by regulators and authorities. We are well aware that remuneration is subject to ongoing public debate and we have taken steps to ensure that our remuneration policy strikes a balance between the interests of our customers, employees, shareholders and society at large, and supports the long-term objectives of our company. ING formulated a new moderate and sustainable remuneration policy – with both individual and group objectives – for the Executive Board with an increased focus on long-term value creation and performance measurement based on non-financial indicators. This new policy was approved by the AGM in April 2010. The general principles of the new policy have also been applied to the remuneration of the members of the Management Boards and other senior managers throughout the organisation.

Our strong results are the outcome of the hard work and dedication of all our employees who even in the most difficult periods of the crisis continued to focus on servicing our customers. Customer satisfaction is central to everything ING does.
The customer is the vital axis around which all our activities revolve and we will continue to take customer needs as the starting point for everything we do, whether it is developing new products, fine-tuning processes or anything else.
Over the year we achieved a great deal in this area but much more remains to be done. We use the Net Promoter Score to measure what customers think of us and whether they would recommend ING to others, and then use the feedback to make further improvements to our processes and products.

Deepening relationships with all our stakeholders was a key priority in 2010. It is vital to engage in dialogue with all stakeholders and to be more transparent and open for feedback about the way we operate. Gathering their views has proved valuable and, where possible, we have incorporated feedback into our products and services.

As a major international company, ING has a responsibility to make a positive contribution to society through its commercial activities and by being a good corporate citizen. For example, our personal financial services help people to be better at managing their money. We have a Corporate Responsibility (CR) programme through which we ran many initiatives in 2010, one of which was a series of workshops for entrepreneurs advising them how to run their businesses in a more environmentally sustainable way.

Improving financial and other types of education is an important part of our CR strategy. We are proud of our Chances for Children programme through which we provide underprivileged children with quality education to give them a real chance of a better future. I was especially pleased with the 2010 Chances for Children Global Challenge. Staff and management throughout the company rolled up their sleeves to volunteer and raise funds for children and education-related projects in what has become a great annual tradition at ING. 38 countries took part in 2010's Global Challenge and over 20,000 ING employees were involved. We raised EUR 927,000. You can read more about this and many other initiatives in the chapter on Corporate responsibility.

Our employees are our human capital. Engaged and motivated employees are central to our success as they are the main point of contact with our customers.

In 2010, ING continued to work towards being a top employer, to attract and retain employees and to enhance employee engagement. Our 2010 Winning Performance Culture Survey showed that throughout the ING Group employee engagement had risen. Most people say they like their job and are proud to work for the company. I am very pleased with the outcome of the survey because it was not an easy year for our people given all the changes the company went through.

In January 2011, Godfried van der Lugt and Jackson Tai both resigned from the Supervisory Board. In 2011, Claus Dieter Hoffmann will retire from the Supervisory Board after the General Meeting. On behalf of my colleagues in the Executive Board and Supervisory Board, I would like to take this opportunity to express my sincere gratitude and appreciation for the contribution they have made to ING. Godfried van der Lugt witnessed the beginning of ING and as a former chairman of the Executive Board of ING Group and as a member of the Supervisory Board he has played a very valuable role in the development of the company which has greatly benefited from his expertise.

We also announced changes in the structure and composition of the Management Boards for Banking and Insurance/Investment Management. On 1 January 2011, Lard Friese and Gilbert Van Hassel joined the Management Board Insurance. At the end of 2010, Tom McInerney stepped down as Insurance/Investment Management chief operating officer. William Connelly has been appointed CEO of Commercial Banking and joined the Management Board Banking, succeeding Eric Boyer who from 1 January 2011 has concentrated solely on his role as vice-chairman of the Bank.

As I stated, 2010 was a year of real transition for ING. We have gone through a lot of change and reshaped our businesses. We know there are more challenges and opportunities ahead and we stand ready to meet them.

Being a major player in the financial sector puts us constantly in the spotlight. Regaining the trust of all our stakeholders following the global financial crisis is a key priority for us. Our achievements in the past year lead us to believe that the business is on a solid footing and has excellent growth prospects. We therefore look forward to the future with confidence and optimism.

Jan Hommen
chairman of the Executive Board

ING share

PROFIT RETENTION AND DISTRIBUTION POLICY

ING Group'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 Group's internal needs are determined by statutory solvency requirements and capital ratios, in excess of which ING Group needs to maintain healthy buffers. An important determinant are the credit ratings which are of utmost importance to ING Group, because they directly affect the company's financing costs and hence profitability. For their part, the capital providers expect a dividend which reflects ING Group's financial results and is relatively predictable.

ING's policy is to pay dividends in relation to the long-term underlying development of cash earnings. Dividends will only be paid when the Executive Board considers such a dividend appropriate. Given the uncertain financial environment, increasing regulatory requirements and ING's priority to repurchase the remaining outstanding core Tier 1 securities, the Executive Board will not propose to pay a dividend over 2010 at the annual General Meeting.

CORE TIER 1 SECURITIES

In October 2008, to support its capital position, ING Group made use of the previously announced capital support facilities by the Dutch Government by issuing EUR 10 billion of core Tier 1 securities to the Dutch State with a coupon of 8.5%. The core Tier 1 securities are *pari passu* with common equity.

In December 2009, ING repurchased the first half of the core Tier 1 securities of EUR 5 billion plus a total premium of EUR 605 million. Furthermore, at the next coupon reset date on 13 May 2011, ING intends to exercise its option for early repurchase of EUR 2 billion of the remaining core Tier 1 securities. The total payment in May 2011 will amount to EUR 3 billion and includes a 50% repurchase premium. ING will fund this repurchase from retained earnings. Provided that the strong capital generation continues, ING intends to repurchase the remaining EUR 3 billion of the core Tier 1 securities ultimately by May 2012 from retained earnings. The final decision on repurchase of these core Tier 1 securities will be made before the envisaged repayment date and will be conditional upon there having been no material changes regarding ING's capital requirements and/or ING's outlook on external market circumstances.

LISTINGS

Depositary receipts for ING Group ordinary shares are listed on the stock exchanges of Amsterdam, Brussels and New York (NYSE). Options on ING Group ordinary shares (or the depositary receipts therefor) are traded on the NYSE Euronext Amsterdam Derivative Markets and the Chicago Board Options Exchange.

SHAREHOLDERS AND DEPOSITARY-RECEIPT HOLDERS WITH STAKES OF 5% OR MORE

To the best of our knowledge, as at 31 December 2010, there were no shareholders or holders of depositary receipts for shares who reported to hold an interest of 5% or more as mentioned in the Dutch Financial Supervision Act, other than Stichting ING Aandelen (ING Trust Office) and Stichting Continuïteit ING (ING Continuity Foundation).

Authorised and issued capital

in EUR million	Year-end 2010	Year-end 2009
Ordinary shares		
– authorised	**1,080**	1,080
– issued	**919**	919
Cumulative preference shares		
– authorised	**1,080**	1,080
– issued	**–**	–

Shares in issue and shares outstanding in the market

in millions	Year-end 2010	Year-end 2009
(Depositary receipts for) ordinary shares of EUR 0.24 nominal value	**3,831.6**	3,831.6
(Depositary receipts for) own ordinary shares held by ING Group and its subsidiaries	**51.3**	47.1
(Depositary receipts for) ordinary shares outstanding in the market	**3,780.3**	3,784.5

Prices depositary receipts for ordinary shares*

Euronext Amsterdam by NYSE Euronext in EUR	2010	2009	2008
Price – high	**8.16**	9.64	26.21
Price – low	**5.52**	1.92	5.33
Price – year-end	**7.28**	6.90	7.33
Price/earnings ratio**	**8.6**	***	***

* 2009 prices were adjusted for the increase in the number of shares due to the rights issue, while 2008 was not adjusted.
** Based on the share price at year-end and net profit per ordinary share for the financial year.
*** Not applicable.

Dividend history

in EUR	2010	2009	2008
Interim dividend	**–**	–	0.74
Final dividend	**–**	–	–
Total	**–**	–	0.74

Geographical distribution of ING shares*

in percentages	
United States	**38**
Netherlands	**25**
United Kingdom	**17**
Switzerland	**7**
Belgium	**5**
Luxembourg	**3**
Other	**5**
Total	**100**

* Year-end 2010 figures, estimated on information provided by several large custodians.

ING share continued

INVESTOR RELATIONS

To be kept informed of press releases and other ING news, you can subscribe to the email service through our Investor Relations section at www.ing.com.

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Main credit ratings of ING*

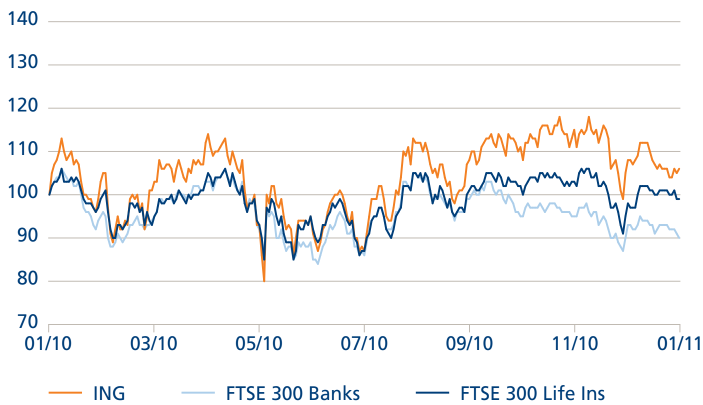
	Standard & Poor's	Moody's	Fitch
ING GROUP**	A	A1	A
ING BANK***			
– short term	A-1	Prime-1	F1+
– long term	A+	Aa3	A+
– financial strength		C+	
ING INSURANCE****			
– short term	A-2	Prime-2	F2
– long term	A–	Baa1	A –

* Still valid on 14 March 2011, the date of this Annual Report.
** All ratings on ING Group have a stable outlook.
*** All Bank long-term ratings have a stable outlook.
**** All Insurance long-term ratings have a negative outlook.

ING's long-term credit ratings are shown in the table above. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency. A security rating is not a recommendation to buy, sell or hold securities and each rating should be evaluated independently of any other rating. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency if, in the rating agency's judgement, circumstances so warrant. ING accepts no responsibility for the accuracy or reliability of the ratings.

One-year price development ING depositary receipts for shares

Index 31 December 2009 = 100
in EUR



IMPORTANT DATES IN 2011*

Publication results 1Q 2011
Thursday, 5 May 2011, 7:30 a.m.

Annual General Meeting
Monday, 9 May 2011

Publication results 2Q 2011
Thursday, 4 August 2011, 7:30 a.m.

Publication results 3Q 2011
Thursday, 3 November 2011, 7:30 a.m.

* All dates shown are provisional.

ING and the financial environment

2010 marked by continued external challenges

- > Economic recovery remains fragile
- > Far-reaching changes in regulation and supervision
- > CEBS stress test passed
- > Streamlining process continued
- > Strong business performance

Although economic conditions broadly improved, risks remained significant due to eurozone sovereign risk fears and a continued weak performance of the US economy. The financial sector was also confronted with proposed changes in the regulatory environment, as authorities launched proposals to increase capital, liquidity and risk requirements for banks and insurers.

Throughout 2010, work continued on the operational separation, which was successfully effectuated by the end of the year. A new governance structure was successfully put in place in order to ensure that the to-be separated units operate at arm's-length. In July, the CEBS stress test confirmed ING's ability to endure a stressful economic scenario. ING's commercial results further improved in 2010, as it continued along the path of reducing complexity and increasing focus, by divesting a number of non-core activities.

ECONOMIC RECOVERY REMAINS FRAGILE

Macroeconomic conditions broadly improved in 2010, but the downside risks in the markets remained considerable. Manufacturing and global trade rose significantly, supported by increased stock building and a surge in fixed investments. However, in many advanced economies, household consumption remained low, reflecting continuously weak levels of consumer confidence due to a prolonged decline in household incomes and private wealth accumulation. In contrast, in many emerging economies, household spending and corporate investments remained at elevated levels and thus fuelled job creation. This was not enough, however, to quell fears of a further widening of global imbalances.

The continued weak performance of the US economy in particular contrasted sharply with economic growth rates achieved in developing markets like China, India and Brazil. Moreover, rising concerns on eurozone sovereign risks caused renewed distress in financial markets. As a result, market volatility remained high and, across the board, investor confidence did not significantly improve. In the second half of the year, however, financial conditions started to slightly improve, partly thanks to unprecedented European policy initiatives and unconventional monetary easing in the US.

Looking ahead, most developed economies and a few emerging markets continue to face challenging economic circumstances, in addition to which underlying sovereign risks and financial system vulnerabilities remain a significant concern. The outlook for the global economy in 2011 therefore continues to be uncertain.

DEVELOPMENTS IN SUPERVISION AND REGULATION

In 2010, agreement was reached at EU level on the introduction of a new supervisory structure for the financial sector. The new European architecture consists of the existing national authorities and the newly created European Systemic Risk Board (ESRB) and the following three European Authorities: Banking (EBA), Insurance and Occupational Pensions (EIOPA) and Securities and Markets (ESMA). These institutions are in place since 1 January 2011. Operational day-to-day supervision continues to be with national supervisors.

In September 2010, the Basel Committee on Banking Supervision announced a substantial strengthening of existing capital requirements and the introduction of two international liquidity standards. The proposed Basel III framework covers both micro-prudential and macro-prudential elements. The framework sets out rules for higher and better-quality capital, better risk

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coverage, the introduction of a leverage ratio as a backstop to the risk-based requirements, measures to promote the build up of capital that can be drawn down in periods of stress, and the introduction of two liquidity standards. The Committee's package of reforms will gradually increase the minimum common equity requirement from 2% to 4.5% as from 1 January 2013 (transition period from 1 January 2013 until 1 January 2017). In addition, banks will be required to hold a capital conservation buffer of 2.5% to withstand future periods of stress, bringing the total common equity requirements to a minimum of 7%.

Furthermore, to avoid periods of excess aggregate credit growth, a countercyclical buffer within a range of 0% – 2.5% of common equity or other fully loss-absorbing capital, according to national circumstances, has been proposed. These capital requirements are supplemented by a non-risk-based minimum Tier 1 leverage ratio of 3%.

The Basel Committee's reforms have introduced two international minimum standards for liquidity risk supervision with the aim of ensuring banks have an adequate liquidity buffer to absorb liquidity shocks. The first one is the liquidity coverage ratio (LCR; to be introduced on 1 January 2015), which is a test to promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficiently high-quality liquid assets to survive a significant stress scenario lasting for 30 days. The second one is a net stable funding ratio (NSFR; to be introduced on 1 January 2018), which is a test to promote resilience over a longer period by creating additional incentives for banks to fund their activities with more stable funding on an ongoing basis. The NSFR test is similar to the LCR except the period over which it is tested is one year.

Furthermore, in parallel to the workstream at international level, the European Commission is proposing a European Crisis Management Framework. In this framework different issues will be addressed, such as prevention tools and early intervention and final resolution mechanisms.

ING generally supports the Basel Committee and European Commission reform programmes to strengthen the global capital and liquidity regulations and reduce market volatility. Notwithstanding, a number of proposals may hamper traditional retail-oriented institutions in their intermediary function, and thus reduce their ability to play their important role in the European economy. Further, the new rules still allow national regulators a measure of autonomy. For instance, the liquidity requirements assign relatively large powers to national regulators, which may affect the level playing field in the European Internal Market. Hence, the biggest challenge for policy makers and supervisors is to take a coordinated and unified approach. It is essential that supervisors and regulators across the globe adopt a more consistent and coordinated approach (e.g. while Europe is already introducing Basel III, Basel II is not yet fully applied in the US).

The regulatory agenda for insurance companies was dominated by the further development of Solvency II, which aims to introduce a modernised risk framework for insurance companies. Solvency II adopts a broad three pillar supervisory structure similar to Basel II, but with a fundamental difference in that a full Market Value Balance Sheet (MVBS) approach and a full economic risk approach to measuring required capital (Economic Capital) have been proposed.

Solvency II may require fundamental shifts in product offerings, pricing and investment portfolio allocation, e.g. by making it far less advantageous to offer long-term investment guarantees. Whereas ING has always been, and remains supportive of the Solvency II framework, a number of issues have arisen during 2010 with regard to the development of the detailed implementing measures. To safeguard the (financial) stability of the insurance industry, the volatility of the Market Value Balance Sheet needs to be sufficiently recognised and addressed. Also, to ensure an international level-playing field, differences between solvency regimes need to be taken into account, e.g. by finding a solution for the treatment of third countries in Solvency II. Finally, rules originally designed for banking should not be automatically applied to the insurance industry.

What is more, in a white paper published in July 2010, the European Commission concluded that the existing differences between national Insurance Guarantee Schemes across the EU create insufficient and uneven levels of protection for insurance policyholders. Therefore, the Commission has suggested a minimum harmonisation directive requiring the establishment of an Insurance Guarantee Scheme as a last-resort mechanism in each Member State. Legislative proposals are expected in the second half of 2011.

Moreover, it is noted that a number of relevant changes in accounting regulations are being considered by the accounting standards bodies. These include proposed changes to accounting for financial instruments, loan loss provisions, hedges, insurance contracts, leasing and others. These changes may, both individually and collectively, be very important to banking and insurance companies, including ING. ING generally supports the efforts to improve and simplify the accounting regulations as well as the objective of international convergence.

APPEAL AGAINST EC DECISION

In January 2010, ING lodged an appeal with the General Court of the European Union against specific elements of the European Commission's decision of 18 November 2009. ING has requested the Court to annul the decision of the European Commission, insofar as it qualifies the core Tier 1 amendment (i.e. the agreement between ING and the Dutch State concerning a reduction of the repayment premium for the first EUR 5 billion tranche of core Tier 1 securities) as additional state aid (of EUR 2 billion), requires price leadership bans and imposes disproportional restructuring measures. The Dutch State also lodged an appeal with the General Court to contest the EC decision insofar as it qualifies the core Tier 1 amendment as additional state aid.

ING believes it is in the interest of all its stakeholders to use the opportunities provided by law to let the General Court review these elements of the EC's decision. However, the appeal does not alter ING's commitment to execute its restructuring plan as announced on 26 October 2009 and stands firmly behind its strategic decision to separate its banking and insurance operations and divest the latter. A Court decision is expected in 2011.

ING PASSES STRESS TEST CEBS

Together with 90 other EU-based financial institutions, ING was subject to the 2010 EU-wide stress testing exercise coordinated by the Committee of European Banking Supervisors (CEBS), in cooperation with the European Central Bank, and

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De Nederlandsche Bank. The objective of the 2010 EU-wide stress test was to assess the overall resilience of the EU banking sector and the banks' ability to absorb further possible shocks from credit and market risks, including sovereign risks.

The stress test complemented the risk management procedures and regular stress testing programmes set up in ING under the Pillar 2 framework of the Basel II and Capital Requirements Directive (CRD) requirements. The results, announced in July 2010, confirmed that ING's focus on the strengthening of its Bank's balance sheet since the spring of 2009 has given it sufficient resilience to endure a stressful economic scenario.

OPERATIONAL SEPARATION OF ING BANK AND ING INSURANCE

Throughout 2009 and 2010, ING worked towards a self-imposed deadline to separate its banking and insurance/investment management businesses at an operational level before the end of 2010. Project teams around the world were established to ensure an orderly separation process. The total separation costs incurred in 2010 amounted to EUR 85 million after tax. For 2011, these costs are estimated at around EUR 200 million after tax (excluding costs for rebranding).

In the first quarter of 2010, the separation process was kicked-off with a global inventory exercise. During this phase it was confirmed that the most challenges lay in Europe, in particular in the Netherlands. The most complicated issues related to IT, human resources, distribution and commercial agreements, as well as our capital structure. To facilitate the disentanglement process, all shared services, contracts, arrangements, co-ownerships, cross-directorships, and all services provided and received (including those delivered by third parties) had to be analysed and either fully separated or covered in temporary or long-term service agreements.

By the end of 2010 a solution was created for most of the disentanglement projects. Consequently, from 1 January 2011, ING's bank and insurance/investment management businesses became operationally separate under the ING umbrella. Where an interim solution has been put in place, such as critical IT or HR services, a degree of interrelationship remains, which is mitigated through (signed) contracts and ring-fencing measures. In a limited number of instances, where these measures were not feasible due to high costs or time constraints, a documented exception was formalised. By the end of 2011, most interim solutions and documented exceptions that enabled operational separation will be replaced by permanent solutions; thus turning the operational separation into a full separation.

Where the resolution of a specific disentanglement project is expected after 2011 a long-term service agreement will be put in place. The outcome of a small number of projects depends on the details of the actual transaction(s). Hence, the implementation of these projects will be delayed until such details are available. The implementation of local end-state solutions as well as both the local temporary and long-term service agreements will be managed by the respective business units. Throughout ING, a new governance structure has been inaugurated to ensure that the to-be separated units operate at arm's-length.

ING Bank and Insurance/Investment Management will continue to work together for commercial purposes. The bank will continue to sell insurance/investment management products, and the insurer/investment manager will continue to use bank services. Terms and conditions of this cooperation have been formalised and brought at arm's length.

Over the course of 2010, the vast majority of support functions were moved to the bank and the insurer/investment manager respectively. The activities that will remain at Group level until the completion of the separation process are those that relate to our responsibilities to shareholders. These include support functions which are vital to comply with material legal and regulatory requirements, and/or to ensure effective and efficient execution of Group control. Consequently, both businesses have their own head office, with their own corporate support functions from 1 January 2011.

With the operational separation thus formalised, our attention has shifted to the next step: how to actually separate our businesses and execute the divestment process. Building on an analysis of market and regulatory conditions, we formulated a base case scenario. While the option of one initial public offering (IPO) remains open, ING will prepare itself for a base case of two IPOs: one Europe-led IPO (including our activities in Asia) and one separate US-focused IPO. Hence, ING will in 2011 proceed with the operational disentanglement of its US and European/Asian Insurance/Investment Management operations.

More information on this matter and the envisaged end-state of the businesses after completion of the divestment process is included in the Strategy section.

STRONG PERFORMANCE DESPITE CHALLENGING OPERATING ENVIRONMENT

Overall, the Group's business performance in 2010 was satisfactory, thanks to a strong performance of the Bank, which more than offset the effects of impairments, write-downs and assumption changes in the Insurer. Throughout the entire organisation – i.e. in both our banking and insurance businesses – concerted efforts were made to enhance customer centricity. This included initiatives to more pro-actively and systematically measure and monitor customer satisfaction. The Group also started an evaluation of its entire product portfolio and product approval procedures based on sharpened criteria for good customer care.

More information on the business developments within the bank and the insurer/investment manager and on the business performance of the Group and its various business lines is given in the Banking and Insurance sections of this Annual Report.

DIVESTED BUSINESSES AND STRATEGIC STAKES IN 2010

Throughout 2010, ING continued along the path set out in its Back to Basics programme launched in 2009 – the aim of which was to reduce complexity and increase focus, by divesting a number of non-core activities. In the first quarter of 2010, ING closed the sale of three of its U.S. independent retail broker-dealer units, which comprised three-quarters of ING Advisors Network, to Lightyear Capital LLC.

Also in the first quarter of 2010, ING completed the sale of its Asian Private Banking business to Oversea-Chinese Banking Corporation Limited (OCBC Bank). This transaction was in line with the objective to focus on fewer franchises and reduce the complexity of the Group. It generated a net profit for ING of a

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EUR 332 million. Accordingly, ING completed the sale of its Swiss Private Banking business to Julius Baer. This transaction generated an estimated net profit for ING of EUR 73 million.

Furthermore, we sold our 5% stake in Fubon Financial Holding to institutional investors, in line with our stated objective to reduce complexity and divest non-core assets, for an amount equal to EUR 395 million. The transaction resulted in a pre-tax profit of EUR 189 million at ING Bank. In addition, to reduce our exposure to real estate, we sold our 50% stake in ING Summit Industrial Fund LP, a Canadian light industrial property portfolio, to a joint venture between KingSett Capital Inc. and its affiliates and certain clients of Alberta Investment Management Corporation. The transaction value for 100% of Summit was approximately CAD 2.0 billion and included assumed debt.

In the third quarter of 2010, ING decided to sell its 3% financial investment stake in Kotak Mahindra Bank in India. The sale was in line with the strategic objective to increase focus and divest non-core activities.

Lastly, in December 2010, we announced the sale of ING Investment Management Philippines to the Bank of the Philippine Islands (BPI). This decision resulted from the strategic decision to split the bank and the insurer/investment manager. For in the Philippines, trust and investment management businesses must operate under a trust licence. As a consequence of the strategic split, ING can no longer conduct investment management activities in the Philippines through ING Bank Manila, as it did in the past. The Philippine investment management activities were therefore divested to another licensed bank (BPI).

ING Group results 2010 [(1)]

in EUR million	2010	2009
Commercial performance Banking [(2)]	**7,814**	7,266
Operating result Insurance [(3)]	**1,743**	1,434
Total market impacts Banking	**–201**	–3,046
Total market and other impacts Insurance [(4)]	**–2,262**	–1,636
Risk costs	**–1,751**	–2,859
Underlying result before tax	**5,343**	1,159
of which:		
– Banking	**5,862**	1,361
– Insurance	**–519**	–202
Taxation	**1,352**	91
Minority interests	**98**	95
Underlying net result	**3,893**	974
Divestments	**394**	–150
Special items after tax	**–1,067**	–1,759
Net result	**3,220**	–935

(1) Numbers may not add up due to rounding.
(2) Commercial performance Banking is underlying result before tax excluding market impacts and risk costs.
(3) Operating result Insurance is underlying result before tax excluding market and other impacts.
(4) Market and other impacts Insurance include gains/losses and impairments, revaluations, and market and other impacts.

FINANCIAL DEVELOPMENTS

The operating environment continued to improve gradually during the year, although the global economic recovery remained fragile and market volatility persisted. Nevertheless, ING Group's results showed a strong improvement compared with the previous year.

ING Group's net result for the full-year 2010 was EUR 3,220 million compared to a net loss in 2009 of EUR 935 million. The 2010 net result includes a EUR 513 million goodwill write-down in the US in the third quarter of 2010 and a EUR 634 million write-down of deferred acquisition costs (DAC) in the fourth quarter as part of the measures to improve transparency and address the reserve adequacy of the US Closed Block Variable Annuity (VA) business in the US.

Underlying net result was EUR 3,893 million for the full-year 2010, up 300% from EUR 974 million a year earlier. Underlying net result is derived from total net result by excluding the impact from divestments and special items. Divestments recorded in 2010 totalled EUR 394 million, mainly reflecting the EUR 405 million profit on the sale of Private Banking Switzerland and Asia. Special items in 2010 were EUR –1,068 million, reflecting expenses for various restructuring programmes, separation costs and the already mentioned EUR 513 million goodwill write-down in the US. The separation costs were EUR 85 million for the full-year 2010. Divestments recorded in 2009 totalled EUR –150 million. Special items were EUR –1,759 million and included a one-time charge due to an accrual for additional future payments to the Dutch State of EUR 930 million and a EUR 554 million restructuring provision, which was predominantly related to headcount reduction for ING's Back to Basics programme.

ING's capital position remained strong, supported by the EUR 5.9 billion of core Tier 1 capital surplus generation from the bank in 2010. ING Bank's core Tier 1 ratio increased to 9.6% at year-end 2010 from 7.8% at year-end 2009.

Shareholders' equity increased EUR 7.7 billion from EUR 33.9 billion at the end of 2009 to EUR 41.6 billion at year-end 2010. This increase was caused by a positive change in revaluation reserves, positive exchange rate differences and the addition of the net profit.

Shareholders' equity per share was EUR 10.99 at year-end 2010 versus EUR 8.95 at year-end 2009.

The Bank's underlying result before tax was robust in 2010 at EUR 5,862 million, a fourfold increase from the previous year. This strong improvement was driven by volume growth, strengthening of the interest margin, significant lower negative market-related impacts and a more normalised level of risk costs. Banking's commercial performance, i.e. underlying result before tax excluding market-related impacts and risk costs, was up 8% to EUR 7,814 million from EUR 7,266 million in 2009.

At ING Insurance, the 2010 underlying loss before tax of EUR 519 million was heavily impacted by adverse market and other impacts totalling EUR 2,262 million in 2010, an increase of EUR 626 million from EUR 1,636 million in 2009. The operating profit of Insurance, i.e. underlying result before tax excluding market and other impacts, improved 22% from EUR 1,434 million in 2009 to EUR 1,743 million in 2010. This improvement was driven by a significant improvement of the investment margin as well as higher fee and premium-based revenues. These factors were in part offset by rising administrative expenses.

Strategy

Earning trust with more agile and customer-centric businesses

> Create strong businesses and ensure repayment of the Dutch State when prudent and possible
> Bank and Insurer operationally separate, building own culture and strategy
> Earning trust through sound financial performance, increased customer focus, operational excellence and good corporate citizenship
> Base case scenario: divestment of Insurance through two IPOs

ING reached an important milestone in 2010 by formalising the operational separation of its banking and insurance/investment management operations in preparation for a full split of both businesses. The Group is concentrating on creating strong stand-alone businesses and repurchasing the remainder of the core Tier 1 securities issued to the Dutch State when prudent and possible. At the heart of the strategic redirection lies a strong resolve to earn trust. ING therefore aims at building sustainable, long-lasting client relationships based on operational excellence, sound business ethics and good corporate citizenship.

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. It will focus on customer centricity, operational excellence, and top employment practices. Although the option of a single initial public offering (IPO) remains open, we intend to realise the divestment of our insurance and investment management operations through two IPOs. The Europe-led insurance business (including our activities in Asia) will combine the cash generation ability of the Benelux with the attractive growth markets of Central Europe and Asia. The US-focused business will build on its Retirement Services and Life Insurance franchises. We are still exploring strategic options to determine the future of the insurance business in Latin America.

ING GROUP'S PRIORITIES: CREATE STRONG BUSINESSES AND ENSURE REPAYMENT OF THE DUTCH STATE

2010 marked a significant turning point for ING. After two difficult years during which the global financial crisis had its impact on the company, we managed to structurally improve our operating and commercial performance while successfully executing the disentanglement of our banking and insurance/investment management operations. As the operational separation of the bank and the insurer/investment manager has been formalised (as of 1 January 2011), they now operate at arm's-length from each other. We have thus achieved a first important milestone in the implementation of the Group's strategic decision to move towards a complete separation of both businesses, which was announced in October 2009 in recognition of the need to regain trust through increased transparency and simplicity.

Going forward, ING Group strives to create strong independent businesses and make certain that the interests of all ING businesses are equally served. In addition, assuming favourable economic conditions and availability of excess capital, the Group will concentrate on repurchasing the remaining core Tier 1 securities issued to the Dutch State. Moreover, in 2010, we determined a base case divestment scenario for the insurance and investment management operations, which is further outlined below.

In future, the bank and the insurer/investment manager will continue to work together for commercial purposes on an arm's-length basis. Hence, on the one hand, ING Bank will continue to sell ING Insurance/Investment Management products and, on the other hand, ING Insurance will continue to use ING Bank services. The bank and the insurer/investment manager will, however, develop their own organisations, building on their own culture and strategy. The strategic direction of the individual businesses is further explained below. We are striving to ultimately complete the divestment process before the end of 2013, and sooner whenever market circumstances are appropriate, and conduct it with the utmost diligence to protect stakeholders' interests and optimise shareholder value.

Strategy continued

EARNING TRUST AND INCREASING CUSTOMER CENTRICITY IN BOTH BANKING AND INSURANCE

The financial crisis has demonstrated that the licence to operate for any financial institution is to be trusted by its stakeholders, in particular its customers. At the heart of the strategic redirection of ING Group thus lies our strong resolve to earn trust. By separating our banking and insurance operations, we will build more agile, simple and customer-centric businesses. Obviously, earning and maintaining trust is a challenging task at any time, but this is even more difficult in the current environment. After all, the financial crisis has fuelled a demand for greater simplicity and transparency. In addition, prudential supervision and regulation are being tightened. Meanwhile, competition in financial markets continues to be strong, so efficiency remains imperative.

In earning the trust of our customers, our employees are a very valuable asset. ING is therefore encouraging its employees to build sustainable, long-lasting client relationships based on operational excellence, sound business ethics and good corporate citizenship (see 'Human Resources' for more information on these efforts). The operating leverage in this is obvious. For only a company pursuing a strategy focused on winning the hearts and minds of its customers, employees and other stakeholders, will achieve satisfactory financial performance for its shareholders.

Therefore, our Business Principles clearly 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. In addition, we have decided to increasingly embed two-way stakeholder exchange as an integral part of the overall strategy of both our banking and our insurance businesses. This means that we actively seek a continuous dialogue with our customers and other stakeholders on their demands regarding our products, services, business performance and/or other issues. This also includes efforts to more pro-actively and systematically measure and monitor customer satisfaction, as we want our customers to recommend ING to their friends, family, colleagues and peers. Hence, we are introducing Net Promoter Score in all our businesses across the globe.

Furthermore, we have taken significant steps to ensure that every customer gets the right products and services, via the right distribution channels, and at the right prices or returns. Therefore, we are evaluating our entire product portfolio and product approval procedures based on sharpened criteria for good customer care. Importantly, financial education – an essential pillar of our corporate responsibility – is embedded in our business strategy through tools and initiatives to improve the financial capabilities of our customers.

All in all, we are convinced that the changes we have set in motion will make us a stronger company and partner for our stakeholders that is better able to anticipate and address emerging issues. With a clearer focus on customer needs as the anchor of our business operations, we are not only building businesses that are financially sound and viable, but that also have the potential to become the supplier of choice for our customers.

COMPLETING THE SEPARATION OF THE BANK AND THE INSURER/INVESTMENT MANAGER

The operational separation of ING Bank and ING Insurance/ Investment Management under the ING Group umbrella has been finalised (see 'ING and the financial environment' for further details). With the operational separation in place, ING is ready to move towards the next phase, including the full preparation for one or more transactions.

Although the option of a single public offering remains on the table, we have determined the base case divestment scenario for our insurance and investment management operations as follows:

- One separate public offering of our combined insurance operations in Europe and Asia, which rely on our solid cash-generation ability in the Benelux, and attractive growth opportunities in Central Europe and Asia.
- One separate public offering of our leading US franchise in life insurance and retirement services.

We are still exploring strategic options to determine the future of the insurance business in Latin America. The preference for two public offerings is driven by a number of factors. Firstly, such a scenario would facilitate optimal alignment of the timing and order of execution with the market environment in Europe and the US respectively. In addition to this increased flexibility, our preference for a two-IPO scenario relates to the uncertainty caused by the divergence in solvency regulations in the EU and the US, which will likely place European insurance companies with a presence in the US at a disadvantage vis-à-vis local US competitors. Lastly, a separate public offering of the US insurance operations is expected to improve the overall proceeds of the divestments, as US investors are generally more familiar than European investors with the US business (including variable annuities) and its valuation than European investors, given the existence of listed companies with similar business profiles in the US. The actual timing of the anticipated transactions will depend on market conditions and commercial performance.

SHAPING THE FUTURE OF OUR BANKING BUSINESS

ING Bank aims to build a leading international retail, direct and commercial bank serving a broad customer base, comprising individuals, families, small businesses, large corporations, institutions and governments. It 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. The banking strategy has been developed with the changing regulatory environment in mind (see 'ING and the financial environment' for further details).

The bank will remain based in the Benelux and predominantly focused on Europe with key positions in selected growth markets in Central Europe, Turkey and Asia. The bank is starting from a good base. It is one of the largest retail savings banks in the world with a strong funding base; its direct service model is low-cost and internationally renowned and it has an extensive international network, especially for globally operating clients. In the future, ING will serve consumers, corporate clients and institutions with one balance sheet, one consistent brand, one management structure and one support organisation.

Strategy continued

The bank will focus on customer centricity, operational excellence, and top employment practices, while fully integrating its various banking business lines. We have developed a prudent approach for resource allocation, which will not only result in a smaller balance sheet, but also envisages boosting profit and reducing risk. To achieve this, a number of priorities have been defined. In order to ensure a stable deposit base and increase cross-sell and cross-buy opportunities, the bank will concentrate on becoming the preferred bank for its customers. This means that we want our customers and potential customers to consider ING first for all their financial requirements.

We will increasingly bring loan growth in line with deposit growth, particularly focusing on deposits with attractive liquidity characteristics (e.g. term deposits and savings accounts) and an increased weighting on long-term public debt. Mortgage growth will be managed in the context of the bank's objectives with regard to deposit growth, and strengthening client relationships. In addition, the bank will seek to raise fee and commission income and originate higher yielding lending assets (e.g. consumer finance and mid-corporate lending), while reducing low yielding investments. This will include a diversification of asset classes in some regions, and efforts to further build commercial capabilities. Lastly, given regulatory changes and the desire to strengthen the funding base, the bank will adapt its asset-only strategies (e.g. in businesses like Structured Finance, Real Estate Finance, Lease) and mono-client businesses.

SHAPING THE FUTURE OF OUR INSURANCE BUSINESS

As already mentioned, the future independence of ING Insurance/ Investment Management is to be realised through two public offerings: a Europe-led IPO with solid cash flow combined with strong growth positions in developing markets; and a US-focused IPO with a leading franchise in retirement services.

The Europe-led business will combine the cash generation ability of the Benelux with the attractive growth markets of Central Europe and Asia. It will thus have an attractive growth profile in comparison with its life insurance peers. The US-focused business will build on its strong Retirement Services and Life Insurance franchises, focus on the run-off of the closed variable annuities block, and restore profitability.

In preparing for the public offerings, ING Insurance will concentrate on further improving operational performance and building strong management teams. Moreover, it intends to sharpen its strategic direction, strengthen the capital base, improve investment results and review IT and procurement procedures. The product portfolio will be managed in an integrated way with a particular focus on capital consumption, e.g. through significantly reduced sales of variable annuities products and improved hedging capabilities. To enhance commercial performance, we will strengthen and further diversify our distribution capabilities (including tied agents, bank distribution, and direct distribution). The three key elements in improving performance include improving margins, containing costs and pursuing select growth opportunities to create strong global Insurance businesses, ready for IPOs ultimately by 2013.

REPAYMENT OF THE DUTCH STATE

In December 2009, ING repurchased the first half of the core Tier 1 securities of EUR 5 billion plus a total premium of EUR 605 million. Furthermore, at the next coupon reset date on 13 May 2011, ING intends to exercise its option for early repurchase of EUR 2 billion of the remaining core Tier 1 securities. The total payment in May 2011 will amount to EUR 3 billion and includes a 50% repurchase premium. ING will fund this repurchase from retained earnings. Provided that the strong capital generation continues, ING intends to repurchase the remaining EUR 3 billion of the core Tier 1 securities ultimately by May 2012 from retained earnings. The final decision on repurchase of these core Tier 1 securities will be made before the envisaged repayment date and will be conditional upon there having been no material changes regarding ING's capital requirements and/or ING's outlook on external market circumstances.

CONCLUSIONS AND AMBITIONS

With the operational separation of the banking and insurance/ investment management operations completed in 2010, ING Group is now able to focus on creating more agile and customer-centric businesses and repaying the Dutch State. To earn trust, we will build the future of our businesses on sustainable profit based on sound business ethics and good corporate citizenship. We will continue along the path of intensifying our dialogue with our customers and other stakeholders on our products, services, business performance and/or other issues, as we consider it our responsibility to provide every customer with the right products and services, via the right distribution channels, and at the right prices or returns.

ING has the ambition to repay the Dutch State in full as soon as possible and intends to realise the divestment of its insurance and investment management operations through two public offerings. Looking at the future, ING Bank has a promising starting position as a leading retail, direct and commercial bank. It aims to become the preferred bank for its customers and will focus on customer centricity, operational excellence, and top employment practices. 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.

Corporate responsibility

Being a responsible financial services provider and a good corporate citizen

> Social, ethical and environmental objectives used as a measure of performance in the remuneration policy for the Executive Board and senior management
> 93% of our employees indicate that living up to the Business Principles is important
> Sustainable assets under management increased by 5%
> 20% employee participation in ING Global Challenge

ING believes that the increasing social, economic and environmental challenges – such as demographic, ethical and value change, food scarcity, climate change and energy tensions, require businesses worldwide to critically review and adapt their business models.

It is our conviction that our business decisions must be in line with the expectations and interests of those to whom we owe our licence to operate – our stakeholders. We also believe that an innovative sustainable strategy and sound business ethics will result in more comprehensive risk management, proud employees, a greater attraction for talented people and new business opportunities. That is why ING aspires to play a prominent role in sustainable business development. ING is committed to creating more sustainability in the value chain and we strive to help our customers with shifting to a more sustainable way of doing business. As part of our commitment to society, ING has developed community development programmes that focus on children and education, financial education and protecting the environment.

READY FOR THE OPERATIONAL SPLIT BY YEAR-END 2010

Corporate responsibility has continued to play an important role in building strong stand-alone businesses. As a result of the separation of our organisation, we will review our current sustainability strategy and, based on the foundations laid in the past, further embed sustainability in the core business of our banking and insurance operations.

CLEAR CORPORATE RESPONSIBILITY VISION

The essence of ING's corporate responsibility (CR) strategy is that we pursue profit on the basis of sound business ethics and respect for our stakeholders. We therefore have a clear vision on ethical, social and environmental issues, for both our banking and insurance operations.

This vision can be summarised as follows:

- Being a responsible financial service provider means that we provide high quality products and services that meet the needs and expectations of our customers. It also means that we do not want to use our money for illegal, harmful or unethical purposes.
- Being a good corporate citizen means that we want to contribute to positive change in society. We are focused on finding innovative solutions that address the local and global challenges our customers face, like climate change, poverty or ageing of the population. We also empower our employees to make a positive contribution to society through our community investment programmes.

We have been measuring, tracking and monitoring our performance in the social and environmental field since 1995. We have identified ten key performance indicators which directly relate to the focus areas of our strategy.

PROGRESS IN 2010

While the business environment continued to be challenging in 2010, our results are a testament to the hard work and improved teamwork in the field of corporate responsibility throughout the organisation.

Corporate responsibility continued

REMUNERATION
To ensure that corporate responsibility is an integral part of our corporate strategy, our social, ethical and environmental objectives were used as a measure of performance in the remuneration policy for the Executive Board and senior management in 2010.

ING BUSINESS PRINCIPLES
The ING Business Principles prescribe our core values of integrity, transparency, respect and social and environmental responsibility. To ensure that every employee in every part of the organisation understands how his/her actions and behaviours can help earn and retain customer and stakeholder trust, ING implemented an innovative training and awareness programme. According to our 2010 employee engagement survey, 93% of our employees indicated that living up to the Business Principles is important. 81% of our employees feel that the principles guide them in their everyday decisions at work.

HELPING OUR CUSTOMERS MANAGE THEIR FINANCIAL FUTURE
We have taken significant steps to ensure that every customer gets the right products and services, via the right distribution channels, and at the right returns. Therefore, we are evaluating our entire product portfolio and product approval procedures based on sharpened criteria for good customer care. Importantly, financial education – an essential pillar of our corporate responsibility – is embedded in our business strategy through tools and initiatives that empower customers to be good at money.

Where do customers go for financial advice? The internet, a professional advisor or your family, friends and colleagues? Unfortunately, the majority of consumers don't know where to begin finding trustworthy, easy-to-understand financial information. While some rely on family and friends, only a small percentage of people actually seek professional advice. In fact, research conducted by ING shows the questions consumers have are very basic, such as "how do I start saving?" and "why do I need life insurance?"

That's why ING launched 'Be Good at Money' (internet access required), an online area that allows consumers to access easy-to-understand financial information and regain control over their finances.

FINANCING AND INVESTING RESPONSIBLY
Assessing the risk of any financial transaction is essential for all financial institutions. ING has a long-standing commitment to managing environmental and social risks that may be associated with its business activities. We support our customers to further improve their working practices. If, however, they do not meet our minimum social, ethical and environmental standards, we cease to do business with them. This process is led by our environmental and social risk policy desk and firmly embedded in the overall risk management procedures.

Over the years we have built an extensive framework of environmental and social risk policies. These policies translate our vision on social and environmental risks and issues into practical guidelines.

In 2010 we continued to focus on raising the awareness of environmental and social risk issues among our colleagues worldwide. Training customer-facing colleagues helps us ensure such risks are considered alongside more traditional business risks when lending decisions are made.

CONTRIBUTING TO POSITIVE CHANGE
We team up with our clients to truly understand their business. This enables us to create products that take into account both business and sustainability objectives. In close cooperation with our clients we continue to create new and meaningful sustainable products and services. Examples are sustainable investment funds, such as so-called thematic funds which enable clients to invest their money in microfinance projects, renewable energy or in projects contributing to a sustainable use of water. ING's sustainable assets under management increased by 5% from EUR 2,028 million in 2009 to EUR 2,120 million in 2010.

Following our clients increased appetite for the renewable sector, ING's investment in energy projects related to renewable sources increased exponentially from 2005 to 2010.

Investment in energy projects

	2010 (%)	2005 (%)
Wind	**33**	2
Solar	**3**	–
Coal	**14**	29
Diesel	**–**	2
Combined-cycle gas turbine	**47**	67
Other	**3**	–

We are also committed to mobilise our knowledge network to accelerate change towards a more sustainable society. Our Economics Department published a number of research papers in the field of sustainability that help our customers and ING to further develop sustainable efforts.

'Luz Verde' (Green Light), an ING partnered project in Mexico, has been awarded the Carbon finance deal of the year 2010 by Environmental Finance magazine. The pilot project of the Luz Verde programme exchanged 1 million environmentally unfriendly, incandescent light bulbs with energy-efficient CFLs for free, with families in the Puebla region of Mexico. For 40% of these families, the annual savings on their energy bills amounts to the equivalent of a week's wages. The idea for this project originated in an Australian company – Cool nrg –, which estimated that the large reduction in CO_2 emissions from millions of Mexican families switching to energy-efficient bulbs translates into money. As per the Kyoto Protocol each tonne of greenhouse gas emissions reduced by projects in developing countries can be sold as an emission reduction 'credit' to governments or companies in industrialised countries who can then use the credits to meet their CO_2 reduction obligations under the Protocol. The success of the project was clinched by the financing that made this project possible.

ING has been a carbon neutral company since 2007. We strive to minimise carbon emissions that are a direct consequence of our operations around the globe. In addition, we have formulated the company-wide ambition to minimise our carbon footprint by 30% by 2012. We aim to realise this by using resources more efficiently, applying sustainable means and sources for procurement and encouraging employees to be mindful of the environmental impact

Corporate responsibility continued

of their activities. We measure our remaining emissions and compensate for them by investing in renewable energy projects.

Direct environmental footprint*

	2010	2009
Energy use in kWh per FTE**	**7.79**	7.73
Business travel by air in km per FTE	**2,536**	2,030
Paper consumption in kg per FTE***	**48.79**	53.77

* More details including coverage of data can be found in the ING Corporate Responsibility Report 2010, available on www.ing.com. We report on energy and paper use and business travel as this contributes to 99% of ING's direct environmental footprint.
** This includes brown and green energy, natural gas, fuel oil and district heating.
*** This includes eco-labelled paper and non eco-labelled paper.

INVESTING IN THE COMMUNITY

In line with our ambition to make a positive contribution to society, ING has launched community investment programmes in both developed and developing communities. Our employees are essential to make these programmes a success. They are committed to donate money or do voluntary work – for our global campaigns or for one of the many programmes that have been developed by our local branches.

As part of the global ING Chances for Children programme, we organise an annual initiative featuring employee volunteering and fundraising initiatives for children and education-related projects. Called Global Challenge, it is held on or around 20 November, the day the United Nations adopted the Convention on the Rights of the Child. A record 38 countries took part in this year's Global Challenge, up from 33 last year, and we succeeded in meeting our target of 20% staff participation – which means that a massive 20,000 ING employees were involved! A total of EUR 927,569.33 was raised for projects aimed at children's education.

STAKEHOLDER ENGAGEMENT

We work hard to understand our stakeholders and address their needs in a way that is sustainable for our businesses and society. Stakeholder management has always been an important element of ING's overall strategy. However, the financial crisis fuelled the need for an intensification of our stakeholder management activities, in particular given the shifting demands and increased expectations of various stakeholder groups. Therefore, we stepped up our efforts to actively seek and maintain an ongoing dialogue with our customers and other stakeholders about ING's role in society.

In 2010, ING introduced a number of round-table discussions with sustainable and social entrepreneurs. These were not only organised to listen, learn from and respond to our stakeholders, but also to establish a working partnership with these entrepreneurs. ING is keen to stimulate sustainable innovation. Thereby, it also critically reviews its own role in this field. The intensified dialogue with sustainable entrepreneurs also boosted internal developments within ING. For instance, the knowledge network was extended thanks to an increased focus on the subject within ING's Economics Department. This enabled ING to produce and publish a number of in-depth research papers on sustainability issues.

LOOKING FORWARD

In 2011, both ING Bank and ING Insurance will further build their CR strategy on the foundations established in previous years.

The strategy for ING Bank will take into account growing customer awareness and the increasing demand for sustainable solutions. A strong and transparent framework of environmental and social risk policies, financial education and community development programmes will remain important building blocks of this strategy.

The CR strategy for ING Insurance will focus on financial education and community development. With regard to investment management, environmental and social risk policies will continue to play an important role.

KEY PERFORMANCE INDICATORS 2010

ING has identified 10 KPIs for its CR reporting. These KPIs relate directly to the ING CR strategy and are used by ING to measure CR performance within ING.

Key Performance Indicators (1)

	Year-end 2010	Year-end 2009
Equator Principles Number of projects reviewed	**74**	77
Sustainable assets under management (2) (in EUR million)	**2,120**	2,028 (5)
Customer satisfaction index (3)	**69.1%**	69.1%
Economic value (in EUR million) Total assets	**1,247,110**	1,163,643
Shareholders' equity	**41,555**	33,863
Total income	**54,887**	47,765
Result before tax	**4,477**	–1,525
Net result	**3,220**	–935
Personnel expenses: salaries	**5,501**	5,076
Personnel expenses: other	**2,270**	2,262
Employee engagement index (4)	**75%**	71%
Diversity Percentage of women in the international management council	**14.9%**	12.8%
ING Chances for Children Number of children provided with access to education	**125,175**	107,575
Green energy MWh (in thousands) of electricity purchased by ING that is derived from renewable resources	**332,843**	330,582
Dow Jones Sustainability Index (6)	**72**	75
FTSE4Good Index	**Included**	Included

(1) The audit firm Ernst & Young has audited the KPIs for reasonable assurance.
(2) For a detailed overview, see the 2010 Corporate Responsibility Report.
(3) Satisfaction scores are based on the American Customer Satisfaction Index (ACSI) methodology, adapted for the financial services market and based on a combination of questions related to overall satisfaction, customer delight and ideal provider. This score is not weighted by market. The selection of countries changes every year mainly due to strategic decisions of ING (e.g. investments and divestments). However, this does not have a significant impact on the overall customer satisfaction index score. The customer satisfaction scores of ING Direct are not included. ING Direct has a different way of measuring customer satisfaction.
(4) The percentages only refer to the percentages of ING employees that have indicated that they are proud to work for ING - one of the elements surveyed - and do not reflect ING's overall employee engagement score, which was 69% in 2010. The research was carried out by Kenexa.
(5) The 2009 figure does not reconcile with the 2009 Annual and CR Reports because of divestments in Australia.
(6) ING company score in the underlying SAM's corporate sustainability assessment (1-100).

More information on Corporate Responsibility at ING can be found on www.ingforsomethingbetter.com

Capital management

ING's Group Capital Management department (Capital Management) is responsible for ensuring 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 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 (EU Solvency, 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 sheets approach for ING Insurance including Available Financial Resources (AFR).

BALANCING DIFFERING REQUIREMENTS WHILE ENSURING SUFFICIENT CAPITALISATION

ING's capital position cannot be seen in isolation, but has to be assessed in the context of the overall balance sheet development as well as the possibilities provided by the capital markets. Hence, an important challenge for Capital Management, especially in the current environment, is to balance the differing requirements of regulators, rating agencies and shareholders.

As Capital Management is organised as a Group function, it is able to bring together capital requirements from both the Bank as well as the Insurer and helps to safeguard the fungibility of capital throughout the Group. Another key objective for Capital Management is to create financial flexibility for ING in the context of forthcoming regulatory changes and the need to generate sufficient capital to repurchase the remaining core Tier 1 securities issued to the Dutch State.

The strategic planning process takes into account both available capital and the requirements from the different parts of the Group. Capital Management continuously monitors and analyses ING's capital position, taking into consideration the potential impact of changes in the regulatory environment and assessments of ING's capital targets in comparison with the rest of the industry. The department also advises the Executive Board and Supervisory Board on ING's dividend policy.

MAINTAINING A WELL-DIVERSIFIED FUNDING BASE

Capital Management is also responsible for ING's strategy towards long-term funding and other capital markets transactions. In order to achieve a well-diversified funding base, these transactions can take place in several currencies, jurisdictions, maturities and formats (subordinated, senior unsecured, etc.) with either fixed or floating interest rates. Other transactions include hybrid capital and, if expedient, the issuance of contingent capital.

Moreover, Capital Management is involved in securitisations executed for the corporate account with the purpose of improving ING's capital and liquidity position. In addition, Capital Management manages the transactions with the Dutch State, such as the core Tier 1 securities and the Illiquid Assets Back-up Facility.

Furthermore, Capital Management manages the different corporate lines of Bank and Insurance. Within these corporate lines, shareholders' expenses are recorded that cannot be directly allocated to ING's different businesses. Capital Management takes an active role in investing ING's capital prudently and managing foreign exchange risks in such a way that the solvency impact of currency movements is limited as much as possible, without causing volatility on the profit and loss account. The main objective in managing the corporate lines is to reduce expenses as much as possible, without increasing ING's overall risk profile.

PREPARING FOR THE FULL SEPARATION OF ING BANK AND INSURANCE

Finally, Capital Management plays an important role in ensuring the creation of strong stand-alone companies in preparation for the full separation of the Group's banking and insurance/investment management operations. Until completion of the restructuring process, all operating entities need to remain adequately capitalised according to all prevalent regulatory and rating agency requirements. Another important priority for the department is to reduce interdependencies to a minimum, as the various entities of the Group should be able to independently access capital markets.

DEVELOPMENTS IN 2010

In 2010, ING's capital position improved, driven mainly by strong capital generation at ING Bank and favourable currency effects. A more detailed section in the annual accounts provides insight into the capital management practices and the development of the capital position of ING Group and its various business lines in 2010.

Risk management

Taking measured risks is part of ING's business. As a financial services company, ING is naturally exposed to a variety of risks. To ensure measured risk-taking ING has integrated risk management in its daily business activities and strategic planning.

ING plays an important role as a financial intermediator in society. The essence of our business is transformation, which takes many forms and serves various customer needs. In our retail banking operations, for example, we transform on-demand entrusted deposits into long dated mortgage loans. Through our payments and cash management operations we make money available when and where customers need it. Our insurance business is all about transformation through time by converting uncertain future cash flows into fixed flows, whether they are in the form of life insurance contracts or pensions. Geographic transformation takes place through our international commercial banking network when we help corporate customers fund their international business plans.

THREE LINES OF DEFENCE

The key objective of risk management at ING is to make sure that all risks are managed in the best possible way for all relevant stakeholders. We adopt a 'three lines of defence' governance model for risk management, whereby ownership for risk is taken at all levels in the Group.

The commercial departments form the first line of defence. They originate loans, deposits and other products, they know our customers well and are best placed to act in both the customer's and ING's best interest. The second line of defence consists of the risk management organisation, headed by the chief risk officer (CRO), and the corporate legal function. The presence of the CRO on the Bank and Insurance boards ensures that risk management issues are heard and discussed at the highest level, thus establishing the appropriate tone at the top. The CRO steers a functional, independent risk organisation, which supports the commercial departments in their decision-making, but which also has sufficient countervailing power to avoid risk concentrations. The third line of defence is the corporate audit function, which oversees and assesses the functioning and effectiveness of the first two lines.

ADAPTING TO CHANGE

The transformational role of banks and insurers is long-established, but the world in which they operate is changing rapidly. Risk management at ING is all about anticipating and adapting to this change.

Distribution and communication channels are becoming more direct and internet based. This is increasing the speed at which funds can be deposited and withdrawn and this can have meaningful consequences for liquidity management. Also, ING is committed to delivering this customer convenience through e-services without sacrificing security standards.

Customer behaviour and demographics have an important bearing on risk management of both our banking and insurance products. Life expectancy, people's propensity to move from one place to another, tax changes and many other factors impact the pricing and hedging of products such as mortgages and annuity contracts. We therefore update lapse assumptions, prepayment assumptions and all other relevant metrics regularly.

Our product offering has grown over the years to meet our customers' increased demands and expectations, as a result of which it has become even more important to know them well and understand their needs. We have invested in sales suitability programs over the last few years to ensure that customers receive the appropriate products and services.

ING operates in financial markets that have become increasingly interconnected as a result of globalisation. ING has a risk appetite framework that captures and restricts the different dimensions along which adverse markets impact ING's capital and liquidity position. In addition, ING increasingly conducts company-wide stress tests as a supplementary tool to assess resilience.

Financial regulation and accounting standards are in a state of flux, and ING is following the developments closely. Over the past year, our Insurance business has been preparing to implement the requirements of the Solvency II directive, the new capital framework for European insurers. Meanwhile, the Bank has started to prepare for the improved regulatory capital and liquidity framework for banks, commonly referred to as Basel III. ING is well positioned to operate under these new regulatory frameworks once they are in force.

A more detailed section in the annual accounts provides further insight into the risk management practices and exposures for ING Group.

Human resources

Putting people first in a changing environment

> Ready for the operational split by year-end 2010; Building two strong stand-alone organisations
> Key succession plans and programmes in place to attract, develop, assess and retain talent
> Finger on the pulse of the organisation

ING values its human capital highly and therefore ING's Group Human Resources (HR) continued to play a key role in attracting, developing, assessing and retaining employees and new talent. HR also helped in shaping the separate Banking and Insurance/Investment Management organisations for the future. HR continued to support the business, leaders and employees as well as local HR divisions to prepare for the operational split of the company. It provided appropriate back-up networks for employees who were made redundant. HR helped Insurance build the new stand-alone organisation and assisted business leaders with changes, redefining roles and changing responsibilities.

ING realises that its human capital is key to the business as motivated and engaged employees are essential to enhance customer satisfaction and, therefore, our success. ING wants to offer its people a stimulating working environment in which teamwork is high on the agenda. By providing ample learning opportunities, HR plays a key role in helping our employees to reach their full potential.

HOW TO ATTRACT, DEVELOP, ASSESS AND RETAIN TALENT

Graduate recruitment

ING recognises the importance of attracting, developing, assessing and retaining talent in a competitive market. Graduate Recruitment helped the business recruit 52 young talents for future leadership positions in 2010. ING's career website ranks 15th among the top 30 corporate career websites in Europe for attracting young talent online. In its fifth year, ING's International Graduate Programme (IIGP) continued its work on early career and talent development. IIGP trained more than 650 participants.

Furthermore, ING Netherlands was again ranked as one of the top employers in 2010 based on criteria such as good employment conditions, training facilities and internal promotion opportunities.

Talents

ING's Executive Board invests time in personal interaction with high-potential talents at all levels of the organisation. Networking opportunities include regular, lunch meetings with the CEO and Executive Board members. ING's executive leadership also engage with high-potential talents at larger-scale events such as ING's Management Conference and as part of leadership development programmes such as ING's Inclusive Leadership Journey programme and the IIGP.

Diversity

The focus in 2010 was on stimulating diversity throughout the organisation and strengthening a diverse workforce. ING's ambition is for women to account for 33% of the positions at the Leadership Council (LC) and Management Council (MC) levels of the organisation by 2015. While there is still some way to go, ING made progress in 2010. At year-end, approximately 15% of the LC and MC members were female.

ING continues to build an inclusive and diverse culture and develop sustainable leadership skills. One of the many leadership courses offered by ING's Business School (IBS) is the Inclusive Leadership Journey, targeting senior women leaders.

Leadership development & training

Increasing the visibility of talented male and female leaders, enhancing peer-to-peer knowledge exchange, and further embedding innovative thinking, continues to drive IBS's programmes. Added to this, the IBS expanded its regular development and training opportunities to 3,242 employees worldwide by offering online programmes.

HR supports ING in shaping the organisation and developing socially responsible leaders, as illustrated by ING's Corporate Responsibility's 'Leadership Development Programme in India'. In addition, ING launched the Promoting Integrity Programme (PIP) – a global change programme to help all ING employees understand how their behaviour can earn and strengthen the trust of all stakeholders. HR Insurance/Investment Management (IM) worked closely with the business to strengthen the new organisation and assess and develop leaders. Insurance/IM senior leadership teams implemented a comprehensive talent review to benchmark against external standards.

Human Resources continued

Becoming a top employer
HR Insurance/IM and Banking continue to partner with business leaders to shape the organisation for the future in terms of culture, performance and engagement. ING's annual engagement survey, the Winning Performance Culture (WPC) Survey, provided HR with important employee feedback on what will make ING an even better place to work. This feedback is already helping to shape one of the Bank's key strategic objectives: becoming a top employer. Sponsored by the Executive Board, a project team has been established to further develop and implement the Top Employer programme for the Bank. The programme brings together business and HR leaders across the business globally. Likewise, ING, assisted by HR Insurance/IM, places a strong focus on talent, engagement and culture in building the new Insurance organisation. It is a strong illustration of ING's commitment to listening and responding to employee opinions – and ultimately making the organisation a better place to work for current and new employees.

Performance Management
Increased attention by external stakeholders confirmed the decision to embed culture, engagement, performance management and succession planning deeper in the organisation. ING focuses on the role of leadership behaviours in achieving business results by embedding financial and non-financial targets as well as behavioural targets in ING's performance management approach for senior executives. HR further strengthened the online performance management system.

Compensation
The link to national and international compensation standards is examined closely in relation to and aligned with ING's performance management approach. Although ING has traditionally adopted a conservative and responsible approach to the remuneration of its management and employees, as evidenced by the fact that it has always aimed for compensation levels at the median level in the relevant markets, the new remuneration structure provides for a number of key amendments. More information can be found in the Remuneration section of this report.

PREPARING FOR THE OPERATIONAL SPLIT
HR continued to work closely with the business throughout the change process and is helping to build two strong, stand-alone organisations. It played a decisive role in designing various roles at head-office level for the Bank and the Insurer that are aligned with current and emerging business priorities as well as regulatory expectations. HR advised on and recruited talents for leadership positions at head office during the change process.

The operational separation resulted in substantial employee movements in the support functions and, unfortunately, also some redundancies. ING followed the Social Plan in preparing for the split. ING used Mobility Centres in the Netherlands, managed by HR, which supported employees in their search for new jobs, at ING or externally.

ING's global people database proved instrumental in managing employee movements as ING implemented the operational split. It was, among other things, invaluable when ING had to draft new legal employment letters for 32,551 employees in the Netherlands.

Additional 'How-to-deal-with-Change' courses were implemented in response to organisational restructuring programmes, in the Netherlands, the US, Asia/Pacific and Latin America. The courses helped employees deal with the consequences of changes, whether to settle into a new job at ING or find a new external opportunity.

FINGER ON THE PULSE OF THE ORGANISATION
HR rolled out the annual global engagement (WPC) survey reaching 107,000 employees, helping ING to keep the finger on the pulse of the organisation. Survey results are used as the starting point for a dialogue between employees and managers. This helps ING establish what we are doing well and what we can do better in terms of customer satisfaction, operational excellence, leadership behaviours and our internal and external brand value. 74% of our employees worldwide completed the survey.

Survey results reveal several areas where we have made significant progress – one of the most important trends is overall employee engagement, which was up 4% at 69%. This is driven by a higher number of employees who reported being proud to work for ING and increase in job satisfaction in 2010 versus 2009. Trust in our senior leaders was one of the most significant increases – up 8% from 2009. Opportunities for improvement were also identified and form the basis of action plans being executed throughout the company. While the survey results show us that the strategic direction of ING is clearer to our employees, events of the past few years have negatively impacted our employees' personal confidence in their own job security, and therefore efforts must be made to strengthen this. In addition, employee engagement has also been included as a key performance indicator in the annual appraisal objectives of senior management. Overall, good progress has been made and we are continuing the dialogue with our employees to address their concerns and areas for improvement.

CONCLUSIONS AND AMBITIONS
Throughout 2010, HR played a significant role in managing the complex operational unbundling of the Bank and Insurance/IM organisations with diligence and care for all employees involved. ING realises that the organisational changes can only be achieved with fully engaged employees, who are instrumental to the company's success. Becoming a Top Employer is one of ING Bank's ambitions for the coming years. Building the new Bank is about aligning our financial and business strategies with culture.

HR Insurance/IM continues to shape the HR 2011 strategy in support of the Insurer's business objectives with a focus on performance management, talents, culture, engagement and diversity. It is about creating robust and coherent cultures to distinguish the uniqueness of the Bank and the Insurer as well as ensuring the strength of leadership positions. In 2011, ING will continue to focus on attracting, retaining, engaging and assessing talent and will track management performance carefully.

Last but not least, ING will focus on competitive remuneration linked to performance within the CRD III (Capital Requirements Directive III) framework.

Overview
Banking

Management Board Banking
on 31 December 2010

Jan Hommen
chief executive officer

Eric Boyer de la Giroday
vice-chairman

Patrick Flynn
chief financial officer

Koos Timmermans
chief risk officer

William Connelly (from 1 January 2011)
CEO Commercial Banking

Eli Leenaars
CEO Retail Banking Direct and International

Hans van der Noordaa
CEO Retail Banking Benelux

Financial overview*

in EUR million	2010	2009
Total underlying income	**17,298**	13,483
Underlying operating expenses	**9,685**	9,263
Underlying additions to loan loss provisions	**1,751**	2,859
Underlying result before tax	**5,862**	1,361
Underlying cost/income ratio	**56.0%**	68.7%
Underlying cost/income ratio (excl. market impacts)	**54.2%**	54.3%
Client balances (EUR billion)	**1,168**	1,108
Net production client balances (EUR billion)	**49**	21
Risk-weighted assets (EUR billion)	**321**	330
Underlying Return on Equity**	**17.6%**	5.0%
Underlying Economic Capital (EUR billion)	**27**	22

* Underlying numbers are derived from IFRS-EU numbers, excluding the impact of divestments and special items.
** Underlying after tax return divided by average equity based on 7.5% core Tier 1 ratio.

Underlying income

in EUR million	2010	2009
Retail Banking	**11,431**	8,763
Commercial Banking	**5,811**	5,097
Corporate line banking	**55**	–377
Total	**17,298**	13,483

Underlying result before tax

in EUR million	2010	2009
Retail Banking	**3,625**	905
Commercial Banking	**2,316**	1,118
Corporate line banking	**–79**	–662
Total	**5,862**	1,361

ING Bank is a large international player with an extensive global network in over 40 countries. It has strong established positions in the Netherlands, Belgium and Luxemburg and key positions in Poland, Romania and Turkey, the largest Central and Eastern Europe markets. ING holds strong positions in Germany, France, Italy, Spain, the UK and the US. ING has also profitable businesses in Canada and Asia/Pacific. ING Bank has an extensive international network to service and support its corporate clients. From 1 January 2011, ING Bank began operating as a stand-alone company.

FINANCIAL DEVELOPMENTS

Underlying result before tax (excluding the impact of divestments and special items) increased more than fourfold to EUR 5,862 million from EUR 1,361 million in 2009. This strong improvement was driven by volume growth, strengthening of the interest margin, lower negative market-related impacts and a more normalised level of risk costs. Almost all business segments contributed to the increase. ING Direct and ING Real Estate benefited from the signs of stabilisation in the property markets: ING Direct posted an underlying result before tax of EUR 1,450 million after a loss in 2009, while ING Real Estate reduced its loss by EUR 925 million to EUR 63 million in 2010.

The total result before tax from banking operations rose to EUR 5,830 million in 2010 compared with a loss of EUR 838 million in 2009. The loss in 2009 included EUR –1,726 million of special items, mainly related to additional payments on the Illiquid Assets Back-up Facility and charges for the merger of the retail banking activities in the Netherlands, and EUR –473 million of operating pre-tax results from divested units. In 2010, the divestment of the Swiss and Asian Private Banking activities and the sale of Summit in Canada resulted in a pre-tax gain of EUR 389 million, while the operating pre-tax results from these units amounted to EUR 35 million. Special items in 2010 were EUR –456 million, mainly related to various restructuring programmes, including the merger of the Dutch retail banking activities, and costs related to the separation of Banking and Insurance.

Underlying income rose 28.3% to EUR 17,298 million. The interest result increased 7.5%, driven by higher volumes and margins. In 2010, total client balances rose by EUR 60 billion to EUR 1,168 billion. The total interest margin improved to 1.42% from 1.32% in 2009, mainly in Retail Banking. Commission income increased 3.6% driven by higher Structured Finance fees. Investment and other income was EUR 1,218 million compared with EUR –1,561 million in 2009, as impairments on debt securities and negative revaluations on real estate diminished combined with higher capital gains.

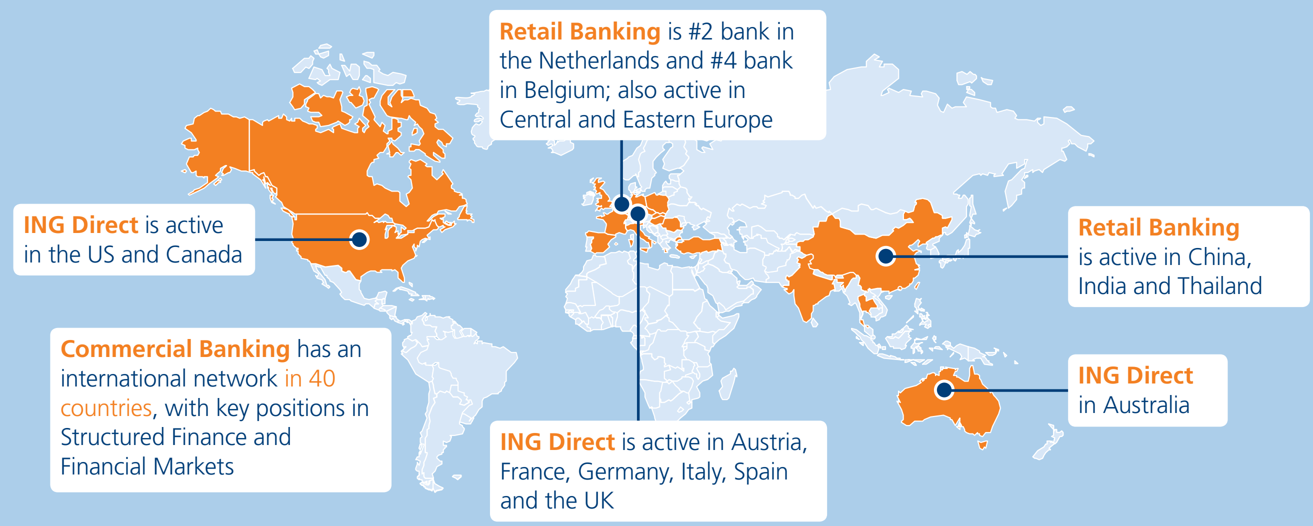
Underlying operating expenses increased by 4.6% to EUR 9,685 million, reflecting higher staff costs, increased marketing expenses and deposit guarantee scheme costs as well as higher IT project costs. The underlying cost/income ratio improved to 56.0% from 68.7% in 2009, driven by higher income. Excluding market-related impacts, the cost/income ratio was 54.2% in 2010.

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

Banking continued

WHERE WE OPERATE

ING Bank builds on its international network, capitalising on its leadership position in gathering savings, multi-channel distribution, simple propositions, cost leadership and marketing.



BUSINESS DEVELOPMENTS

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

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

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

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

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

Throughout 2009 and 2010 ING worked towards a separation of its banking and insurance/investment management businesses in preparation for the eventual divestment of the latter in 2013 at the latest (see the chapters 'ING and the financial environment' and 'Strategy').

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

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

PREFERRED BANK FOR OUR CUSTOMERS

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

Banking continued

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

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

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

Significant enhancements in operational excellence have been achieved. Payments and Cash Management, for example, improved its processes, client interaction and IT set-up. All business lines shared best practices to reduce costs and accelerate projects. ING Direct USA won a top award for its mobile banking application, which provides quick and easy ways for users to transfer money and manage their investment portfolios.

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

AMBITION 2013

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

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

ING Bank made good progress in 2010 on its ambitions for 2013. Underlying income increased by 28.3% to EUR 17,298 million. Excluding market-related impacts, underlying income rose 7.4%. The underlying cost/income ratio improved to 56.0% (or 54.2% excluding market-related impacts). The underlying return on equity, based on 7.5% of RWA, was up to 17.6% compared with 5.0% in 2009.

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

CONCLUSIONS

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

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

Banking

Retail Banking

Working towards becoming the preferred bank for our customers

> Strong improvement in overall Retail Banking result, driven by all units but especially ING Direct and Retail Netherlands
> Increased focus on customer centricity and on the 'direct if possible, advice when needed' business model
> All Retail units now apply the Net Promoter Score methodology

Financial overview*		
in EUR million	**2010**	2009
Total underlying income	**11,431**	8,763
Underlying operating expenses	**6,552**	6,209
Underlying additions to loan loss provisions	**1,254**	1,649
Underlying result before tax	**3,625**	905
Underlying cost/income ratio	**57.3%**	70.9%
Underlying cost/income ratio (excl. market impacts)	**56.8%**	61.0%
Client balances (EUR billion)	**890**	852
Net production client balances (EUR billion)	**37**	45
Risk-weighted assets (EUR billion)	**176**	167
Underlying Return on Equity**	**19.9%**	6.6%

* Underlying numbers are derived from IFRS-EU numbers, excluding the impact of divestments and special items.
** Underlying after tax return divided by average equity based on 7.5% core Tier 1 ratio.

Underlying income		
in EUR million	**2010**	2009
Retail Netherlands	**4,333**	3,882
Retail Belgium	**2,054**	2,062
ING Direct	**3,782**	1,762
Retail Central Europe	**977**	861
Retail Asia	**285**	197
Total Retail Banking	**11,431**	8,763

Underlying result before tax		
in EUR million	**2010**	2009
Retail Netherlands	**1,395**	883
Retail Belgium	**545**	578
ING Direct	**1,450**	–666
Retail Central Europe	**155**	85
Retail Asia	**80**	26
Total Retail Banking	**3,625**	905

Retail Banking has established strong positions in the mature markets of the Benelux, Western Europe, the US, Canada and Australia, and is well placed to capture growth opportunities in the high-growth markets of Central Europe and Asia. The good performance of 2010 was driven by a healthy increase in the margins we make on savings accounts and mortgages in the Netherlands, the lower risk costs and impairments at ING Direct, and volume growth in emerging markets. Retail Banking is developing into a leader in providing 'direct if possible, advice when needed' services. Customer centricity remains a key focus across the business. In 2010, the Net Promoter Score methodology was rolled out in India, Poland, Romania, Luxembourg and Turkey and is now 'live' across the entire retail organisation, except for ING's joint ventures in China and Thailand.

FINANCIAL DEVELOPMENTS

Retail Banking's underlying result before tax rose fourfold to EUR 3,625 million from EUR 905 million in 2009 driven by higher volumes and interest margins, combined with lower impairments and risk costs, mainly in the US. Net production in client balances was EUR 37 billion, bringing the total to EUR 890 billion at year-end 2010.

Total underlying income increased by 30.4% to EUR 11,431 million. The interest result rose 13.6%, mainly driven by higher margins and volumes, particularly in the Netherlands and at ING Direct. The interest results of Retail Belgium and Retail Central Europe were almost flat, while they increased in Asia. Commission income remained flat, as small declines in the Benelux and at ING Direct were offset by increases in Asia and Central Europe. Investment and other income improved significantly, mainly due to lower impairments on debt securities at ING Direct USA.

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

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

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

RETAIL NETHERLANDS
FINANCIAL DEVELOPMENTS

The underlying result before tax of Retail Netherlands increased 58.0% to EUR 1,395 million in 2010 from EUR 883 million in 2009, driven by higher income and lower expenses, despite an increase in risk costs. Underlying income rose 11.6% to EUR 4,333 million in 2010. This increase was fully attributable to a 15.8% higher interest result, mainly driven by higher interest margins on savings and mortgages. Net production in residential mortgages was EUR 5.5 billion, while volumes in business lending decreased by EUR 1.1 billion due to low demand.

Retail Banking continued

Funds entrusted increased by a modest EUR 0.4 billion. Operating expenses declined 3.8% to EUR 2,376 million in 2010, driven by the cost containment programme started in 2009 and efficiency improvements related to the merger of ING Bank and Postbank. Risk costs increased 6.0% to EUR 561 million, or 108 basis points of average risk-weighted assets, as economic recovery in the Netherlands remained fragile.

BUSINESS DEVELOPMENTS

Retail Netherlands (Retail NL) delivered a solid performance, recovering strongly from 2009. It has a strong Top 3 overall market position in retail banking in the country, serving nearly 8.2 million retail customers and around 600,000 business customers. It is well positioned to capture market opportunities.

The mortgage market share was up to 16.6% in 2010 (monthly new production), with net production in residential mortgages at EUR 5.5 billion. Funds entrusted increased by a modest EUR 0.4 billion, while volumes in lending decreased due to low demand.

Strategy

Retail NL's strategy is part of ING Bank's overall strategy to build a leading retail and commercial bank, where all the banking business units are fully integrated. In common with the other banking units, Retail NL has been working to become the preferred bank for its customers, a goal that will be realised through operational excellence, customer centricity and being a top employer. Closely linked to this ambition is our aim to create long-term value for all our stakeholder groups: customers, employees, business relations and suppliers, society at large and shareholders.

Stakeholder trust

Enhancing its reputation and regaining trust among stakeholders was one of Retail NL's priorities in 2010. This involved several initiatives, one of which was to continue with the Financial Information Evenings, which enable customers to meet ING Board members and managers of ING Netherlands. During these meetings, customers also receive tips on how to manage their daily expenditure, home ownership finances, pensions and savings.

ING also organised several Stakeholder Dialogues to get a better understanding of what stakeholders expect from us in the new financial environment. We invited policymakers, investors, regulators, journalists, non-governmental organisations, academics and private and corporate clients to participate in discussions centred on themes such as customer centricity and corporate social responsibility. The dialogues have been well received and will therefore continue into 2011.

Another initiative involved executives visiting various customers in the Netherlands, the objective being to build customer relationships and hear their feedback on different issues. This programme of visits will continue in 2011.

Operational excellence

All business units focus on improving timely, flawless and efficient execution of customer services. The merger of Postbank and ING Bank in 2009 has greatly improved operations and customer service. By the end of 2010, the large majority of all retail customers had been transferred to a single ING Bank platform. The process is expected to be completed by June 2011.

In addition, as part of a Retail-wide initiative, Retail NL is establishing a framework for sharing and managing knowledge across the retail network to reduce costs and speed up projects. The efficiency and effectiveness of our IT systems, both internally and externally, was improved to enhance the customer experience.

Some of our operational improvements have created environmental benefits. For example, we give customers the option of receiving paper or digital bank statements. As a result, some 450,000 kilos of paper are saved in the Benelux area every year.

Customer centricity

Building a customer-centric organisation was a main priority in 2010, so that our products, services and processes meet our customers' needs and profiles. A *Customer Suitability* programme was launched, which checks whether products should be adjusted to benefit customers. We have taken significant steps to ensure that every customer gets the right products and services, through the right distribution channels, and at the right prices or returns. We are evaluating our product portfolio and product approval procedures, based on sharpened criteria for good customer care. This has resulted in, for example, a further reduction in the number of different types of savings accounts from around 70 to 25 savings accounts by the end of 2010. Furthermore, branch office opening hours have been more closely aligned with shop opening hours.

Some innovative products were introduced in 2010. One of these was TIM, an online budgeting tool that allows customers to categorise their transactions in their online accounts and keep track of their finances more easily. By the year-end, 125,000 customers had registered to use the tool.

In early December, ING also introduced the *Spaarrente Wekker* – a change in interest rate notification, which informs customers three days ahead of time by e-mail of any changes in the variable interest rate on their ING savings accounts. This service is also available to non-customers. At year-end, 170,000 consumers had registered for this new service.

At the core of Retail Banking's long-term strategy is the focus on the 'direct if possible, advice when needed' model, introduced in 2009 following changing market conditions and customer behaviour. To this end, in the Netherlands a new distribution model was set up in 2009 and by year-end 2010, 250 branches had been converted to support the new multi-channel service concept, which offers customers the option of banking from home via the internet, telephone or e-mail, or by visiting branches for face-to-face advice. This initiative is progressing well: in 2010, the customer base increased by 0.9%, mainly as a result of the so-called *Overstap* service – a newly introduced, hassle free package to switch bank.

Retail NL now has over five million online customers.

ING has not only improved its retail banking systems and products, but has also enhanced value for money. A survey by the Dutch consumers' association *Consumentenbond* showed that ING offers better value for money with its basic payment package than any other Dutch bank.

As part of its commitment to transparency, ING gives a full overview of all its retail and corporate products and prices on its www.ing.nl web site. In 2010, ing.nl was for the third consecutive

Retail Banking continued

year named the best provider of online savings products in the Netherlands by research company WUA.

Customer feedback

The Net Promoter Score (NPS) – a customer loyalty metric – was launched by Retail NL in December 2009. Both the overall customer experience and the product experience were surveyed among customers. Their feedback is used to improve our services and the product range. To this end, a programme was started in 2010, *Enthousiaste Klanten* (enthusiastic customers), entailing a number of new initiatives based on customer feedback.

In 2010, for example, ING introduced a service for start-up companies to open a business account, including a debit card, pin and online banking, in just 20 minutes. This product was developed following customer feedback on account activation time and in response to their needs to reduce red tape and to spend as much time as possible focusing on their businesses.

The first results show that more customers than in 2009 would now recommend us to family and friends. ING is committed to further improving its NPS score through more work to lift the customer experience.

Top employer

The third and final priority in ING's banking strategy is to become a top employer. Motivated and engaged employees are essential for enhancing customer satisfaction and, therefore, our success. Retail NL is developing a new human resources strategy, which includes redefining our Employee Value Proposition to clarify to staff what the bank stands for and what staff can expect from the bank and vice versa. In 2011, action plans will be rolled out globally and local business units and countries will be assisted in setting local objectives.

Results from the 2010 WPC Survey – ING's global annual employee engagement survey – show that the employee engagement level at Retail NL was up from 64% in 2009 to 75% in 2010. We have used the results to identify priority areas to work on.
These include improving co-operation and work processes across the organisation, improving leadership and creating stronger career prospects.

ING continues to improve opportunities for women at the highest levels. The number of female executives in the general management of ING Netherlands rose from two to three in 2010.

ING has been acknowledged as one of the three best ICT employers in the Netherlands by independent research company, CRF.

WestlandUtrecht Bank

In 2009, ING and the European Commission agreed that, as a result of the state aid ING had received, it would have to separate some business units. Part of the agreement was that ING would create a new company in the Dutch retail market out of part of its current operations, by combining the Interadvies banking division (including WestlandUtrecht and the mortgage activities of Nationale-Nederlanden) and the existing consumer lending portfolio of ING Retail. This business, WestlandUtrecht, would – once separated – be hived off (the so-called carve-out) as a competing bank, offering a wider range of products, including savings accounts. By mid-November 2010, WestlandUtrecht Hypotheekbank was renamed to WestlandUtrecht Bank and is now commercially independent, but still part of ING. The 'new' bank was introduced to the Dutch public via a comprehensive multimedia campaign on TV, billboards and the internet and in 2010 it launched an online savings product called *SpaarOnline Rekening.*

Business Banking/Mid-corporates

Retail NL provides services to small and medium-sized businesses through relationship managers who work closely with product specialists to build a strategic partnership with our customers.
A new service model was started in 2009 and was further developed in 2010. ING has a high penetration in the business banking market, helped by the fact that it has its own international network. Its ambitions are to continue lending to private individuals and businesses as it considers that as one of its core tasks.

Private Banking

Retail NL also provides private banking services in the Netherlands to wealthy individual customers. The intention is to create a strong private banking franchise. In 2010, Private Banking introduced a single IT system for its fixed mutual-fund activities.

It also centralised its advice services, so that investment decisions are now taken at a central level and then implemented by local investment advisers.

RETAIL BELGIUM

FINANCIAL DEVELOPMENTS

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

BUSINESS DEVELOPMENTS

Retail Belgium is the fourth biggest bank in the country, serving over two million customers. It has a strong brand position and has shown a solid commercial and financial performance for several years in a row, despite fierce overall competition in 2010.

Retail Belgium's market share in mortgages recovered in 2010 and is back to the previous year's level of around 12%. Net production in mortgages was EUR 2.8 billion, while other lending increased by EUR 1.4 billion. The bank increased savings volumes, driven by the launch of an online savings product, *Orange Book*, aimed at retaining existing customers. It also introduced a third-party fund for the retail segment, which was well received by the market: third-party mutual funds represented EUR 932 million (or 32%) of the entire mutual-fund production.

Like all other banking business units, Retail Belgium's goal is to build the preferred bank for its customers, which will be realised by concentrating on three priorities: operational excellence, customer centricity and being a top employer.

Retail Banking continued

Operational excellence
Retail Belgium's focus is on the 'direct if possible, advice when needed' business model. To support this strategy, it is improving operations in areas such as bank guarantees, mid-corporate lending, IT workplace services, account opening and mandates.

Both Belgium and Luxembourg (see below) operate under an integrated universal bank business model with the operating and IT platform being shared across all client segments (Retail, SME, Private Banking, Corporates and Financial Institutions).

Customer centricity
Retail Belgium continued to improve customer centricity in 2010. It launched an Online Consumer Loans tool to provide customers with quick decisions on loan requests, without increasing the bank's exposure to credit risk.

It also continued with its branch transformation programme, which places a greater emphasis on direct banking and aims to improve operational efficiency and service quality. By the end of 2010, 381 traditional branches had been converted to 'proximity' outlets with self-service cash facilities and online banking access. The objective is to bring the total number of converted branches to 477 by year-end 2011. The bank has around 383 full-service branches, giving Retail Belgium around 800 points of sale.

The branch transformation programme was largely responsible for adding some 53,000 new clients in 2010, bringing the total to over two million. Total number of sales online products amounted to nearly 300,000.

Retail Belgium has over 1.2 million online customers.

Plans for 2011 include further developing the internet channel and the product offering and continuing with the branch transformation programme, which will be extended across the whole bank. Another task will be to upgrade IT and Operations to enhance the customer experience.

Customer feedback
Retail Belgium embraced the Net Promoter Score (NPS) methodology in August 2009. NPS is a recognised measure of customer satisfaction. It also helps to improve customer centricity. We seek and act on feedback to improve the customer experience by analysing the results and identifying areas for improvement.

Retail Belgium conducted NPS surveys on both a 'transactional' (e.g. opening an ING Lion Deposit online savings account) and 'relationship' level (e.g. overall customer experience personal banking). On average, 6% of the respondents have been recontacted by the regional directors since they raised a specific question or issue when completing the questionnaire. At the same time the surveys allow us to identify opportunities for general improvements, such as optimising the online communication (ING Lion Deposit), expanding target audiences for Investment Conferences (Personal Banking) or planning initiatives on educating the branch employees on how to assist professional clients when contacting the Business Credit Centre via the branch.

Top employer
In addition to the standard integrated human resources practices, the business has been developing a new human capital approach, which will be further developed in 2011. ING wants to become a global top employer with enthusiastic and ambitious employees, who want to share in the bank's success. Specific areas of focus include profiles, training, career development and pay and benefits.

Record Bank
Retail Belgium includes Record Bank, the third largest retail savings bank in the country, with close to 800,000 customers. Its strength is the personal approach by its 1,500-strong network of agents, credit brokers and vendors, who offer customer-centric products in savings, savings bonds, mortgages and consumer loans.

ING Luxembourg
ING Luxembourg, whose results are reported under Retail Belgium, is a full-service bank with three business lines: domestic retail banking, private banking and commercial banking. It serves private individuals, SMEs, large companies and institutions.

Much energy has been devoted to developing local business in Luxembourg, an approach which has proved successful and will be continued in the coming years.

ING Luxembourg embraced the Net Promoter Score metric in early November 2010.

Private Banking
Retail Belgium provides Private Banking services in Belgium and Luxemburg to wealthy individuals. ING is creating a strong private banking franchise in both countries and it is considered to be a growth driver.

Private Banking has a top 3 position (16% market share) in Belgium. It serves over 18,000 individual customers with more than EUR 1,000,000 in assets with ING. Assets under management amounted to EUR 15.7 billion (Belgium) and EUR 7.5 billion (Luxembourg) at year-end, totalling EUR 23.2 billion

Private Banking in Luxembourg contributed favourably to the overall results, despite an adverse economic climate.

ING DIRECT

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

Retail Banking continued

BUSINESS DEVELOPMENTS

ING Direct offers a range of focused, easy-to-understand financial products – savings, mortgages, retail investment products, payment accounts and consumer lending products – primarily through direct channels. Its business model is based on low-cost, simplicity, transparency and offering a superior customer service. It has 23.6 million customers, and leading market positions in most markets in which it operates – Canada, Spain, Australia, France, the US, Italy, Germany, Austria and the UK.

In Germany, ING-DiBa marked new record volumes in all five ING Direct core products. The numbers were boosted by a successful new marketing campaign, which was launched in September. Savings volume net growth was strong due to an attractive bonus rate for new customers and ING-DiBa's leading service levels becoming more and more known. In terms of investment products ING-DiBa accelerated the growth speed despite being already No.1 in most key areas. Consumer loans were pushed strongly by changed legislation in Germany due to an EU Directive which makes interest rates for loans more comparable for customers which is in favour of ING-DiBa.

In 2010, ING Direct moved further towards becoming a more complete retail bank, while maintaining a different approach from its competitors. This requires, among other things, widening the product base to achieve greater income diversification, developing its distribution channels and more investment in cross-selling.

In Canada, payment accounts were introduced to expand ING Direct's product line. ING Direct now offers payment accounts in all countries except the UK. There were initiatives in several countries to increase the number of savings account customers who also hold a payment account, which has proven to increase customer loyalty. As a result, the number of payment account clients increased significantly in 2010.

In Spain, ING Direct enhanced its distribution channels by opening two physical bank outlets. This is part of our strategy to provide customers with predominantly direct services and face-to-face advice when needed. We expect to open another 25 outlets across the country in 2011.

ING Direct's ambition is to become the customer's preferred bank, through operational excellence, customer centricity and being a top employer. In 2010, ING Direct again ranked first (meaning 'most recommended') or second in all nine countries on the Net Promoter Score. NPS is a recognised measure for customer satisfaction in the financial services industry.

Operational excellence

All of ING's business units focus on timely, efficient and flawless execution of customer services. Making banking easier for customers and constantly looking at new distribution channels and innovation are important principles. In 2010, ING Direct completed its 2008 initiative to deploy an end-to-end review of all customer services and processes.

In the US, a new mobile banking application was launched, which provides users with quick and easy ways to transfer money, pay bills and make purchases from their mobile phone. The application scooped the 'Superstar' prize in the 2010 Mobile Star Awards™, organised by the online news portal MobileVillage.com to reward excellence in wireless and mobile technology.

In Spain, the new 'Easy Mortgage' process conducted online makes it easier for payment account customers to apply for a mortgage, as few personal details are required in addition to the ones the bank already has. The main additional information requested is a valuation on the property, but other details such as salary are not needed if the bank already has them.

ING Direct UK continued to improve the savings account opening process in 2010. The process was redesigned and reduced from seven to only five steps in 2009, and in 2010 customers were able to credit their account electronically using their debit card, thereby reducing the amount of time needed to activate the account.

ING Direct Italy launched a customer acquisition campaign in which new customers received a free smartphone when opening a payment account. This was done in preparation for offering Italians mobile access to ING Direct's website by the end of 2010. In the early stages of the campaign 24,000 accounts were opened in one weekend.

Customer centricity

All ING Direct units constantly look to see how how they can best meet customers' needs. The bank encourages customer feedback which it then uses to update and improve the customer experience. In 2010, ING Direct Australia received an award for the most trusted banking brand.

ING Direct became active in social media in 2010, especially in the US, Canada and Italy. Consequently, ING was voted 'Best Bank on Facebook' by an Italian strategic consultancy that surveyed over 200 banks.

In Germany, ING-DiBa launched a price comparison engine, 'BankLupe', which allows customers easily to compare banks' retail products and prices, and demonstrates the bank's commitment to transparency. ING-DiBa also introduced a simple-to-use financial advice portal, the 'finanzversteher.de', for customers to manage their personal finances. ING Direct France launched a website called 'monnaietime', which helps consumers with their personal finances. It quickly became France's third most-visited finance portal.

Top employer

Engaged employees are essential to our success. Everyone knows they have a role to play in contributing to ING's vision and strategy, and know they can make a real difference. Results from the 2010 WPC Survey (ING's global annual employee engagement survey) show that employee engagement level at ING Direct rose to 76% in 2010, up from 72% in 2009. However, at some business units the engagement level was lower. At ING Direct France, for example, the engagement score was down 2% at 52%. An area identified for improvement by staff was 'leadership', which will be addressed in 2011. And at ING Direct Italy, the score was up 2% at 61%, with a clear priority to work on 'accountability', which will be an area for improvement this year. The employee engagement result in North America was 83%, well above the overall result.

Human resources (HR) departments across the organisation are working on 'Top Employer' initiatives, including programmes on management development, Workplace Dynamics Surveys (US), talent programmes for early and mid-career high potentials (UK), innovative health management programmes (Germany) and using

Retail Banking continued

social media to recruit staff (France). All ING Direct units train people in international roles, through long-term and short-term assignments, which not only develops their career skills but improves our strategic manpower allocation.

In 2010, ING Direct Canada and ING-DiBa Germany were both recognised as one of the best employers in the countries in which they operate. ING Direct Australia continued its run of HR awards by winning the top place in the FEMA (Fairfax Employment Marketing Awards) Best Corporate or Onsite HR Team (2009).

ING Direct USA
The agreement signed in 2009 with the European Commission on ING's Restructuring Plan requires that ING Direct USA be sold by 2013. ING appealed against certain elements of the EC's decision in 2009 (see also ING and the financial environment), but in the meantime will continue to execute the agreed restructuring plan. ING is managing ING Direct USA as though it were the long-term owner, supporting the business when it is attractive and can be supported by the capital and management of the business.

RETAIL CENTRAL EUROPE

FINANCIAL DEVELOPMENTS

The underlying result before tax of Retail Central Europe rose 82.4% to EUR 155 million, driven by higher results in Poland and Romania, while results in Turkey declined from the strong performance in 2009. Underlying income in Central Europe rose 13.5% supported by higher volumes in all countries and improved interest margins in Poland and Romania. In Turkey, margins declined due to increased competition, while income was impacted by negative fair value changes on derivatives (not eligible for hedge accounting). Operating expenses were up 15.5% reflecting business growth and increased staff costs. Risk costs declined to EUR 61 million, or 28 basis points of average risk-weighted assets, from EUR 116 million (or 61 basis points) in 2009. The decline in risk costs was mainly in Turkey and Romania supported by releases of specific provisions and improved data quality.

BUSINESS DEVELOPMENTS

Retail Central Europe has a leading presence in Poland and strong positions in Romania and Turkey. It operates full-service banks in all three, combining retail and commercial banking products and services for its customers.

The business units in the region are moving towards the 'direct if possible, advice when needed' business model. They are also striving to become the customer's preferred bank through operational excellence, customer centricity and being a top employer.

Operational excellence
Amongst banks that operate branches in Poland, ING Bank Slaski is the most internet-oriented, serving almost three million customers. A *Newsweek* survey in September 2010 showed that ING Bank Slaski was voted second best in the 'Bank for Internet users' category. It was also voted best full-service bank in 2010 for its solid profitability and solvency levels by *Rzeczpospolita,* a financial newspaper.

Customer centricity
In 2010, ING Bank Slaski continued to modernise its branch network and optimise customer services by closer integration between its call centre, internet and branches.

In Romania, ING has achieved its ambition to become the country's most preferred bank, serving over one million customers. ING Bank Romania made further progress in internet banking, in which it is a leader in terms of transaction numbers. It was voted the 'most popular online brand' in the financial sector.

Turkey is an important growth market for us, and ING Bank Turkey completed various initiatives throughout 2010 to support its ambition to be the preferred bank for Turkish consumers. With 1.2 million customers, the bank is concentrating on improving customer service and offering 'smart products' serving specific customer needs that differentiate us from our rivals. To this end, the bank strengthened its call centre and internet offering and launched a factoring and leasing company in 2010. It also commenced international payment and cash management activities, and introduced a new mortgage product. An 'ING Exclusive Banking' service was introduced for a selection of customers who fit special deposit requirements. At the year-end, 5 Exclusive Banking branches had been opened and around 20 Exclusive Banking 'corners' opened inside ordinary branches. Finally, ING Bank Turkey opened a European Business Desk to better serve the needs of small and medium-sized enterprises (SME) engaged in international business.

In 2011, ING Bank Turkey aims to build more scale by widening its product range and distribution network and providing the necessary capital and sharing best practices with other ING units. It will launch the first variable savings account in the country, the *Orange Account*, to build on the success of the ING Direct savings account.

The Net Promoter Score methodology was introduced in Poland (mid-November), Romania (early September) and late December in Turkey. The surveys focus on transactional levels, for example account activation, complaints and loan applications. From the customer feedback, we learn what we need to improve and the businesses act on this accordingly.

Top employer
Retail CE placed a big emphasis on developing employee relations in 2010. In Romania the bank aims to become one of the Top 5 universal bank employers in the country and in Poland the bank is succeeding in attracting high calibre students and young professionals.

In Turkey we built on the success of our Performance Evaluation Process, and in Poland and Romania we moved closer to the One Bank ideal by integrating HR activities for the universal bank. HR processes such as talent management and compensation & benefits management were made more efficient, contributing towards ING's top employer goal.

ING Bank Slaski was ranked among the 15 best employers in Poland in 2010 and ING Bank Romania ranked third within the Banking and Financial sector. ING Bank Slaski also took the sixth

Retail Banking continued

place in 'Pracodawca Roku 2009' (Employer of the Year, 2009) and was the only bank among the top 10 'Most Desired Employers' listing.

Results from the 2010 WPC Survey (ING's global annual employee engagement survey) in Retail Central Europe show that the employee engagement levels in 2010 were 73% in Poland and 75% in Romania. At ING Bank Turkey, the score was up 2% at 58%. HR is facilitating a number of working groups within the bank, in order to act on the results of the 2010 survey, as this was an area identified for improvement.

RETAIL ASIA

FINANCIAL DEVELOPMENTS

Retail Asia's underlying result before tax tripled to EUR 80 million from EUR 26 million in 2009. The strong improvement was mainly attributable to higher results from ING Vysya Bank in India, driven by higher volumes and margins, a one-off gain on the sale of an investment and lower risk costs. This was partly offset by higher expenses due to further investments in business growth and increased staff costs, including additional pension provisions. The result in Asia was supported by the increased profit contribution from ING Bank's share in the result of TMB in Thailand and higher dividends from Bank of Beijing and Kookmin Bank.

BUSINESS DEVELOPMENTS

Retail Banking is well positioned in the important Asian markets of India, China and Thailand.

ING Vysya, in which ING has a 44% stake, serves over two million customers and is increasing its market share in the rapidly growing Indian banking market. TMB Bank, in which ING has a 30% stake, has strongly advanced in its turnaround process and is gaining growth momentum in both its Retail and Commercial banking businesses.

Bank of Beijing (BoB) – in which ING has the largest single shareholding (16.7%) – is continuing its rapid growth in volumes and profits. BoB is the largest city commercial bank in China. In 2010, ING decided to renew the strategic alliance with BoB for a further five years (until 2015). As an extension to its strategic partnership, ING and BoB also signed a second five-year Technical Assistance Agreement in 2010.

As with all other banking business units, Retail Asia is working hard to become the customer's preferred bank by focusing on operational excellence, customer centricity and being a top employer.

Operational excellence

In India, ING Vysya Bank was awarded – for the second year in a row – the C10 100 Innovation Award by India's *CIO* magazine for developing another customer-centric IT innovation, 'Mobile Voice Recording Solution'. It allows customers to conduct investment and trade transactions with the bank's relationship manager, who can now record the transactions with a handheld device instead of the customer having to sign every transaction.

TMB Bank is transferring many of its operational processes back from its relationship managers to centralised control in order to allow relationship managers devote more time to serving customers and acquiring new ones. Its aim is to become the leading Thai bank, with world-class financial solutions.

Customer centricity

In 2010, ING Vysya Bank launched 'ING Online Shopping', which allows customers to shop online for a wide choice of services and goods with various merchant/service portals including rail, bus and air tickets, electronic goods and gifts.

It also developed 'ING Inwards' – an electronic funds transfer solution, developed for Corporate Banking clients. It improves the speed of cash flows, inventory management, risk management and receivables reconciliation.

Thailand-based TMB Bank launched several online, low-cost, innovative financial products, which were all market 'firsts' and all well received as they made banking easier for customers. They included the TMB No Fee Deposit, UP & UP Term Deposit and the No Limit Debit Card.

ING Vysya Bank introduced the Net Promoter Score methodology early in October, with a number of transactional areas surveyed, including mortgage loan disbursals, online financial transactions and exiting a savings account. First results show that many customers are extremely likely to recommend ING to family or friends, but that they are still very critical about us in the open comment questions. The bank acts promptly on feedback received.

Top employer

In addition to standard integrated HR practices, HR embarked on several initiatives to strengthen its function. It integrated its activities in Retail Banking and Commercial Banking into one, cohesive department for the region. It now takes an integrated approach to talent management and leadership development. These efforts are starting to show results. ING Vysya Bank, for example, is increasingly seen as an employer of choice among job candidates, whether they are experienced or new to the employment market. The bank's fair and ethical work practices and a healthy mix of old and new also make it an attractive place to work, as the job offer-to-acceptance ratio of 80% demonstrates. ING Vysya Bank's other HR initiatives during the year included the creation of a talent management process and defined career progression paths.

ING Vysya Bank's employee engagement score in the WPC survey was up from 66% in 2009 to 71% in 2010.

TMB Bank held an Employee Engagement Survey, organised by Gallup. Engagement levels rose from 20% to 49% because of the introduction of a clear organisational structure, better defined job descriptions and a more transparent performance evaluation and recognition system. It also set up a TMB Employee Service Centre for staff to give their feedback.

Results from the 2010 WPC Survey (ING's global annual employee engagement survey) in Retail Asia overall show that the employee engagement level was 71% in 2010, up from 65% in 2009.

HR Asia will continue to work on a new human capital approach. Focal points of improvement in 2011 include to provide career opportunities to staff to advance their careers and to create a 'good-place-to-work' environment.

Retail Banking continued

CONCLUSIONS AND AMBITIONS

All retail units will continue to work towards the overall ING Bank ambition of building a leading international, retail, direct and commercial bank, as well as becoming the preferred bank for its customers. Customer centricity will remain a focal point across the organisation, and the *Customer Suitability* programme will be further embedded in 2011.

Across the Retail organisation, the focus will remain on further developing the 'direct if possible, advice when needed' business model. The Net Promoter Score methodology, which is 'live' across the entire retail organisation, will be further embedded across the business.

A key priority for Retail NL was to regain stakeholder trust and this will remain a priority in 2011. Retail NL will also continue with its Financial Information Evenings, the business customer visits and the Stakeholder Dialogues.

Retail Belgium continued its domestic branch transformation programme and aims to bring the number of converted branches to 477 by the end of 2011.

In 2011, ING Direct will continue to work towards becoming a more complete retail bank, with a different approach from its competitors. Retail Central Europe will continue to implement the 'direct if possibile, advice when needed' model. ING Bank Turkey plans to launch the *Orange Account*, the first variable savings account in the country. Retail Asia will improve the customer experience by launching customer-centric products and will continue to build the brand.

Banking

Commercial Banking

Continued focus on customer centricity in all activities

> Strong commercial performance
> Significant decrease in risk costs
> Collaboration across units for benefit of clients
> Landmark deals for clients
> League tables underline strong market positions
> Real Estate exposure steadily reduced

Financial overview*		
in EUR million	**2010**	2009
Total underlying income	**5,811**	5,097
Underlying operating expenses	**2,998**	2,768
Underlying additions to loan loss provisions	**497**	1,210
Underlying result before tax	**2,316**	1,118
Underlying cost/income ratio	**51.6%**	54.3%
Underlying cost/income ratio (excl. market impacts)	**44.9%**	38.4%
Client balances (EUR billion)	**278**	257
Net production client balances (EUR billion)	**12**	–24
Risk-weighted assets (EUR billion)	**142**	158
Underlying Return on Equity**	**15.8%**	7.4%

* Underlying numbers are derived from IFRS-EU numbers, excluding the impact of divestments and special items.
** Underlying after tax return divided by average equity based on 7.5% core Tier 1 ratio.

Underlying income		
in EUR million	**2010**	2009
Commercial Banking excl. ING Real Estate	**4,949**	4,957
– General Lending & PCM	**1,159**	1,235
– Structured Finance	**1,440**	1,122
– Leasing & Factoring	**454**	403
– Financial Markets	**1,700**	1,923
– Other Products	**195**	275
ING Real Estate	**862**	140
Total Commercial Banking	**5,811**	5,097

Underlying result before tax		
in EUR million	**2010**	2009
Commercial Banking excl. ING Real Estate	**2,379**	2,107
– General Lending & PCM	**455**	426
– Structured Finance	**938**	287
– Leasing & Factoring	**133**	67
– Financial Markets	**919**	1,289
– Other Products	**–65**	37
ING Real Estate	**–63**	–988
Total Commercial Banking	**2,316**	1,118

2010 was an excellent year for Commercial Banking despite the challenging environment. Although critical investment expenses were up, risk costs dropped significantly. Commercial Banking made good progress in realising its goals and achieving leading market positions in selected geographies and products. It continued on its course to become a leading European commercial bank with selective growth options in other regions.

FINANCIAL DEVELOPMENTS (INCLUDING REAL ESTATE)

The underlying result before tax of Commercial Banking doubled to EUR 2,316 million from EUR 1,118 million in 2009. ING Real Estate recorded a loss before tax of EUR 63 million compared with a loss of EUR 988 million in 2009. The underlying result before tax of Commercial Banking excluding Real Estate increased 12.9% to EUR 2,379 million.

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

ING Real Estate reported an underlying loss before tax of EUR 63 million compared with a loss of EUR 988 million in 2009. This was mainly due to the gradual stabilisation in market conditions, which even led to ING Real Estate showing a profit in the last quarter of 2010. Negative fair value changes on the direct and indirect real estate investments as well as impairments on real estate development projects declined to EUR 434 million in 2010, compared with EUR 1,213 million in 2009. Excluding revaluations and impairments, underlying result before tax increased to EUR 371 million in 2010 from EUR 224 million in 2009, mainly driven by improved operational results within Real Estate Finance business due to lower risk costs.

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

Total underlying income increased 14.0% to EUR 5,811 million driven mainly by ING Real Estate and Structured Finance as well as Leasing & Factoring. This more than offset the decline at Financial Markets and General Lending & PCM. Underlying operating expenses increased 8.3% to EUR 2,998 million partly caused by an accrual adjustment related to the deferral of incentive compensation in 2009 and despite lower impairments on real estate development projects. The underlying cost/income ratio improved to 51.6% from 54.3% in 2009. Excluding ING Real Estate, the cost/income ratio was 44.0% compared with 37.9% in 2009.

Commercial Banking continued

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

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

BUSINESS DEVELOPMENTS

Commercial Banking plays an integral role within ING Bank. The essence of ING's business is to collect deposits and redeploy them in various forms and types of financial investments in the economy. Commercial Banking plays an important part in this by being an important originator of assets and a source of skills and expertise for our clients.

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

From Fitter, Focused, Further…

Throughout 2010, Commercial Banking focused investments and resources on achieving its Fitter, Focused, Further strategic goals: namely, to develop key market and product positions, improve client satisfaction by implementing client-centric initiatives, reduce costs and enhance operational excellence.

We maintained our position as No.1 bank in the Benelux. Illustrative of this is the fact that ING was No.1 ECM (Equity Capital Market) bookrunner in the Benelux by volume, No.1 bookrunner for syndicated loans in the Benelux by volume and No.2 M&A advisor in the Benelux by volume, in 2010. Also in the corporate bond market we made good progress ending No.5 bookrunner in Benelux by volume.

We maintained our position as Top 5 bank in our core Central and Eastern Europe markets. Illustrative of this in 2010, ING was No.1 MLA (Mandated Lead Arranger) for CEE syndicated loans by volume, No.4 ECM bookrunner in CEE and No.1 in Poland by volume. Furthermore, we ended up No.4 M&A advisor in Poland by volume. Also in the bond markets we maintained our position ending up No.5 bookrunner in CEE sovereign bonds by volume and No.8 bookrunner in CEE corporate bonds by volume.

We have a leading and highly profitable financial markets franchise both in the developed and emerging markets. It is our stated ambition to be a Top 3 Financial Markets player in the Benelux. Illustrative of this in 2010, ING was No.5 bookrunner in Benelux corporate bonds by volume.

We aim to become the preferred bank for European customers regarding PCM business. In 2010, PCM ranked at a Top 2 position by volume in EBA Clearing (Euro Banking Association Clearing).

According to Greenwich Associates research January 2011, PCM is perceived to have a strong position in the Netherlands, Belgium and Central and Eastern Europe. In the Netherlands, ING Commercial Finance is market leader, while General Lease and Car Lease rank No.3. In Belgium, ING Lease is the second largest leasing company.

ING Structured Finance achieved its aim to be a Top 10 player globally by ranking in the Top 10 in various locations in the category MLA by number of deals. ING maintained its No.1 position from Q1 through Q4 in key tables such as MLA and bookrunner for syndicated loans in the Netherlands by volume and bookrunner for syndicated loans in the Benelux by volume.

Commercial Banking took steps to becoming more client centric during the year. For example, PCM set policy guidelines for a global payments mandate and the client organisation was strengthened by introducing a stronger European sector approach. ING board members are linking up more regularly with board members of clients. The second wave of the Balance Sheet Optimisation campaign was rolled out in the Netherlands and Belgium, the aim being to help clients balance short-term financial needs with long-term goals. A campaign was launched to optimise clients' international financial management, based on a detailed understanding of clients' businesses and what they need to support their operations outside their home countries. An International Business Support Centre was set up to streamline processes to ensure consistently excellent service to clients.

In September, the Bottom Line initiative was launched in Central and Eastern Europe. This stresses that Commercial Banking is aligned internally to deliver relevant solutions to clients and emphasises ING's commitment to becoming a leading commercial bank in Central and Eastern Europe.

Operational excellence was another key priority. PCM, for instance, improved its processes, client communications and IT set-up and governance. Financial Markets established a new centre in Singapore for its front office system which provides foreign exchange and money market services to clients globally.

Finally, the Fitter, Focused, Further strategy feeds into the development of the concept of a total banking approach. In 2010, ING Retail Banking Benelux, ING Retail Banking Direct & International and Commercial Banking worked together to align themselves more closely with each other and leverage their strengths across all banking operations (see chapter on 'Strategy').

Major deals

The world economy gradually recovered in 2010 from the recession of 2009. Tensions remained, however, including fiscal tightening, a fluctuating euro and debt concerns within the eurozone, continued credit tightness and intensified competition. At national and international levels there were discussions about the best ways to restore financial stability. Stricter regulations for banking were implemented.

Managing risk and costs remained key priorities for Commercial Banking. Risk costs fell significantly as a result of a resilient quality portfolio and better risk management. We continued to manage exposure and concentration in our portfolio to achieve the right risk-reward balance. Our exposure to real estate was also steadily reduced.

Commercial Banking continued

Despite the subdued market conditions, Commercial Banking continued to win some transformational mandates. These transactions show that cross-selling is an integral part of the client offering and that businesses worked closely together to deliver these highly tailored solutions for clients.

An example was ING's joint bookrunner role in Deutsche Bank's EUR 10.2 billion rights issue, the largest German financials' rights issue ever and the largest European equity issue to date. Its success was the result of close cooperation between several banking businesses, including Equity Capital Markets, Financial Institutions, Event Finance and ING-DiBa, all forming an integral part of the transaction team.

Commercial Banking also acted as mandated lead arranger and bookrunner on a EUR 1.2 billion syndicated facility for French mobile phone company SFR; Commercial Banking and ING Direct joined forces to share the final take of EUR 135 million. The Deutsche Bank and SFR deals illustrate what the total bank approach can achieve.

GENERAL LENDING & PCM

General Lending (GL) remains the anchor product for client relationships and the basis for cross-selling. Cross-selling improved in 2010 which improved market positions and increased overall return on client relationships. There was a shift in the market from lending to debt capital market finance. The need for bridge facilities with a role in debt capital market take-outs increased.

Credit margins began returning to normal levels during the year after reaching a peak in 2009. Volumes remained under pressure in 2010. Demand was low as companies continued deleveraging across key geographic and business markets. Investment and M&A activity stayed subdued.

GL places great importance on the safe and profitable deployment of loan assets. It has a client-centric focus on cross-selling, leading market positions and best-in-class execution. By improving processes GL aims to reduce its cost/income ratio. The business continued to invest in the quality of processes and staff to ensure seamless execution with expert staff who see themselves as business partners to clients.

Payments and cash management services are a prerequisite for customer acquisition and retention and are especially important in times of scarce liquidity in the market. ING is market leader in payments processing in the Netherlands and a large player in Belgium.

To meet the needs of clients, PCM has been expanding its international payments offering. In May 2010, ING Turkey was fully connected to the international PCM network. International clients are now able to open current accounts at ING Turkey and manage them using their existing ING electronic banking channels.

PCM saw a large increase in outstanding balances in 2010, but the benefits were offset to some degree by lower margins due to low market interest rates.

Other significant developments during the year included: an increase in payment transactions compared to the previous year; PCM's participation in the Net Promoter Score pilot which tracks customer feedback and an increase in cross- and deep-selling.

STRUCTURED FINANCE

Structured Finance (SF) is a specialist commercial lending business, providing loans across the globe to support capital intensive investment and working capital. It is managed in three groups: Energy, Transport and Infrastructure Group; Specialised Financing Group; and International Trade and Export Finance.

The SF business continued to grow in 2010. Revenues were supported by relatively high margins on business originated in 2008 and 2009. In trade and commodity finance there were sharp increases in both volumes and margins as a result of our consistent approach to the market over many years. Trade and commodity finance, with its transactional lending approach, is attractive to many banks and we expect increased competition, evidenced by the high levels of support for our commodity clients in the syndicated loan market, particularly in Asia.

In the oil and gas offshore business there is demand for increasingly large and sophisticated equipment; our infrastructure business is seeing new proposals around the world as the public sector turns to public-private partnerships to finance necessary expenditure. In the power sector we have provided long-term finance to support the development of wind and solar power projects across Europe and in North America. The cash flow lending business in Structured Acquisition Finance and Telecom and Media Finance was affected in previous years by the slowdown of business activity during the economic crisis, but in nearly all cases the businesses have recovered to a sounder footing, and the year saw a rise in new transaction flow in our core markets of the Benelux and Central and Eastern Europe.

SF maintained its public profile by doing well in awards and league tables during the year. The carbon emissions team won the Carbon Finance Deal of the Year award for 'Luz Verde' (Green Light), a pilot project for a mass scale household energy efficiency programme that will reduce CO_2 emissions in Mexico. The structured metals and energy finance team was recognised as the Best Trade Bank in Metals and Mining by leading industry magazine *Trade & Forfaiting Review*.

LEASING & FACTORING

The Leasing and Factoring (L&F) product line provides financial and operational leasing services for a wide range of equipment as well as receivables financing and other factoring solutions to ING's corporate clients, mid-corporate and SME customers. L&F's principal distribution channel is through the network of ING Bank's retail and commercial branches with additional sales via direct, intermediary, vendor and internet channels. Although the overall European leasing market has shrunk by around 30% from 2008 to 2010 due to the economic downturn, L&F has maintained its market position in its core markets. L&F's 2010 results showed a strong improvement on 2009, driven by a combination of stable volumes overall, higher margins, reduced risk costs and an excellent performance by ING Car Lease, which benefited from a sustained recovery in the second-hand car markets and an increasing order book from major corporate customers.

During 2010 ING Commercial Finance launched its reverse factoring product Supply Chain Finance which provides mutual benefits to the Bank's clients and their suppliers through the use of factoring techniques. L&F also commenced both leasing and factoring operations in Turkey in conjunction with ING Bank Turkey.

Commercial Banking continued

L&F's capabilities in the specialist field of asset-based finance was recognised during the year with ING Commercial Finance being ranked as the No.1 Factoring Company in the Netherlands by *MT Finance* business magazine while ING Lease UK was named Lessor of the Year for the third successive year by the NACFB trade association.

FINANCIAL MARKETS

The Financial Markets (FM) business units make up the global business that manages ING's financial markets trading and non-trading business lines. FM is managed along two business lines: ALCO & Strategic Trading Platform, the primary proprietary risk-taking units, and Clients and Products, the primary customer trading and sales business line.

FM continues to bring in sizeable and profitable business for Commercial Banking. After a record year in 2009, income in 2010 normalised but it was still FM's second best year. FM faced several uncertainties during the year: the market environment, changes in financial regulation, liquidity, funding and deleveraging concerns. Although client flows remained buoyant, margins fell to lower levels. Revenues in developed markets were negatively impacted due to the sovereign debt crisis and the weaker client flows that the crisis caused.

FM increased profitability against reduced risk. Value-at-Risk has progressively been reduced since 2007, while both trading and client income has increased substantially. Investments have been focused on increased FM capacity in the emerging markets and to improve service for Financial Institutions. Three top priority initiatives were expanding the FX Options Platform, increasing the Commodities Product Offering and improving alignment with risk management to ensure the success of product and client initiatives in emerging markets. Cross-selling programmes for clients in emerging markets were initiated.

Flow trading was significantly down, due to lower volatility and the negative impact of the sovereign debt crisis. Sales commissions declined due to lower volumes and narrowed spreads.

ALCO had a strong performance in 2010 helped by capital gains. There was a strong proprietary trading performance in Brussels and New York.

ING REAL ESTATE

ING Real Estate includes the Finance, Development and Investment Management businesses. ING continued to steadily reduce its exposure to real estate, including an evaluation of the position of Real Estate Investment Management (REIM) within the banking business.

REIM continued actively to manage its portfolio and to reduce risk by selling its non-strategic assets. ING Group sold its 50% stake in ING Summit Industrial Fund LP and the manager of Summit, ING Real Estate Canada, to a joint venture between KingSett Capital and Alberta Investment Management Corporation.

In February 2011, ING announced that it has reached an agreement to sell the majority of its REIM businesses in two separate transactions for a combined price of approximately USD 1.0 billion (EUR 770 million). In addition, as part of the overall transactions, ING has also agreed to sell approximately USD 100 million of its equity interest in existing ING REIM funds. With these transactions ING continues to deliver on its strategic objectives of reducing exposure to real estate, simplifying the company and further strengthening its capital base.

ING Real Estate Finance and ING Real Estate Development are not impacted by the transactions and will continue to be part of ING Bank.

ING Real Estate Finance (REF) successfully weathered the adverse environment following prudent property financing for the last five years.

REF has a Top 10 position in Europe for property financing. In 2010, REF was fully integrated into Commercial Banking and is in a good position to tap into synergies across the business.

REF has set up a new account management system for its global clients to better serve its clients and to enhance cross-border relationship. It continued optimising its portfolio and clients in order to take advantage of opportunities for future profit growth.

ING Real Estate Development (RED) continued to reduce its risk and capital exposure. RED will concentrate on its core markets in the coming years and gradually reduce its development portfolios in non-core markets. Its asset management company in Spain, Auxideico, was sold in the third quarter.

CONCLUSIONS AND AMBITIONS

Commercial Banking has the right capabilities in place: strong established relationships with clients, client and sector expertise, a very strong position in the Benelux and Central and Eastern Europe, a well-sized international branch network and an international product offering. It has a leading position in specialised business and good risk management skills.

Customer centricity and cross-selling were intensified during the year. Commercial Banking closed several landmark deals and earned notable rankings in league tables across Europe proving that its performance is being recognised.

Within the overall banking organisation Commercial Banking intends to develop its winning formula to help ING Bank realise its ambition to become the preferred bank for customers. It will do this by taking a number of operational and strategic measures, including enhancing its international network and increasing its focus on customers, employees and operational excellence.

Overview
Insurance

Management Board Insurance
on 31 December 2010

Jan Hommen
chief executive officer

Patrick Flynn
chief financial officer

Koos Timmermans
chief risk officer

Matthew Rider
chief administrative officer

Lard Friese (from 1 January 2011)

Gilbert Van Hassel (from 1 January 2011)

Tom McInerney (until 1 January 2011)

Financial overview*

in EUR million	2010	2009
Total operating result	**1,743**	1,434
Gains/losses and impairments	**–505**	–544
Revaluations	**601**	–346
Market and other impacts	**–2,359**	–746
Underlying result before tax	**–519**	–202
Gross premium income	**27,947**	30,170
New sales	**4,877**	4,426
Administrative expenses/operating income	**43.9%**	44.3%
Life general account assets (in EUR billion)	**165**	143
Client balances (in EUR billion)	**454**	408
Administrative expenses (total)	**3,698**	3,431
Underlying Return on IFRS-EU Equity	**–1.8%**	–0.9%

* Underlying numbers are derived from IFRS-EU numbers, excluding the impact of divestments and special items.

Underlying result before tax

in EUR million	2010	2009
Benelux	**775**	290
Central and Rest of Europe	**254**	291
United States (excl. US Closed Block VA)	**308**	356
US Closed Block VA	**–1,793**	–654
Latin America	**342**	273
Asia/Pacific	**516**	383
ING Investment Management	**173**	169
Corporate Line insurance	**–1,093**	–1,309
Total	**–519**	–202

Operating result **

in EUR million	2010	2009
Benelux	**677**	623
Central and Rest of Europe	**292**	336
United States (excl. US Closed Block VA)	**559**	568
US Closed Block VA	**49**	23
Latin America	**283**	211
Asia/Pacific	**472**	365
ING Investment Management	**166**	201
Corporate Line insurance	**–754**	–893
Total	**1,743**	1,434

** Operating result is underlying result before tax excluding market and other impacts.

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 DEVELOPMENTS

Although business fundamentals improved, the underlying loss before tax of Insurance/IM was EUR 519 million compared with a loss of EUR 202 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 1,743 million from EUR 1,434 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. The increase in operating income was partly offset by higher expenses. Operating results improved in nearly every business line, with the exception of Central and Rest of Europe given the harsh economic conditions; and in 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 diverged, 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.

Despite the 7.8% 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 43.9% for the full year. 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 variable annuity business, bringing the reserve adequacy on this block to well above 50%.

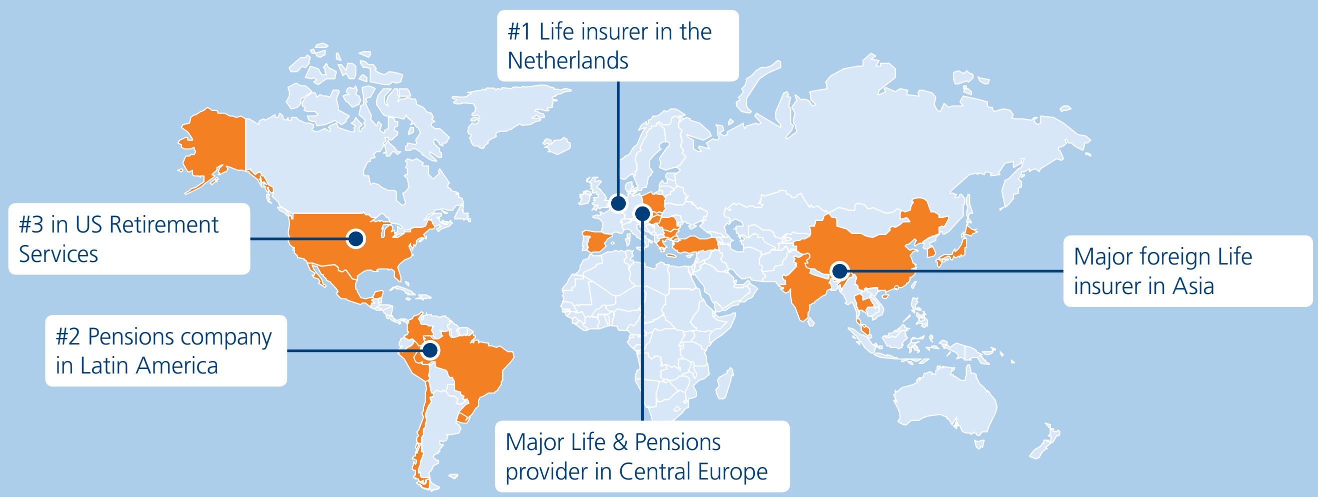
BUSINESS DEVELOPMENTS

Insurance sales were higher in 2010, assisted largely by strong Corporate-Owned Life Insurance (COLI) sales in Japan, but also by stronger sales elsewhere in Asia/Pacific and higher mandatory pension sales in Latin America.

Insurance continued

WHERE WE OPERATE

ING Insurance/IM has a strong position as a provider of life insurance and retirement services and is well positioned to capitalise on socio-economic trends.



Throughout most of 2010, the Insurance/IM businesses worked towards a base case scenario of either one or two IPOs. Towards the end of the year, ING Group decided that Insurance/IM would opt for two IPOs, one Europe-led IPO and one US-focused IPO, while keeping the option of one IPO open. The Europe-led company will have solid cash flow and strong growth positions in developing markets, while the US-focused company will have a leading franchise in retirement services and life insurance.

The decision to opt for two IPOs was taken because of differences in valuation methods of insurance companies in different markets, particularly in the US; to provide more flexibility in timing and execution of the IPOs; and to better deal with the competitive challenges that the new European Solvency II regime will pose in the US.

In preparing for two IPOs, ING Insurance/IM implemented a number of measures to increase transparency and bring US Insurance accounting and hedging in line with US peers. Central to these measures was the creation of a separate business line, US Closed Block VA within ING Insurance/IM. The changes will improve reserve adequacy, allow the company to better hedge interest rate risk, and reduce earnings volatility. (See Financial Developments above and the ‘US Closed Block VA’ section for details of these changes and their financial impact.)

In 2010, ING IM focused on enhancing its global investment capabilities by establishing a skills-based multi-boutique structure.

In the Benelux, which is the largest cash generator for ING Insurance/IM, costs have been successfully reduced by 25% over the past two years through restructuring and cost reduction initiatives. Nationale-Nederlanden regained its position as market leader in the group life market (which includes business and corporate pensions) in the Netherlands.

In emerging markets, where ING Insurance/IM has strong market positions, initiatives were taken to stimulate new sales and to establish a platform for future growth. In Latin America, the roll-out of a wealth management strategy in Mexico, Peru and Colombia, following its successful launch in Chile in 2009, resulted in a significant increase in new sales and inflows.

In the Asia/Pacific region, new product initiatives, particularly in Japan and Hong Kong, and a strong focus on bancassurance delivered strong sales growth.

Initiatives to rejuvenate tied agency channels in Central and Rest of Europe, Latin America and Asia/Pacific began through the Tied Agency Overhaul programme. These initiatives are expected to deliver greater productivity and a lower lapse rate in the future.

Insurance US began to implement a programme to narrow the strategic focus of the US business to life and retirement services while reducing annual expenses by EUR 100 million from 2011.

AMBITION 2013

By 2013, Insurance/IM intends to lift investment margins to 105 basis points on 4% growth per annum in general account assets. The business also plans to reduce life/IM administrative expenses as a ratio of operating income to 35% and to grow sales by 10% per annum and to achieve a return on equity in excess of 10%.

CONCLUSIONS AND AMBITIONS

The twin priorities for Insurance/IM in 2010 were to improve operating performance and to achieve the separation of Insurance/IM from Banking at the operational level so they could function as stand-alone companies within ING Group by the beginning of 2011.

Having achieved the operational separation of Insurance/IM from Banking at the end of 2010, ING Insurance/IM is working towards two successful IPOs of the business by sharpening its strategic direction, strengthening the capital base, and improving investment results.

Insurance

INSURANCE BENELUX

> Leading regional player in insurance and pensions
> Wide transformation of business under way in the Netherlands
> Focus on improving efficiency and pursuing selective growth opportunities

Insurance Benelux continued to make solid progress in the transformation of the Dutch insurance businesses. The integration of the Dutch insurance businesses into Nationale-Nederlanden and the revitalisation of the NN brand dominated business activity during the year.

FINANCIAL DEVELOPMENTS

The underlying result before tax in the Benelux increased by 167.3%, reflecting a higher operating result (EUR 53 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 8.5%, 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 89 million or 24.1% 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 8.1% 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 in 2009.

BUSINESS DEVELOPMENTS

The mild economic recovery in Europe continued in 2010, despite the debt crisis in southern Europe and Ireland casting a shadow over economic activity. Sentiment improved, the level of unemployment began to fall and capacity utilisation was on the rise. In the Benelux, economic conditions improved. After GDP fell 3.9% and 2.7% per cent respectively in the Netherlands and Belgium in 2009, economic growth was 1.7% in the Netherlands and 2.0% in Belgium in 2010.

Sales of insurance products to retail customers were under pressure during the year due to the low interest rate environment and fierce competition from bank annuity products. Corporate sales maintained their momentum.

Insurance Benelux focused on improving its performance in 2010 by continuing to reduce costs and capturing existing growth opportunities in the Netherlands by transforming its key insurance business there, and building on the success of the bancassurance model in Belgium and Luxembourg.

The transformation of Nationale-Nederlanden

The business's ambition is to be the most efficient and the most customer-centric large insurance company in the Benelux. The transformation of Nationale-Nederlanden under the *One* programme is a key part of this strategy and a major business initiative in 2010, containing many activities.

Nationale-Nederlanden, RVS and ING Verzekeren Retail (formerly Postbank Verzekeren) are being combined into one customer-focused organisation under the Nationale-Nederlanden brand to simplify the business and to reduce costs. As well as integrating all three under NN, three new business units dedicated to retail clients (NN Retail), to small and medium sized enterprises (NN SME) and to corporate clients (NN Corporate) were established.

In addition to the integration of the insurance businesses and the creation of new client-focused business units, the Dutch insurance businesses prepared a roadmap with a view to optimising its existing distribution channels so that customers can better choose how (Click-Call-Face) and where they buy products. The network of independent brokers continued to play an important role.

In April, the key initiative that spearheaded the transformation of Nationale Nederlanden – the revitalisation of the NN brand – was successfully launched. The campaign featured a revitalised logo and website, and three new product campaigns, which resulted in a marked increase in recognition of the NN brand values.

In October, NN Retail received the *Keurmerk Klantgericht Verzekeren* (quality recognition for customer-focused insurance) from the *Stichting Toetsing Verzekeraars*, rewarding efforts to improve customer focus. In addition, customer-focused initiatives paid off with an internal survey finding that customers rated 9 out of 10 their satisfaction with NN's handling of a cross-section of claims, and with 80% of customers requests being settled within five working days.

In other *One* programme achievements, overall costs in Insurance Benelux were reduced by 25% over the past two years and a survey of employees showed that 90% of employees were motivated by the transformation strategy.

Although the retail insurance market remained subdued, NN was particularly active and successful in the corporate market, winning many major new high-profile corporate clients, including TomTom and Accenture.

Three major campaigns were launched, aimed at NN's business and corporate pension clients. A corporate pension product that featured in one of the campaigns 'NN Prestatiepensioen' was chosen by *Moneyview* magazine as the most flexible pension product in the Netherlands.

Insurance continued

According to the most recent DNB (the Dutch central bank) market share figures released in 2010, NN won back its market leader position in group life insurance (excluding health insurance) in the Netherlands in 2009, which included the SME and corporate pension businesses.

Within the combined company, the Dutch insurance businesses began work on creating a dedicated business unit to provide services to clients who bought insurance policies that are currently no longer sold: NN Services. This will further optimise customer service and efficiency in dealing with the 'closed books' while at the same time creating more room for innovation and product development elsewhere in the organisation.

Bancassurance

NN has had a bancassurance partnership with ING Bank for many years. Given the upcoming split of insurance and banking, NN and the insurance business in Luxembourg secured a ten-year exclusive distribution contract with ING Bank in October, which came into effect 1 January 2011.

ING Life in Belgium undertook several major initiatives to stimulate cross-sales with ING Bank. It launched a new sales process for traditional insurance products through the Business Credit Centre of ING Bank. In 2011, a new variable annuity will be launched to be sold through the Bank.

In Luxembourg, the insurance business in conjunction with ING Bank recorded its best sales month ever in June. The business rated highly in an ING Bank distribution survey and sales volumes confirmed the strong and positive trend in sales since the inception of the new commercial support model in late 2009. There was much work done to find a new European distribution partner and new account managers were employed to help achieve this.

CONCLUSIONS AND AMBITIONS

Much has been achieved in the past two years when the transformation of the Dutch insurance business began. The *One* programme has succeeded in significantly reducing costs and increasing efficiency. The business transformation plans are on track and earnings have improved on the core business fundamentals.

Insurance Benelux's ability to contain expenses, increase efficiency and standardise products and operations will help it continue to grow the business. There is a further need to reduce expenses in the coming year and to capture growth opportunities, particularly in corporate pensions due to market and regulation changes, as the business prepares for a European-based IPO of ING's insurance operations.

INSURANCE CENTRAL AND REST OF EUROPE

> Positioned well in life insurance with strong market positions
> Working towards greater efficiency in operations and more effectiveness in tied agent network
> Life sales in most markets higher than in 2009

ING has leading market positions and a solid reputation in the region. This provides the company with further opportunities to broaden its distribution base. However, economic headwinds and the impact of unfavourable regulatory change in pensions in some countries continued to make business conditions challenging in 2010, following a tough year in 2009. Despite this environment, the outlook for ING's businesses in the region remains positive. Operating profit before tax was solid given the economic circumstances and regulatory change. Headway was made in the transformation towards operating with lower costs-per-policy and more professional advice to customers.

FINANCIAL DEVELOPMENTS

The underlying result before tax of Insurance Central and Rest of Europe decreased by 12.7% to EUR 254 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 EUR 10 million lower 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 were largely driven by lower revenues in both the pension fund in Poland and the life company in the 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.

BUSINESS DEVELOPMENTS

Insurance Central and Rest of Europe presents solid growth opportunities with a market of approximately 220 million people and relatively low penetration rates for life insurance and pensions. It operates in Poland, Hungary, the Czech Republic, Slovakia, Romania, Bulgaria, Greece, Turkey and Spain.

Insurance continued

The macroeconomic environment in 2010 was an improvement on 2009. However, it was still challenging for business, with a lingering recession and severe public debt problems in some countries, resulting in subdued growth across the region.

Regulatory changes in several of ING's key markets had a marked dampening impact on some ING pension funds in 2010, especially in Poland and Hungary. In Life, Slovakia, Bulgaria and especially Greece faced difficult conditions, yet companies in our key markets were able to grow their sales compared to 2009. Poland and Hungary had double-digit sales growth in Life. There were reduced bancassurance activities in some countries, especially in single premium unit-linked business. Lapses and surrenders, although lower than in 2009, still remained relatively high.

The focus in 2010 continued to be on preparing for future growth, managing costs carefully and further improving sales processes.

In the region the operations of ING Insurance and ING Bank were very much intertwined in several countries. Much work was done across the region to achieve their operational separation by 1 January 2011 in line with ING Group's plans to separate its banking and insurance operations.

Growth strategy

With competition increasing, new distribution channels opening and changing regulations, it remains ING's goal to continue to be a competitive, market-leading company that offers customers the best professional advice and value for money. In 2010, ING worked on several major initiatives to achieve this. These included the introduction of new products and entering new business segments – for example the introduction of Group Life in Poland. Also, a Tied Agency Overhaul programme began in Spain and will be rolled out gradually across the rest of the region. In Turkey, a life insurance licence was obtained.

Broadening the distribution base and developing more multi-channel capacity was also a key goal in 2010. Tied agents are still the dominant distribution channel, but bancassurance and brokers are increasing in number and importance. The introduction of *credit life*, a life insurance product attached to new loans and mortgages of ING Bank Turkey, and introduced especially for the bancassurance channel, was very successful, selling 100,000 policies within six months.

Towards a region-wide operating model

In 2010, Insurance Central and Rest of Europe continued to work on creating a more region-wide operating model. The model will include, among other things, a regional general ledger, a regional product framework and a centralised, regional IT platform. Intensified regional cooperation creates more economies of scale to provide a solid foundation for future growth.

In the Tied Agent Overhaul programme, initiatives were taken to further improve ING's value proposition for customers and to continue professionalising its sales forces by, for example, improving agent productivity. The aim is to have smaller, but more effective sales forces. There will be more emphasis on enhanced recruiting, training and coaching of new agents and activity management. The Tied Agent Overhaul programme began in Spain in 2010 and has already proved successful. It was rolled out in Romania from January 2011, with other countries to follow.

Regulatory change

Some governments in the region remain under severe budgetary pressure and this has resulted in changes to the local regulatory environment for mandatory pensions, due to the demands of the deficit and debt definitions of the Maastricht Treaty.

In Hungary at the end of 2010, Parliament agreed upon some very unfavourable changes in the pension system, which amount to quasi-nationalising mandatory pensions. As a first step, for the period until January 2012, employee contributions to pension saving accounts will be used by the State to finance the Hungarian national deficit by being directed into the State pay-as-you-go system. As a second step, mandatory pension fund members had to declare by 31 January 2011 if they wanted to maintain membership of their fund. If they do maintain membership, they will not accumulate future pension rights in the State's pay-as-you-go pension system. In this way most of the accumulated assets of the pension funds will be used to meet the budget deficit targets. In addition, in early 2010 in Poland, caps were introduced on the level of commissions Pillar II pension funds can earn. The prospect of further regulatory change in the region is a concern for ING.

Despite this, ING's Polish pension fund became the country's largest in terms of assets under management. It was already the largest in terms of number of customers. Uncertainties about mandatory savings regulations could lead to extra demand for voluntary pensions, life insurance, savings and investments. It could offer ING, with its strong retail distribution base, opportunities to further increase sales.

Awards

During the year, several awards were won and there were also some special mentions. ING Insurance Poland came first in the Insurance Companies Ranking by *Gazeta Bankowa* monthly – a leading banking and insurance magazine in Poland. The ranking awarded the most customer-orientated insurance companies that excel in post-sales service. In Hungary ING was ranked among the country's best life insurers at a brokers' national conference. This was significant, given that ING Life Hungary established the broker channel relatively recently and had no long-standing broker partnerships prior to this. In Romania, ING Pensions became Company of the Year for its outstanding results achieved in a tough year. ING Life Romania won the award in the Quality Services category. ING Insurance Czech Republic and Slovakia both won several awards for their products (such as pensions and investment products). A committee of independent professionals considered them the best in the industry.

CONCLUSIONS AND AMBITIONS

Most economies in the region are expected to experience above average eurozone GDP growth rates in 2011. In time, standards of living in the region are likely to increase gradually to West European standards. Recent changes to regulations for pensions remain a concern, and could constrain growth in the short term. However, Insurance Central and Rest of Europe has strong market positions in life and pensions and is well positioned to capitalise on economic recovery. ING has a strong reputation in the marketplace, well-regarded management teams in place and a solid customer base. The businesses are well situated to make a substantial contribution to the Europe-based IPO of ING Insurance/IM.

Insurance continued

INSURANCE US (EXCLUDING US CLOSED BLOCK VA)

> Sharpened focus on Retirement Services and Life Insurance businesses
> Simple rollover mutual funds target retirees
> Separate business line created for Closed Block Variable Annuity (VA)

The challenging state of the US economy, including the high level of unemployment and low interest rates, was a significant headwind for the businesses in 2010. Despite these external factors, overall sales and operating profit were higher than in 2009, thanks to a continued focus on cost reduction, a variety of new sales initiatives and efforts to improve the investment margin.

ING took a number of measures to improve the clarity of reported results of Insurance US, and to address reserve inadequacy and earnings volatility in the Closed Block VA business. A separate business line within ING Insurance/IM was created for the US Closed Block VA business to help achieve this, ahead of the proposed IPO of the US Insurance business. (See 'Insurance Overview' and the 'US Closed Block VA' sections.)

FINANCIAL DEVELOPMENTS

The underlying result before tax of Insurance US in 2010 decreased to EUR 308 million from EUR 356 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 deferred acquisition costs (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 also from higher fees and premium-based revenues, as a result of higher assets under management.

Administrative expenses increased to EUR 904 million from EUR 791 million in 2009. The comparison with 2009 is impacted by accrual adjustments which lowered 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.

BUSINESS DEVELOPMENTS

Insurance US is a market leader in providing retirement services and pension products. It currently operates three core businesses: Retirement Services, Individual Retirement and Individual Life.

The Retirement Services unit is the third largest provider of defined contribution (DC) retirement plans in the US based on assets under management and administration, the second largest based on the number of plan participants and the largest based on the number of retirement plans managed.

The Individual Retirement unit was formed in 2010 to focus on meeting the financial and retirement needs of individuals.

The Life Insurance unit is a Top 5 writer of individual term life insurance and a top writer of permanent life insurance. Its group unit is a major writer of large-case group life and disability insurance and a Top 5 writer of employer stop-loss insurance.

Insurance US concentrated its efforts in 2010 on preparing the business for a US-focused IPO by strengthening the operating performance of its businesses through cost reduction, top-line growth, margin improvement and leveraging the company's talent.

In 2010, all businesses continued to concentrate on providing customer-focused products, competitive returns and quality service.

Retirement Readiness strategy

Insurance US continued to build on its strong market positions and reputation in retirement services, despite a sluggish US economy. The Retirement Readiness strategy, which intends to establish ING as the best provider of retirement products and services in the minds of retirement customers, became the key initiative for Insurance US. The ageing of the US population creates significant long-term growth opportunities as those aged 45 or more control more than two-thirds of the approximately USD 30 trillion of financial assets in the country. The impending retirement of 'baby boomers' and the recent financial turmoil have increased attention on being financially prepared for retirement.

In Retirement Services, ING serves the full spectrum of the US market from full-service plans to recordkeeping services only. The business is positioned to serve all sizes and employer segments of the market – including corporate, education, government and healthcare.

During the year, ING Retirement Plans was selected by important plan sponsors as the sole provider of services, including managing the deferred compensation plan for the City of Austin, Texas, as well as recordkeeping, education and marketing for the Commonwealth of Kentucky's retirement plans, which represent USD 1.6 billion in 457(b) and 401(k) assets from 75,000 participants. In the government market, ING currently services retirement plans for more than 4,100 state and local governments.

For the seventh consecutive year, ING maintained a No. 1 ranking in sales in the kindergarten to 12th grade 403(b) education market and a Top 5 sales position in the small corporate 401(k) market.

The integration of CitiStreet, a recordkeeping business that ING acquired in 2008, entered its final stage. As part of the drive to control expenses and improve margins, staffing levels across Retirement Services were reduced in 2010.

Insurance continued

Communicating clearly with customers remained a high priority in 2010. ING's efforts in the field were rewarded with US Retirement Marketing winning 28 communications awards. At the *Pensions & Investments* Eddy awards ceremony, which acknowledges excellence in providing investment education to plan participants, ING was given five, first-place and three, second-place awards.

The Rollover opportunity
As part of Insurance US's strategy to be the leader in helping individuals and institutions to grow and protect their wealth, Individual Retirement offers a variety of products, including rollover annuities that are part of broad suite of lower cost, lower risk investment vehicles.

During the year, Individual Retirement offered for the first time a number of lower cost rollover annuity products targeted primarily at current participants exiting ING-managed retirement plans. These included two fixed index annuities (ING Select Multi-index 5 and ING Select Multi-Index 7), a registered fixed annuity and a mutual fund individual retirement product.

Individual Retirement also provides Rollover IRA (Individual Retirement Accounts) products, essentially individually established defined contribution retirement funds, which are expected to be the fastest-growing segment of the US retirement market. These products are aimed at capturing the growth opportunity that lies within the rapidly expanding market for retirees and people changing jobs. This creates a need for the 'rollover' of plan assets into an individual retirement product or solution.

Individual Life
Individual Life continued to focus on competitive product manufacturing, effective distribution and efficient operations. It has one of the broadest market reaches in the industry and one of the most complete product portfolios. Individual Life insurance manufactures a range of products from low-cost term in the middle market up through high-end universal life (UL) sales in the affluent markets. The business has a strong multi-channel sales team with the capacity to reach every licensed life insurance agent in the US. It has over 80,000 independent producers and more than 1,500 intermediaries under contract or appointment. Its distribution organisation has a best-in-class sales support and illustration system. This model has allowed Individual Life to create significant scale, to become a Top 5 writer of individual term life insurance, and develop into a major writer of permanent life insurance.

Overall sales in the Individual Life industry remained under pressure in 2010 as a result of the challenging economic environment. However, in the first half of the year the business undertook a series of initiatives to spur growth. These included making revisions to the term product portfolio, as well as introducing a new global indexed product and re-pricing of the guaranteed death-benefit universal-life market.

In October, Individual Life also re-priced its term product suite with the goal of further strengthening its market position while maintaining profitability. ING ranked as a Top 5 player in the term life insurance market in the US in 2010.

CONCLUSIONS AND AMBITIONS
To prepare for a successful US-focused IPO, Insurance US will continue to concentrate on three key priorities: sales growth, expense management and improving investment margins. Management is implementing a plan to reduce annual expenses by EUR 100 million a year, as it sharpens the focus on the retirement and life businesses.

Insurance US has leading franchises in retirement services and life insurance, and remains strongly committed to its Retirement Readiness strategy to become the premier franchise in the US industry and to expand its rollover strategy. The business will remain focused on customers' needs and providing retirement and life insurance products through a broad set of distribution channels.

US CLOSED BLOCK VA

> Became a separate business line within ING Insurance
> Resulted in a DAC write-down of EUR 975 million
> This improved reserve adequacy
> Moved towards fair value accounting on GMWB reserves

From 1 October, ING implemented a number of key changes with regard to the US Closed Block VA business to increase transparency, improve reserve adequacy, reduce earnings volatility, and to bring accounting and hedging more into line with US peers as the company prepares for a potential US-focused IPO. As part of these changes, ING began to report the US Closed Block VA business as a separate business line within ING Insurance/IM to improve transparency for both the Closed Block and ongoing businesses.

FINANCIAL DEVELOPMENTS
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 deferred acquisition cost (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 the 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.

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

Insurance continued

margin of EUR 16 million was mainly attributable to non-recurring negative reserve developments 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.

BUSINESS DEVELOPMENTS

The US Closed Block VA business includes 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. There are more than 500,000 contract holders and more than USD 46 billion in assets under management. Approximately two-thirds of the policies contain a guaranteed living benefit.

As stated above, from 1 October, ING began to report the US Closed Block VA business as a separate business line to improve transparency for both the Closed Block and ongoing businesses.

This separation triggered a write-down of the business's DAC balance of EUR 975 million before tax, under ING's existing accounting policies. This brought reserve adequacy on the US Closed Block VA business line to the 50% level.

Further, ING moved towards fair value accounting policies on reserves for the Guaranteed Minimum Withdrawal benefit (GMWB) as of 1 January 2011 to better reflect the economic value of these guarantees. This enabled ING to substantially increase hedging of interest rates on the US Closed Block VA book without causing significant earnings volatility, because results from hedging derivatives would largely be mirrored in fair-value changes of the guarantees. With increased hedging, interest rate risk would be significantly reduced.

The combined effect of these actions is to strengthen reserves, reduce earnings volatility, increase future profitability and to decrease risk.

The long-term IFRS earnings outlook has been improved by reducing the DAC balance and the overall amortisation rate, as well as improving IFRS reserve adequacy on the US Closed Block VA business to well above the 50% confidence level.

Although actions in relation to the US Closed Block VA business had a negative impact on underlying earnings in 2010, ING believes that the right steps are being taken to effectively manage this business going forward.

INSURANCE LATIN AMERICA

> Leading position as the second largest pension provider in the region
> Wealth Management business launched in several countries

2010 marked the third consecutive year of profit growth for Insurance Latin America. The business used its position as the region's second largest pensions provider to develop its wealth management business in major markets as part of a strategy to broaden and strengthen its operations in the region.

FINANCIAL DEVELOPMENTS

Insurance Latin Americas posted an underlying result before tax of EUR 342 million in 2010, a 25.3% rise on the 2009 underlying result of EUR 273 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 in 2009) 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 which was primarily attributable to investments to roll out wealth management projects throughout the region.

New sales (APE) climbed by 52.1% to EUR 683 million in 2010 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.

BUSINESS DEVELOPMENTS

Latin America surged ahead in 2010 with economic growth rates generally exceeding those of most countries in Europe as well as the US.

The region has very attractive macroeconomic and demographic fundamentals. The population is large and relatively young compared to the US and Europe, inflation is largely under control and country credit ratings are positive and stable.

ING operates the second largest pension business in Latin America and has leading positions in the region's most attractive pension, insurance and asset management markets. In Peru, ING is ranked No.2 in mandatory pensions with a 30.5% market share, in Uruguay, the second largest; in Mexico and Chile, the third largest; and in Colombia, the company ranks among the Top 5 mandatory pension providers.

Insurance continued

ING in Latin America continued to successfully take advantage of powerful demographic trends and strong economic tailwinds in the region, delivering solid earnings for the third consecutive year, despite the worldwide financial crisis and its lingering aftermath.

The five businesses together have 9.4 million customers and EUR 35 billion in assets under management. ING's strong market positions in life and pension businesses across the region enabled the company to continue to post solid top- and bottom-line growth in 2010.

The businesses in the region continued to develop wealth management strategies, concentrating on mandatory and voluntary retirement savings plans.

During the year, the priorities for the business were to improve operational efficiency and contain costs as well as to expand sales through the roll out of a wealth management business across the region. Customer retention strategies for the mandatory pension business were refined.

Wealth Management
The Wealth Management platform successfully established in Chile in 2009 as a means of capturing a larger share of the affluent market continued to perform well, making a significant contribution to net inflows. During 2010, ING rolled out the platform in other countries in the region such as Peru, Colombia and Mexico.

The new wealth management business includes a variety of savings and investment products such as mutual funds and life insurance, personalised financial advisory services, and an 'easy-service' administration platform, which are all geared towards helping customers reach their medium and long-term financial goals.

The high net-worth segment in the region is an important market with an estimated 12 million potential customer households with total income of EUR 356 billion.

A strategic marketing campaign to support the wealth management launch was built on ING Insurance US's successful 'Your Number' campaign, which prompted people to think about how much they might need in retirement and to work towards achieving it. The campaign in Latin America invited potential customers to experience an innovative goal-based advisory programme, which helps customers quantify their savings objective and to create a plan to reach it.

Cross-selling voluntary savings products to existing clients is one of the major drivers that will help boost earnings to an expected 15% growth rate a year. In addition, early results from Chile show there was higher than 30% productivity from sales and lower distribution costs, as a result of the wealth management initiatives, which lifted ING to the largest provider in the tax incentive voluntary savings market with 21.7% market share.

SulAmérica
ING's joint venture in SulAmérica is expected to contribute to growth at Insurance Latin America. SulAmérica is the largest independent multi-line insurance company in Brazil by total premiums and market capitalisation, and has posted strong earnings growth since its listing as a public company in 2007. The company with strong cash reserves is positioned to continue delivering solid earnings growth in the booming Brazilian market. ING holds a 36% shareholding in the company.

CONCLUSIONS AND AMBITIONS
Insurance Latin America is committed to building on its position as the second largest pensions provider in the region by developing a significant position in the voluntary savings market. The wealth management strategy, designed to achieve this, will continue to be geared to capturing a larger share of the affluent market.

Although growth in the mandatory pensions market has been positive, the market is maturing, and so the business will focus, in particular, on sharpening its customer retention strategies for this business.

Insurance Latin America will continue to pursue operational efficiency by the sharing of best management practices, a disciplined approach to expense control largely through regional procurement initiatives and the search for synergies in the businesses in the region.

The business commands a substantial presence in the region and has very attractive business fundamentals. ING is exploring strategic options to determine the future of the insurance business in Latin America.

INSURANCE ASIA/PACIFIC

> A year of strong growth across the region
> Distribution boosted through bancassurance and tied agents
> Success with joint ventures

Insurance Asia/Pacific performed very well in 2010, recording strong growth in new sales and profitability. Strong sales in Japan, new products in Malaysia and Hong Kong and robust bank distribution sales all contributed to the result. The business focused on boosting commercial momentum by continuing to develop and strengthen bancassurance relationships and lifting tied agent productivity.

FINANCIAL DEVELOPMENTS
Insurance Asia/Pacific posted an underlying result before tax of EUR 516 million in 2010, up 34.7% or 15.8% excluding currency effects compared to EUR 383 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 moderate growth in 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.

Insurance continued

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 the previous year 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.

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.

BUSINESS DEVELOPMENTS
Most of Asia recorded strong economic growth in 2010. Robust domestic demand and trade within Asia boosted consumer confidence, which in turn buoyed investor sentiment and led to strong stock market growth. Despite some concerns about the impact of economic restraint measures in China earlier in the year, overseas funds continued to find a home in Asia's emerging markets.

Asian investor sentiment as measured by the ING Investor Dashboard Survey was substantially more buoyant in 2010 when compared to the first half of 2009. By the third quarter of 2010, the Survey's Pan-Asia index was up 100% on the financial crisis low in the fourth quarter of 2008.

ING was well-positioned to benefit as the life insurance and pensions sectors regained momentum.

Insurance Asia/Pacific is one of the largest foreign insurers in Asia with nine insurance companies in seven countries: China, Hong Kong, South Korea, Japan, Malaysia, India and Thailand.

2010 was a year of robust commercial momentum for Insurance Asia/Pacific driven by brisk sales in Japan, Hong Kong, Malaysia, and from KB Life in Korea and ING-BoB Life in China. This was driven by the introduction of new products and successful bancassurance partnerships.

ING concentrates on markets expected to show strong growth. Growth in the region is based on higher levels of income and greater demand for wealth protection. Changing demographics is also a major growth driver where the rising number of middle age and retired people are expected to boost demand for savings, retirement and health products and services.

Capturing growth
In 2010, ING focused on capturing growth by strengthening preferred banking partnerships, enhancing tied agency productivity and diversifying its product mix through new sales campaigns and product innovation.

In Asia/Pacific, ING sells insurance and wealth management products mainly through its extensive tied agency force, but also has access to customers through a number of preferred bank partnerships. Sales are also made through direct marketing and independent agents. There are 20,371 tied agents, more than 5,000 independent agencies and, on the bancassurance front, ING's products and services are sold through 1,802 branches.

In South Korea, Japan and Malaysia, ING holds key market positions and in 2010 worked to strengthen them further.

South Korea remains a key ING stronghold in Asia. ING Life Korea is the fourth largest insurer and the largest foreign insurer in the country. It retained a AAA credit rating from Korea Ratings for the fourth year in a row. In 2010, initial steps were taken to improve tied agent productivity through new recruitment campaigns, enhanced training and more active management of agents, after sales had been under pressure for some time. In other business developments, ING's insurance joint venture with KB Financial Group, KB Life, continued to grow strongly in 2010 and bancassurance partnerships were strengthened.

ING's Malaysian operations continued to perform well, where it leads the market in the employee benefits product line and is the third largest insurer in the individual life insurance segment. The business recorded strong growth in the number of tied agents, and the bancassurance partnership with Public Bank continued to reap many benefits. New products were launched and bank distribution was strengthened which helped boost sales. ING also successfully partnered with Public Bank to gain a Takaful licence. Takaful achieves similar objectives to those of conventional life insurance, but does so in a manner that is compliant with Islamic law. The Takaful business is expected to begin operations in the first half of 2011, and is expected to have bright growth prospects. Asia is home to 1.2 billion Muslims (68% of the global Muslim population) and in Malaysia, there are 15 million Muslims who make up 60% of the population.

ING Life Japan continued to build on the success of its COLI (Corporate Owned Life Insurance) business. It has consistently maintained a market-leading position with a strong product line-up and extensive network of distribution partners. Sales were very strong in 2010 and were boosted early in the year with the launch of a new COLI cancer product and further supported by a new COLI increasing term product in the fourth quarter. ING will explore opportunities to expand its product offering in this market and plans to revive distribution relationships with a selected number of Japanese financial institutions to boost sales.

Strong performance in Hong Kong was driven by robust new sales of endowment products *Easy Grow* and *Easy Builder*, both launched during the first half of 2010, coupled with success in the bancassurance channel. New sales were up 51% year on year, excluding FX, and the bank distribution channel contributed 41% of new sales compared with 23% in the previous year.

Greenfields in Rest of Asia
In Thailand, ING's bancassurance relationship with TMB Bank remained the key driver of growth. Further work was done to improve productivity in the tied agency channel.

ING Life in India continued to strengthen its partnership with ING Vysya Bank to benefit from the bank's rapid branch expansion. ING is most active in the four southern states of India.

In China, ING focused on its insurance joint venture with Beijing Capital Group, ING Capital Life, after a strategic review of its

Insurance continued

operations in the country in 2009. The joint venture sells individual and group life insurance to residents of Liaoning, Anhui, Henan and Shandong provinces and the Beijing municipality. The business continued to show high-growth potential, especially in retirement services and education savings products. On 1 July, Bank of Beijing replaced Beijing Capital Group as ING's joint venture partner by acquiring a 50% stake and the joint venture was renamed ING - BoB Life. Through this business, ING seeks to strengthen its presence in the insurance business in China.

CONCLUSIONS AND AMBITIONS

Insurance Asia/Pacific has an extensive presence in life insurance and retirement services in the region. The company is committed to maintaining commercial momentum with a view to being a part of a successful European-led IPO of ING's insurance businesses by 2013.

The business will continue to seek growth through its preferred banking partnerships and by further professionalising the agency force to become the tied agency company of choice for agents.

Investment management

> AuM of EUR 387 billion, making ING IM one of the top-25 asset managers in the world
> 72% of AuM performed above benchmark
> Moved to skills-based multi-boutique structure

In 2010, ING Investment Management (ING IM) continued to enhance its investment capabilities and pursued business development opportunities by operating as a globally coordinated business. There was a continued focus on cost control, but the emphasis remained on growing revenues and improving investment performance. The business moved to pool its investment expertise around the world and boost investment performance by implementing a skills-based multi-boutique structure. Performance was strong with all asset classes (equity, fixed income, multi assets) outperforming their respective aggregated benchmarks over the past 12 months.

FINANCIAL DEVELOPMENTS

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 23.1 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 was 64%, 31% and 5% respectively of total AuM.

Underlying result before tax increased by EUR 4 million to EUR 173 million in 2010 as a result of 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), which 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 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 in the previous year. 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 exceeded the market standard of 68%. Over the last 12 months, all asset classes (equity, fixed income, multi assets) outperformed their respective aggregated benchmark.

BUSINESS DEVELOPMENTS

ING IM is the principal investment manager of ING Group. It helps ING Group deliver on its strategy of helping customers to manage their financial future. ING IM's wide distribution reach and strong and unique emerging markets presence, together with its scale in fixed income, strong brand recognition and access to a global network of ING channels continued to position ING IM well in gaining new business as markets continued to recover in a volatile year, marked by intense competition. All three regions – Europe, Americas and Asia/Pacific – focused on delivering a wide range of

Investment management continued

investment strategies and services to ING's global network of businesses and third-party clients.

ING IM's performance was very strong in all client categories: general account (ING Insurance), affiliated distribution (business sold via ING channels) and third-party retail and institutional. For ING Insurance, ING IM contributed to an investment spread of 93 basis points based on a four-quarter rolling average compared to 83 basis points for the previous year.

FOCUS ON PERFORMANCE

2010 marked the first year that the ING IM business was managed as a separate business within ING Insurance/IM, recognising the importance of a strong local presence in regions and markets in Europe, the Americas and Asia/Pacific.

Combining all three businesses allowed for an enhanced, unified strategy across the three regions and provided further synergy opportunities in distribution and sales as well as in manufacturing, operations and administration.

ING IM concentrated mainly on improving performance across all asset classes, delivering superior client service, enhancing risk management, exploiting synergies between the regional ING IM businesses, and upgrading systems and infrastructure.

It strengthened partnerships with ING businesses and developed third-party business opportunities. The emphasis was on accelerating the growth in revenues and assets under management, working more cost efficiently and building a common culture and set of values within the business.

In 2010, ING IM further sharpened its investment performance by implementing a skills-based multi-boutique structure. Boutiques pool the investment talent and skills of different regions into an internationally coordinated investment team. This structure has helped to deliver strong investment performance over the last one and-a-half to two years.

Various funds were launched for global sales. These funds included the ING (L) Invest Renta Fund Europe High Yield (produced by the Global Credit boutique), the ING (L) Invest Commodity Enhanced Fund and the ING (L) Invest Brazil Focus Fund.

In addition, ING IM established a single research platform, bringing together internal and external research and leveraging the best research capabilities from across the regional businesses.

Fund ratings agency Morningstar awarded the ING Global Opportunities Fund the best worldwide large cap equity fund in six countries: France, Austria, Spain, Singapore Hong Kong and the Netherlands. The fund also won 'Best global equity fund over a three-year period' at the Thomson Reuter Lipper 2010 awards.

ING IM EUROPE

ING IM's Institutional clients Netherlands division adjusted its sales focus in acknowledgement of the shift in the market from Defined Benefit to Defined Contribution pension funds, the consolidation of pension funds and the shift from mandate-driven to solutions-driven business.

On the retail front, ABN AMRO in the Netherlands began to distribute nine ING IM mutual funds. The former Fortis Bank Nederland, now integrated with ABN AMRO, has offered ING IM products for some time.

As announced in 2009, ING IM outsourced the funds administration, custody and transfer agent functions of its Luxembourg fund range to Brown Brothers Harriman (BBH) in order to offer its unit holders a-best-in-class operational service.

In 2010, ING IM took many initiatives to offer its clients a broad, balanced and competitive fund range. The transition to BBH allows ING IM to add other major benefits, including a fixed service fee, shorter trading and settlement cycles, and the provision of more hedged-share classes.

ING IM AMERICAS

In 2010 ING IM Americas saw a successful transition to arm's-length pricing for the ING Insurance General Account, along with a deepening of the partnership with Insurance clients in managing their portfolios, capital and liquidity needs.

The partnership with ING's US Retirement business was further strengthened, highlighted by a tripling of Stable Value product sales to USD 3.6 billion through the third quarter of the year. There was also improved performance and growth in the ING IM managed Target Date funds.

The strong track record in investment performance in US equities and fixed income continued. In fixed income, a new investment team, put in place in 2009, achieved a strong recovery in performance, after a decline in 2008. In US equities, it was the sixth consecutive year of good investment performance.

A special distribution division was created to focus on capturing a larger share of fund business from ING affiliate businesses, reflecting the importance of this business. Investments were made to enhance retail and institutional distribution and marketing teams. ING IM Americas launched the ING Infrastructure, Industrials and Materials Fund, a closed end fund, in January 2010.

Latin America recorded another strong year of performance, extending its solid track record in the mandatory pension market. ING IM partnered ING's insurance and pension businesses in the roll-out of a wealth management platform. The global attractiveness of the region was reflected in the successful launch of a new Latin America fund at ING IM Taiwan.

ING IM ASIA/PACIFIC

Despite ongoing global economic uncertainty, ING IM Asia/Pacific managed to book significant new and prestigious business. On the institutional side, numerous mandates were won by IM's offices in Korea, Taiwan, Japan, Malaysia and Australia. Japan garnered an Emerging Market Debt sub-advisor mandate of more than USD 1 billion from a major financial institution. On the retail front, Taiwan successfully launched a high yield bond fund of funds as well as a Brazil fund, achieving USD 200 million and USD 150 million respectively during the initial funding period. India was very successful in growing its Portfolio Management Service (PMS) book.

Investment management continued

ING IM recorded a strong increase in the number of funds registered. There were 21 new funds registered in Korea. Four new funds were registered each in Hong Kong and Taiwan, and three were registered in Singapore. In 2010, many awards were won. These included the *AsianInvestor* 2010 Investment Performance Awards for institutional funds management in the category of Asia fixed income; the *Asia Asset Management* Institutional Fund House Taiwan 2009 Award; the ASEAN Most Innovative Investment Manager title in Malaysia – and the Asset Manager of the Year 2010 award in the Philippines by *The Asset* magazine.

In December, ING announced it had reached an agreement to sell its investment management activities in the Philippines to The Bank of the Philippine Islands (BPI). It is anticipated this will be completed during the first quarter of 2011.

CONCLUSIONS AND AMBITIONS

ING IM is committed to becoming a top-tier performing investment management business. ING IM has solid growth opportunities both through affiliated ING channels and through retail and institutional third-party business.

Over the year, ING IM has focused on enhancing its investment capabilities. A skills-based multi-boutique structure has been established and best practices in key functional areas have been strengthened. As a result, ING IM has delivered strong investment performance and made significant progress in building an investment-led winning performance culture.

In November 2010, ING Group announced a revised base case of two IPOs for separating its Insurance/Investment Management and Banking businesses. This entails a US-focused IPO and a Europe-led IPO for its Insurance/IM business, while keeping other options open. In the two IPOs scenario, the Investment Management businesses in the US and elsewhere will continue to operate in partnership to ensure continued commercial collaboration and cross -selling arrangements among the regional ING IM businesses. This will also ensure continuity in terms of product development, distribution, investment expertise and performance.

During this period of change, ING's investment businesses will remain focused on exceeding client expectations and on generating superior returns for its clients.

Report of the Executive Board

The Corporate governance section starting on page 78 and the paragraphs of the Remuneration report 'Remuneration policy for senior management' and 'Senior management remuneration structure 2011' on page 81 are incorporated by reference in this Report of the Executive Board.

AMSTERDAM, 14 MARCH 2011
THE EXECUTIVE BOARD

Report of the Supervisory Board

The Supervisory Board and the Executive Board met regularly in 2010. The implications of the Restructuring Plan of the European Commission as well as the strategy for the bank and the insurance/investment management operations following the separation 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, corporate governance, the new remuneration policy and human resources.

GENERAL

SUPERVISORY BOARD 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 Supervisory Board also frequently discussed the preparation and progress of the separation of the banking and the insurance operations as well as the future repayment of the Dutch State. The strategy of banking and insurance and the development of the insurance business in the US were also important topics on the agenda.

The Supervisory Board visited the main ING data centre during its annual Supervisory Board Knowledge Day in January 2010. The objective was to update the Supervisory Board members on new technologies as well as the development and the future strategic direction of the ING data centres. During the Knowledge Day, the Supervisory Board was also updated on developments concerning IFRS for financial instruments. In addition to the annual Knowledge Day an Audit Committee Knowledge session took place in March 2010. The Dutch central bank gave a presentation on banking supervision during the Audit Committee Knowledge session. Furthermore, several educational presentations on specific topics were given to the Supervisory Board during the year.

Also in January 2010, the Supervisory Board held its annual full-day meeting on ING's strategy and the 2010 Financial Plan, including the related risks. The Supervisory Board extensively discussed the possible strategies for the coming three years focusing on customer centricity, preparing for the separation of the banking and insurance operations and on generating capital and cash flow to repay the Dutch State. The ambitions for the new banking and insurance organisation were also discussed as well as the Dutch Banking Code. The Supervisory Board approved the 2010 Financial Plan and ING's strategic direction. The opportunity for appeal against the decision of the European Commission regarding certain elements in the Restructuring Plan was discussed and supported by the Supervisory Board.

The 4Q 2009 and the 2009 annual figures were discussed in February 2010, including the related reports from the internal and external auditors and the assessment of the Executive Board of the adequacy and effectiveness of ING's risk management and control systems. The Supervisory Board was informed about ING's exposure to the sovereign debt of Southern European countries and was updated on management's vision of ING's real estate exposure. The draft agenda of the annual General Meeting was discussed and approved. An important topic was the discussion on the ING Trust Office. The Supervisory Board took note of investor feedback on ING's performance over 2009.

The successive quarterly figures of 2010 were discussed in May, August and November, respectively. The Annual Accounts and the SOX 404 sign-off were approved in March. The 2010 General Meeting was evaluated in May. The Supervisory Board was updated on the status of the separation of the banking and insurance operations, including the most complex separation issues and the costs of separation, in almost every meeting. Various scenarios to pay back the Dutch State in the future were reviewed. In line with the regular review programme TMB Bank, Santander pension and annuity business in Latin America, Citistreet as well as Interhyp AG,

Report of the Supervisory Board continued

were reviewed in the year as three years had passed since acquisition of these entities.

In May, the Supervisory Board was updated on the development of the bank strategy following separation and discussed the five-year financial plan for insurance. Taking into account the uncertain outlook for the real estate market the Supervisory Board reviewed possible measures regarding ING's real estate exposure.

In June, the turbulence in the eurozone was tabled for the Supervisory Board meeting and possible consequences for ING in a number of potential scenarios were discussed. Group HR presented an update of Leadership development within ING. Several senior managers and talents were introduced to the Supervisory Board during a number of dinners with the Supervisory Board, the Executive Board and the Management Boards Banking and Insurance.

In August, the Supervisory Board was informed in detail about the developments of the insurance business in the US including possible measures to be taken. A discussion took place on ING's corporate responsibility policy and the implementation of ING's Business Principles within the business also in light of the Corporate Governance Code. The Supervisory Board was updated on the effect of the new Basel III regulation on the core Tier 1 ratio and on the implementation of the Solvency II regulations.

In September, the Supervisory Board visited ING Belgium in Brussels. During this visit the Supervisory Board was informed extensively on the activities of ING in Belgium and exchanged ideas on ING Belgium in a joint meeting with the Supervisory Board of ING Belgium. Furthermore the Supervisory Board was updated on the performance of the insurance business and on the developments regarding the Basel III and Solvency II regulations and the implementation within ING.

Given the underlying result of ING Insurance US over the third quarter which was affected by various non-operating impacts, management presented several measures to the Supervisory Board in November to mitigate the issues in the US. Furthermore, the Supervisory Board supported the choice of a divestment strategy base case of a European-led IPO and a US-focused IPO. In November, the implementation of the strategy for the bank was presented to the Supervisory Board as well as the implementation of the Dutch Banking Code.

During the internal meetings of the Supervisory Board (Supervisory Board meetings in most cases with the CEO present), the Supervisory Board approved the proposed new remuneration policy on the basis of the Dutch Banking Code. The Executive Board 2009 performance assessments and performance objectives for 2010 were also approved. The possible consequences of the new EU Capital Requirements Directive (CRD III) for the new ING compensation policy were a topic of discussion later in the year. The succession planning for the Executive Board positions was also discussed in a number of internal Supervisory Board meetings. In November, the Supervisory Board discussed the proposed candidates for the Management Board Insurance and the Management Board Banking as well as the compensation proposals for these candidates. The outcome of the annual Supervisory Board self-assessment through a questionnaire was reviewed by the Supervisory Board in a meeting with only the Supervisory Board members present. To improve its functioning, the Supervisory Board made several suggestions regarding strategic discussions, the earlier distribution of financial information and educational topics. The Supervisory Board also discussed the functioning of the Executive and Management Boards.

AUDIT COMMITTEE MEETINGS

In 2010, the Audit Committee met five times, with no absentees, to discuss the annual and quarterly results and the annual US GAAP results. The development of the insurance results, the real estate exposure and cost development within ING, as well as management actions concerned, were discussed several times during the year.

In the second half of the year, the exposure of ING in Greece and other Southern European countries, including Spain, was a topic of frequent debate. The Audit Committee was regularly updated on the capital position of the bank and insurance business as well as on the developments regarding the Solvency II and Basel III regulations. After the summer an extensive discussion took place on the development of the insurance business in the US, focusing 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 meetings were capital management, internal control and regulatory matters.

RISK COMMITTEE MEETINGS

The Risk Committee met four times with no absentees. In each Risk Committee meeting the financial risk reports for Banking, Insurance and Group and the non-financial risk reports for banking and insurance were discussed. Management reported on the outcome of stress tests for banking and insurance. In May an extensive discussion took place on the eurozone 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.

NOMINATION COMMITTEE MEETINGS

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 Executive Board and the Management Boards. 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 Boards Banking and Insurance which were publicly announced in November.

REMUNERATION COMMITTEE MEETINGS

The Remuneration Committee met four times in 2010. Two members were absent once at the Remuneration Committee meetings. The first two meetings focused on finalising the new remuneration policy based on the Dutch Banking Code. An independent external adviser assisted the Remuneration Committee in assessing the new remuneration policy. In February, the 2009 performance of the individual Executive Board and Management Board members was discussed on the basis of the Group performance criteria and the individual targets. The proposed 2010 performance objectives for the Executive Board and the Management Boards were decided upon as well. In April, the Remuneration Committee advised positively on the adjusted remuneration policy for senior management. In November, the Remuneration Committee discussed the possible impact of

Report of the Supervisory Board continued

the new EU Capital Requirements Directive for the ING Executive Board remuneration policy which was approved in the 2010 annual General Meeting.

CORPORATE GOVERNANCE COMMITTEE MEETINGS
The Corporate Governance Committee met three times and one member was absent once. The Corporate Governance Committee discussed the implementation of the Dutch Banking Code in January and the agenda for the 2010 annual General Meeting, including the request for approval of the implementation of the revised Dutch Corporate Governance Code in February.
The Committee continued its discussions on the position of the ING Trust Office. In November, the governance of to-be-divested units, in the context of the Restructuring Plan of the European Commission and the implementation of the Dutch Banking Code were tabled for discussion.

COMPOSITION OF THE EXECUTIVE BOARD AND THE MANAGEMENT BOARDS

In mid-2009, separate Banking and Insurance Boards were introduced to simplify the governance structure and to further increase business focus. Jan Hommen, Patrick Flynn and Koos Timmermans remained members of the Executive Board while also becoming members of the Management Boards Banking and Insurance. Eric Boyer de la Giroday, Eli Leenaars and Hans van der Noordaa became members of the Management Board Banking. Tom McInerney and Matthew Rider (as of 1 January 2010) became members of the Management Board Insurance. As of 1 January 2011, William Connelly was appointed as CEO of Commercial Banking and member of the Management Board Banking, succeeding Eric Boyer who continued in his role as vice-chairman of the Management Board Banking. As of 1 January 2011, Lard Friese was appointed to the Management Board Insurance with responsibility for the Benelux, Central and Rest of Europe and Asia/Pacific. Gilbert Van Hassel was appointed to the Management Board Insurance as of 1 January 2011 with responsibility for ING Investment Management. In light of the developments described above, Tom McInerney stepped down from his positions as chief operating officer Insurance and member of the Management Board Insurance as of 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 did not change other than mentioned.

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 three candidates for appointment: Sjoerd van Keulen, Joost Kuiper and Luc Vandewalle. For the proposed appointments approval has been obtained from the Dutch central bank.

Information on the members of the Supervisory Board is provided on page 68–69.

Resignation of Jackson Tai

Jackson Tai was appointed to the Supervisory Board on 22 April 2008. He became chairman of the Audit Committee as of May 2009. Jackson stepped down from the Supervisory Board in order to avoid any conflicts of interest given the proposal by Bank of China to appoint Jackson Tai as one of its non-executive directors.

Jackson's chairmanship of the Audit Committee has been a big benefit to ING. His extensive experience in the financial industry as well as his international perspective was of great importance during his chairmanship. His financial expertise is outstanding and the members of the Supervisory Board and the Management Boards valued his opinion very much. They would like to thank him for his large commitment and contribution to ING during the past years.

Resignation of Godfried van der Lugt

Godfried van der Lugt joined the Supervisory Board in 2001. He became a member of the Audit Committee in November 2005 and a member of the Risk Committee in August 2009. He was scheduled to retire from the Supervisory Board after the annual General Meeting in May, having agreed to stay on for one more year at the request of ING, considering his banking experience and ING background as well as the requirements of the Dutch Banking Code. For personal reasons Godfried van der Lugt resigned from the Supervisory Board as of 24 January 2011.

With his background, Godfried van der Lugt made an important contribution to the discussions in the Supervisory Board, the Audit Committee and the Risk Committee. His extensive experience in the financial industry and his awareness of the historic perspective were of great value. The members of the Supervisory Board, the Executive Board and the Management Boards greatly valued his opinion in the decision-making and would like to thank him for his strong personal contribution.

Retirement of Claus Dieter Hoffmann

Upon his request, Claus Dieter Hoffmann will not be nominated for reappointment taking into account that he will reach the age of 70 in 2012. Claus Dieter Hoffmann was appointed as a member of the Supervisory Board and the Audit Committee in 2003. He stepped down from the Audit Committee and joined the Corporate Governance Committee in January 2008 and became a member of the Risk Committee in August 2009.

Claus Dieter Hoffmann contributed substantially to the Supervisory Board, the Audit Committee and later to the Corporate Governance Committee and the Risk Committee because of his knowledge of fundamental management and business topics. His insight into German and European matters has been of great value to ING. The members of the Supervisory Board, the Executive Board and the Management Boards would like to thank him for his large commitment to ING during the past eight years.

Report of the Supervisory Board continued

ANNUAL ACCOUNTS AND DIVIDEND

The Executive Board has prepared the annual accounts and discussed these with the Supervisory Board. The annual accounts will be submitted for adoption at the 2011 General Meeting as part of the Annual Report. ING will not propose to pay a dividend over 2010 at the annual General Meeting.

APPRECIATION FOR THE EXECUTIVE BOARD AND ING EMPLOYEES

The Supervisory Board would like to thank the members of the Executive Board and the two Management Boards for their continuing hard work in 2010. Next to improving the results for the banking and the insurance businesses, the work of the Executive Board and the two Management Boards also focused on improving the image of ING within society, improving the services to clients, developing the new strategy and preparation of the operational separation of the banking and insurance organisation. The Supervisory Board would also like to thank all employees of ING 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.

ADDITIONAL INFORMATION

For additional information, see the section on Corporate governance (pages 59–70) and the Remuneration report (pages 78–85), which are deemed to be incorporated by reference here.

AMSTERDAM, 14 MARCH 2011
THE SUPERVISORY BOARD

Corporate governance

This section discusses the application by ING Groep N.V. ('ING Group') of the Dutch Corporate Governance Code effective as from 1 January 2009 ('Corporate Governance Code') and provides information on the share capital and control, the Executive Board, the Supervisory Board and the external auditor. This section, including the parts of this Annual Report incorporated by reference, together with the separate publication 'ING's implementation of the Dutch Corporate Governance Code' dated April 2010, on the website of the Company (www.ing.com), also serves as the 'corporate governance statement' referred to in section 2a 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.

RECENT DEVELOPMENTS

LEGISLATIVE AND REGULATORY DEVELOPMENTS

On 1 January 2010, the Dutch Banking Code (*Code Banken*) became effective. For more information, please refer to the paragraph 'Corporate Governance Codes' below.

On 1 July 2010, the bill on shareholders' rights (*wet aandeelhoudersrechten*) came into force. The relevant provisions of this bill will apply for the first time at the 2011 annual General Meeting.

In addition, several legislative proposals are under discussion in or were adopted in 2010 by the Lower House of the Dutch Parliament, or are under discussion in the Upper House of the Dutch Parliament. It concerns, among other things, the bill on revision and claw back of executive bonuses and profit-sharing of directors *(wetsvoorstel aanpassing en terugvordering van bonussen en winstdelingen van bestuurders en dagelijks beleidsbepalers en deskundigheidstoetsing van commissarissen)* and the bill on management and supervision *(wetsvoorstel aanpassing regels over bestuur en toezicht in naamloze en besloten vennootschappen).* If enacted, these legislative proposals may affect ING Group.

TRANSACTIONS WITH THE DUTCH STATE

On 12 November 2008, ING Group issued one billion core Tier 1 securities ('Securities) for a total consideration of EUR 10 billion to the Dutch State. Following the repurchase of 500 million Securities on 21 December 2009, another 500 million of Securities representing EUR 5 billion remain outstanding. The Securities do not form part of ING Group's share capital; accordingly they do not carry voting rights in the General Meeting. The financial entitlements of the Securities are described in note 33 to the consolidated annual accounts.

On 26 January 2009, ING Group reached an agreement with the Dutch State regarding the Illiquid Assets Back-up Facility ('IABF'), as further described in note 33 to the consolidated annual accounts. During 2009, ING Bank N.V. issued various series of debt instruments under the 2008 Credit Guarantee Scheme of the Dutch State ('Bonds'), for the first time on 30 January 2009.

As part of these transactions, certain arrangements with respect to corporate governance and remuneration were agreed with the Dutch State which will remain in place as long as the Dutch State owns at least 250 million Securities, as long as the IABF remains in place or any of the Bonds is outstanding (whichever expires last).

These arrangements entail that the Dutch State may recommend two candidates ('State Nominees') for appointment to the Supervisory Board. Certain decisions of the Supervisory Board require approval of the State Nominees (these decisions are specified in the section on the Supervisory Board on page 66). Furthermore, in line with these arrangements a sustainable remuneration policy for the Executive Board and Senior Management was introduced in 2010, which continues certain specific arrangements in relation to the remuneration of members of the Executive Board.

For more information on the State Nominees, please refer to the section on the Supervisory Board; for more information on ING's remuneration policy, please refer to the Remuneration report, starting on page 78.

Corporate governance continued

SHAREHOLDER PARTICIPATION AND POSITION OF ING TRUST OFFICE (*STICHTING ING AANDELEN*)

During the years 2007–2010, participation of shareholders, excluding the ING Trust Office, and depositary-receipt holders in annual General Meetings consistently increased from 36.7% to 41.3%. Only the extraordinary General Meeting of 25 November 2009 showed a deviation from this trend with a markedly lower turnout of 31.1%.

In view of the above, the Executive Board and the Supervisory Board evaluated the position of the ING Trust Office and ING Group's depositary-receipts structure, the outcome of which was discussed in the 2010 annual General Meeting. On the basis of this evaluation, the Executive Board and the Supervisory Board concluded that it would be premature to change or abolish ING Group's depositary-receipts structure in 2010 and that it would be more appropriate to reconsider this as part of a re-evaluation of ING Group's entire governance structure following the current restructuring of ING Group and the completion of the divestments approved in the 2009 extraordinary General Meeting.

CORPORATE GOVERNANCE CODES

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For its corporate governance structure and practices, ING Group uses the Corporate Governance Code as reference. The Corporate Governance Code can be downloaded from the website of the Monitoring Commission Dutch Corporate Governance Code (www.commissiecorporategovernance.nl/Corporate_Governance_Code). The application of the Corporate Governance Code in 2010 is described in the publication 'ING's implementation of the Dutch Corporate Governance Code', dated April 2010, on the website of the Company (www.ing.com), which is to be read in conjunction with this section and is deemed to be incorporated into this section.

DUTCH BANKING CODE

The Banking Code is applicable to ING Bank N.V. and not to ING Group. The Banking Code can be downloaded from the website of the Dutch Banking Association (www.nvb.nl). The principles of the Banking Code as a whole are considered as a reference by ING Bank N.V. and their application is described in the publication 'Application of the Dutch Banking Code by ING Bank N.V.' on the website of the Company (www.ing.com).

However, ING Group voluntarily applies the principles of the Banking Code regarding remuneration with respect to the members of its Executive Board, and considers these principles as a reference for its own corporate governance. ING Group's remuneration policy for the Executive Board and Senior Management is in agreement with these principles. The remaining principles of the Banking Code are not considered as a reference for ING Group's own corporate governance, although the application thereof by ING Bank N.V. and its subsidiaries will be reflected to a certain extent in ING Group's own corporate governance structure and corporate governance practices.

DIFFERENCES BETWEEN DUTCH AND US CORPORATE GOVERNANCE PRACTICES

In conformity with regulation from the US Securities and Exchange Commission, ING Group as a foreign private issuer whose securities are listed on the New York Stock Exchange ('NYSE') must disclose in its Annual Report on Form 20-F any significant differences between its corporate governance practices and those applicable to US domestic companies under the NYSE listing standards.

ING Group believes the following to be the significant differences between its corporate governance practices and NYSE corporate governance rules applicable to US companies:

- ING Group has a two-tier board structure, in contrast to the one-tier board structure used by most US companies. In the Netherlands, a public limited liability company (*naamloze vennootschap*) has an Executive Board as its management body and a Supervisory Board which advises and supervises the Executive Board. In general, members of the Executive Board are employees of the company while members of the Supervisory Board are often former state or business leaders and sometimes former members of the Executive Board. Members of the Executive Board and other officers and employees cannot simultaneously be a member of the Supervisory Board. The Supervisory Board must approve specified decisions of the Executive Board. Under the Corporate Governance Code, all members of the Supervisory Board with the exception of not more than one person, must be independent. All members of ING Group's Supervisory Board are independent within the meaning of the Corporate Governance Code. The definitions of independence under the Corporate Governance Code, however, differ in their details from the definitions of independence under the NYSE listing standards. In some cases the Dutch requirements are stricter and in other cases the NYSE listing standards are the stricter of the two. The Audit Committee, Risk Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee of ING Group are comprised of members of the Supervisory Board.
- In contrast to the Sarbanes-Oxley Act of 2002, the Corporate Governance Code contains an 'apply-or-explain' principle, offering the possibility to deviate from the Corporate Governance Code as long as any such deviations are explained. To the extent that such deviations are approved by the General Meeting, the company is deemed to be in full compliance with the Corporate Governance Code.
- Dutch law requires that the company's external auditors be appointed at the general meeting and not by the Audit Committee.
- The articles of association of ING Group ('Articles of Association') provide that there are no quorum requirements to hold a general meeting, although certain shareholder actions and certain resolutions may require a quorum.
- The shareholder approval requirements for equity compensation plans under Dutch law and the Corporate Governance Code differ from those applicable to US companies which are subject to the NYSE's listing rules. Under Dutch company law and the Corporate Governance Code, shareholder approval is only required for equity compensation plans (or changes thereto) for members of the Executive Board and Supervisory Board, and not for equity compensation plans for other groups of employees.

Corporate governance continued

CAPITAL AND SHARES

CAPITAL STRUCTURE, SHARES

The authorised capital of ING Group consists of ordinary shares and cumulative preference shares. Currently, only ordinary shares are issued, while a call option to acquire cumulative preference shares has been granted to ING Continuity Foundation (*Stichting Continuïteit ING*). The acquisition of cumulative preference shares pursuant to the call option is subject to the restriction that, immediately after the issue of cumulative preference shares, the total amount of cumulative preference shares outstanding may not exceed one-third of the total issued share capital of ING Group (see page 74). The purpose of the call option is to protect the independence, the continuity and the identity of ING Group against influences which are contrary to the interests of ING Group, its enterprise and the enterprises of its subsidiaries and all stakeholders (including, but not limited to, hostile takeovers). The ordinary shares are used solely for funding purposes. The ordinary shares, which are all registered shares, are not listed on a stock exchange.

The Board of ING Continuity Foundation currently comprises four members who are independent of ING Group. No Executive Board members or former Executive Board members, Supervisory Board members or former Supervisory Board members, ING Group employees or former ING Group employees or permanent advisors or former permanent advisors are on the Board of ING Continuity Foundation. The Board of ING Continuity Foundation appoints its own members, after consultation with the Supervisory Board of ING Group, but without any requirement for approval by ING Group.

For more information on ING Continuity Foundation, see page 74.

DEPOSITARY RECEIPTS

More than 99.9% of the issued ordinary shares are held by ING Trust Office. In exchange for these shares, ING Trust Office has issued depositary receipts in bearer form for these shares. The depositary receipts are listed on various stock exchanges (see page 10 for an overview of the listings). Depositary receipts can be exchanged upon request of the holders of depositary receipts for non-listed ordinary shares, without any restriction, other than payment of an administrative fee of one eurocent (EUR 0.01) per depositary receipt with a minimum of twenty-five euro (EUR 25.00) per exchange transaction.

The holder of a depositary receipt is entitled to receive from ING Trust Office payment of dividends and other distributions corresponding to the dividends and other distributions received by ING Trust Office on an ordinary share.

The Board of ING Trust Office currently comprises four members who are independent of ING Group. No Executive Board members or former Executive Board members, Supervisory Board members or former Supervisory Board members, ING Group employees or former ING Group employees or permanent advisors or former permanent advisors are on the Board of ING Trust Office. The Board of ING Trust Office appoints its own members, without any requirement for approval by ING Group.

The Board of ING Trust Office reports on its activities through an annual report, which has been included on pages 71–73.

ISSUANCE OF SHARES

ING Group's authorised capital is the maximum amount of capital allowed to be issued under the terms of the Articles of Association. New shares in excess of this amount can only be issued if the Articles of Association are amended. For reasons of flexibility, ING Group seeks to set the authorised capital in the Articles of Association at the highest level permitted by law again in the future.

Share issues are to be decided by the General Meeting, which may also delegate its authority. Each year, the General Meeting is asked to delegate authority to the Executive Board to issue new ordinary shares or to grant rights to subscribe for new ordinary shares, both with and without pre-emptive rights for existing shareholders. The powers delegated to the Executive Board are limited:

- in time: powers are delegated for a period of 18 months;
- by number: insofar sufficient unissued ordinary shares are available in the authorised capital, ordinary shares may be issued up to a maximum of 10% of the issued share capital, or, in the event of a merger or takeover, 20% of the issued capital; and
- in terms of control: resolutions by the Executive Board to issue shares require the approval of the Supervisory Board.

Approval by the General Meeting would be required for any share issues exceeding these limits.

The purpose of this delegation of authority is to allow the Company to respond promptly to developments in the financial markets. If the Company wishes to issue new shares, conditions in the financial markets may have changed during the time needed for convening a general meeting, especially as the statutory convocation period was recently extended to 42 days. As a result hereof the Company may not be in a position to take advantage of optimal conditions. Therefore, it is preferable to delegate the power to issue shares to the Executive Board, subject to the approval of the Supervisory Board, as it can respond more rapidly to market developments. In view of the importance of flexibility with respect to the issue of shares, the Executive Board and the Supervisory Board will periodically evaluate the delegation of authority to issue shares and, if necessary, make adjusted proposals to the General Meeting. Following such an evaluation, it will be proposed to the 2011 annual General Meeting to authorise also the issue of ordinary shares up to 20% of the issued share capital if this is necessary to protect or to conserve the capital position of the Company.

TRANSFER OF SHARES AND DEPOSITARY RECEIPTS AND TRANSFER RESTRICTIONS

Shares are transferred by means of a deed of transfer between the transferor and the transferee. To become effective, ING Group has to acknowledge the transfer, unless ING Group itself is a party to the transfer. The Articles of Association do not restrict the transfer of ordinary shares, whereas the transfer of cumulative preference shares is subject to prior approval of the Executive Board. The Articles of Association and the trust conditions for registered shares in the share capital of ING Group ('Trust Conditions') do not restrict the transfer of depositary receipts for shares. ING Group is not aware of the existence of any agreement pursuant to which the transfer of ordinary shares or depositary receipts for such shares is restricted.

Corporate governance continued

REPURCHASE OF SHARES
ING Group may repurchase outstanding shares and depositary receipts for such shares. Although the power to repurchase shares and depositary receipts for shares is vested in the Executive Board subject to the approval of the Supervisory Board, prior authorisation from the General Meeting is required for these repurchases. Under Dutch law, this authorisation lapses after 18 months. Each year, the General Meeting is asked to approve the Executive Board's authority to repurchase shares.

When repurchasing shares, the Executive Board is to observe the price ranges prescribed in the authorisation. For the ordinary shares and depositary receipts for such shares, the authorisation currently in force stipulates a minimum price of one eurocent and a maximum price equal to the highest stock price on Euronext Amsterdam by NYSE Euronext on the date on which the purchase agreement is concluded or on the preceding day of stock market trading.

SPECIAL RIGHTS OF CONTROL
No special rights of control referred to in Article 10 of the EU Directive on takeover bids are attached to any share.

SHAREHOLDERS' STRUCTURE
Pursuant to the Dutch Financial Supervision Act, any person who, directly or indirectly, acquires or disposes of an interest in the voting rights and/or the capital of ING Group as a result of which acquisition or disposal the percentage of his voting rights or capital interest, whether through ownership of shares, depositary receipts, American depositary shares, options or warrants, reaches, exceeds or falls below 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% or 95%, is required to notify in writing the Dutch Authority for the Financial Markets *(Autoriteit Financiële Markten)* immediately after the acquisition or disposal of the triggering interest in ING Group's share capital.

Details of investors, if any, who have reported their interest in ING Group pursuant to the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) (or the predecessor of this legislation) are shown on page 10. ING Group is not aware of shareholders, potential shareholders or investors with an interest of 5% or more in ING Group other than the ING Trust Office and the ING Continuity Foundation.

INVESTOR RELATIONS AND BILATERAL CONTACTS WITH INVESTORS
ING Group encourages and recognises the importance of bilateral communication with the investment community. Communications with current and potential shareholders, depositary receipt holders, bondholders, and industry analysts is actively managed by the Investor Relations department.

ING Group strives to provide clear, accurate and timely financial information that is in strict compliance with the applicable rules and regulations, in particular those concerning selective disclosure, price sensitive information and equal treatment. In addition to the annual General Meeting, ING Group communicates with its shareholders and the investment community through earnings announcements, presentations, and meetings with analysts or investors.

ING Group publishes a comprehensive quarterly disclosure package which includes extensive and detailed financial figures with relevant explanatory remarks. This information is discussed thoroughly during press and analyst and investor conference calls on the day of the earnings release, which are broadly accessible to interested parties. The publication dates of quarterly earnings releases are announced in advance on ING Group's corporate website (www.ing.com).

ING Group hosts one or two Investor Relations Days each year and participates in several industry conferences. These events are announced in advance on the company website, and presentation materials are made available in real time on the website. This is in accordance with the requirement to ensure that all shareholders and other market participants may have equal and simultaneous access to information that could potentially influence the price of the company's securities. ING Group's Investor Relations Days can be accessed by means of live webcasts or telephone conferencing. All Investor Relations Days and conferences in which ING Group participates do not take place shortly before the publication of quarterly financial information.

ING Group strives to maintain an open and constructive dialogue with current and potential investors, and with industry analysts. The scope of such bilateral communication may range from single investor queries via e-mail, to more elaborate discussions with analysts or institutional investors that take place via telephone or face-to-face. These meetings are not announced in advance, nor can they be followed by webcast or any other means. ING Group's Investor Relations department is the main point of contact for these communications. However, Executive Board members also participate in investor meetings. Information provided during such occasions is always limited to that which is already in the public domain, and any bilateral contacts do not take place shortly before publication of the regular quarterly results releases.

In the event that non-public price sensitive information is inadvertently disclosed during any bilateral contacts, ING Group will publicly announce such information as soon as possible.

ING Group may decide not to accommodate or accept any request or invitation for entering into a dialogue with (potential) investors. In considering any such invitation or request, ING Group may request disclosure of the interests in the capital of ING Group held by the person(s) seeking to enter into a dialogue with ING Group and a substantiation and explanation of their intentions with respect to their interests in ING Group.

ING Group is actively covered by approximately 25 analysts who frequently issue reports on the company. A list of these analysts can be found within the Investor Relations section of the company website.

During 2010, ING Group did not provide any form of compensation to parties that are directly or indirectly involved with the production or publication of analysts' reports, with the exception of credit-rating agencies.

In 2010, ING Group hosted one Investor Day in April, and presented at six industry conferences throughout the course of the year. In total, there were approximately 275 meetings with institutional investors and/or analysts, which took place in 22 different cities. The geographical distribution of ING Group's investor base is

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diverse – an estimated 38% of shares outstanding are held in the US, 33% in the Benelux, 17% in the UK, 7% in Switzerland and 5% in the rest of the world. Please refer to the 'ING share' chapter for more details.

GENERAL MEETING

FREQUENCY, NOTICE AND AGENDA OF GENERAL MEETINGS

General meetings are normally held each year in April or May, to discuss the course of business in the preceding financial year on the basis of the reports prepared by the Executive Board and the Supervisory Board, and to decide on the distribution of dividends or other distributions, the appointment and/or reappointment of members of the Executive Board and the Supervisory Board (if any), other items requiring shareholder approval under Dutch law, and any other matters proposed by the Supervisory Board, the Executive Board or shareholders or holders of depositary receipts in accordance with the Articles of Association.

Meetings are convened by public notice via the website of ING Group (www.ing.com) no later than on the forty-second day before the day of the general meeting. As of the date of convening a general meeting, all information relevant for shareholders and holders of depositary receipts is made available to them on this website and at the ING Group head office.

This information includes the notice for the general meeting, the agenda, the place and time of the meeting, the address of the website of ING Group, the verbatim text of the proposals with an explanation and instructions on how to participate in the meeting (either in person or by proxy), as well as the reports of the Executive Board and the Supervisory Board. More complex proposals such as amendments to the Articles of Association are normally not included in the notice but are made available separately on the website of ING Group and at the ING Group head office.

PROPOSALS BY SHAREHOLDERS AND HOLDERS OF DEPOSITARY RECEIPTS

Proposals to include items on the agenda for a general meeting can be made by shareholders and holders of depositary receipts representing a joint total of at least 0.1% of the share capital or representing together, on the basis of the stock prices on Euronext Amsterdam by NYSE Euronext, a share value of at least EUR 50 million. Given the periods of notice required for proxy voting, proposals have to be submitted in writing at least 50 days before the date of the meeting. Properly submitted proposals will be included on the agenda for the general meeting.

DIALOGUE WITH SHAREHOLDERS AND HOLDERS OF DEPOSITARY RECEIPTS

In 2010, shareholders and holders of depositary receipts were allowed to ask questions about items on the agenda for the annual General Meeting and they will be allowed to do so in 2011. Shareholders and holders of depositary receipts can visit the website of ING Group (www.ing.com) to submit their questions.

RECORD DATE

Pursuant to Dutch law, the record date for attending a general meeting and voting on the proposals in that general meeting is the twenty-eighth day before the day of the general meeting. Shareholders and holders of depositary receipts who hold shares and/or depositary receipts for shares at the record date are entitled to attend the general meeting and to exercise other rights related to the general meeting in question on the basis of their holding at the record date, notwithstanding a subsequent sale or purchase of shares or depositary receipts for shares. The record date is published in the notice for the general meeting. In accordance with US requirements, the depositary sets a record date for the American Depositary Shares ('ADSs'), which date determines which ADSs are entitled to give voting instructions. This record date can differ from the record date set by ING Group for shareholders and holders of depositary receipts.

ATTENDING GENERAL MEETINGS

For logistical reasons, attendance at a general meeting by shareholders and holders of depositary receipts, either in person or by proxy, is subject to the requirement that ING Group is notified in advance. Instructions to that effect are included in the notice for the general meeting.

General meetings are webcasted via the Company's website (www.ing.com), so that shareholders and holders of depositary receipts who do not attend the general meeting in person, may nevertheless follow the course of affairs in the meeting by internet webcast.

VOTING RIGHTS ON SHARES

Each share entitles the holder to cast one vote at the general meeting. The Articles of Association do not restrict the voting rights on any class of shares. ING Group is not aware of any agreement pursuant to which voting rights on any class of its shares are restricted.

VOTING ON THE ORDINARY SHARES BY HOLDERS OF DEPOSITARY RECEIPTS AS PROXY OF ING TRUST OFFICE

Although the depositary receipts for shares do not formally carry any voting rights, holders of depositary receipts, in practice, rank equally with shareholders with regard to voting. ING Trust Office will, subject to certain restrictions, grant a proxy to a holder of depositary receipts allowing such holder, in the name of ING Trust Office, to exercise the voting rights attached to the number of ordinary shares that corresponds to the number of depositary receipts held by such holder of depositary receipts. On the basis of such a proxy, the holder of depositary receipts may vote at his or her own discretion.

The following restrictions apply in respect of granting a voting proxy to holders of depositary receipts:

- the relevant holder of depositary receipts must have announced his or her intention to attend the general meeting observing the provisions laid down in the Articles of Association; and
- the relevant holder of depositary receipts may delegate the powers conferred upon him or her by means of the voting proxy, provided that the relevant holder of depositary receipts has announced his or her intention to do so to ING Trust Office observing a term before the commencement of the general meeting, which term will be determined by ING Trust Office.

VOTING INSTRUCTIONS OF HOLDERS OF DEPOSITARY RECEIPTS TO ING TRUST OFFICE

Holders of depositary receipts not attending a general meeting are entitled to give binding instructions to ING Trust Office, concerning ING Trust Office's exercise of the voting rights attached to the ordinary shares. ING Trust Office will follow such instructions for such number of ordinary shares equal to the number of depositary

Corporate governance continued

receipts for shares held by the relevant holder of depositary receipts. ING Trust Office has made it easier for votes to be cast this way by putting arrangements in place for proxy voting and e-voting.

VOTING ON THE ORDINARY SHARES BY ING TRUST OFFICE

ING Trust Office has discretion to vote in respect of shares for which it has not issued voting proxies to holders of depositary receipts and has not received any voting instructions. According to its articles of association and the Trust Conditions, ING Trust Office is guided primarily by the interests of the holders of depositary receipts, taking into account the interests of ING Group and its affiliated enterprises.

The depositary receipts and trust office structure outlined above would prevent a small minority, which coincidentally may form the majority in a general meeting in the absence of other parties, from taking decisions purely to suit themselves.

PROXY VOTING FACILITIES

ING Group is a participant of the Shareholder Communication Channel (*Stichting Communicatiekanaal aandeelhouders*), through which participating holders of depositary receipts can give voting instructions to ING Trust Office. ING Group provides a similar proxy voting facility to international institutional investors. In addition, ING Group solicits proxies from its ADS holders in line with common practice in the US.

Proxy voting forms for shareholders and voting instruction forms for holders of depositary receipts who do not participate in the Shareholder Communication Channel are made available on the website of ING Group (www.ing.com). The submission of these forms is subject to additional conditions which are specified in the forms themselves.

MAIN POWERS OF THE GENERAL MEETING

The main powers of the General Meeting are to decide on:

- the appointment, suspension and dismissal of members of the Executive Board and members of the Supervisory Board, subject to a binding nomination or a proposal of the Supervisory Board;
- the adoption of the annual accounts;
- the declaration of dividends, subject to the power of the Executive Board to allocate part of or all of the profits to the reserves – with approval of the Supervisory Board – and the declaration of other distributions, subject to a proposal by the Executive Board which was approved by the Supervisory Board;
- the appointment of the external auditor;
- an amendment of the Articles of Association, a legal merger or division of ING Group, and winding up ING Group, all subject to a proposal by the Executive Board which was approved by the Supervisory Board;
- the issue of shares or rights to subscribe for shares, the restriction or exclusion of pre-emptive rights of shareholders, and delegation of these powers to the Executive Board, subject to a proposal by the Executive Board which was approved by the Supervisory Board; and
- to authorise the repurchase of outstanding shares and to cancel shares.

Moreover, the approval of the General Meeting is required for Executive Board decisions that are so far-reaching that they would greatly change the identity or nature of ING Group or its enterprise. This includes resolutions to transfer or assign otherwise all or virtually all of the enterprise of ING Group or its subsidiaries as a consequence of which ING Group or the group over which ING Group exercises central control ceases to engage in either insurance or banking activities.

REPORTING

Resolutions adopted at a general meeting shall also be published on the website of ING Group (www.ing.com) within one week after the meeting. The draft minutes of the general meeting are, in accordance with the Corporate Governance Code, made available to shareholders and holders of depositary receipts on the website of ING Group (www.ing.com) no later than three months after the meeting. Shareholders and holders of depositary receipts may react to the draft minutes in the following three months, after which the final minutes will be adopted by the chairman of the meeting in question and by a shareholder or holder of depositary receipts appointed by that meeting. The final minutes are made available on the website of ING Group (www.ing.com). In deviation of the Corporate Governance Code shareholders and holders of depositary receipts will not have the opportunity to react to the minutes of a general meeting if a notarial report is drawn up of the meeting, as this would be in conflict with the laws applicable to such notarial report.

EXECUTIVE BOARD

APPOINTMENT AND DISMISSAL

Members of the Executive Board are appointed by the General Meeting from a binding list to be drawn up by the Supervisory Board. Pursuant to the Dutch law, this list is to mention at least two candidates for each vacancy, and if not, the list will be non-binding. With respect to the second candidate, ING Group's policy is to propose retired senior managers or other high ranking officers who, in view of the forthcoming abolition of this requirement, do not have to meet the requirements of the Executive Board Profile. The list will also be non-binding pursuant to a resolution of the General Meeting to that effect adopted by an absolute majority of the votes cast which majority represents more than one-third of the issued share capital.

Candidates for appointment to the Executive Board must comply with the expertise and reliability requirements set out in the Dutch Financial Supervision Act.

Members of the Executive Board may be suspended or dismissed at any time by a majority resolution of the General Meeting.
A resolution to suspend or dismiss members of the Executive Board that has not been brought forward by the Supervisory Board may only be adopted by the General Meeting by an absolute majority of the votes cast, which majority represents more than one-third of the issued share capital.

FUNCTION OF THE EXECUTIVE BOARD

The Executive Board is charged with the management of ING Group, which means, among other things, that it is responsible for the setting and achieving of the company's objectives, strategy and policies, as well as the ensuing delivery of results. It also includes the day-to-day management of ING Group. The Executive Board is accountable for the performance of these duties to the Supervisory Board and the General Meeting. The responsibility for the management of ING Group is vested in the Executive Board collectively. The organisation, powers and *modus operandi* of the Executive Board are detailed in the Executive Board Charter, which was approved by the Supervisory Board. The Executive Board Charter is available on the website of ING Group (www.ing.com).

Corporate governance continued

PROFILE OF MEMBERS OF THE EXECUTIVE BOARD

The Supervisory Board has drawn up a profile to be used as a basis for selecting members of the Executive Board. This Executive Board profile was submitted for discussion to the General Meeting in 2010. It is available on the website of ING Group (www.ing.com) and at the ING Group head office.

REMUNERATION AND SHARE OWNERSHIP

Details of the remuneration of members of the Executive Board, including shares and/or option rights granted to them, together with additional information thereto, are provided in the Remuneration report, starting on page 78. Members of the Executive Board are permitted to hold shares and depositary receipts for shares in the share capital of ING Group for long-term investment purposes. Transactions by members of the Executive Board in these shares and these depositary receipts for shares are subject to the ING regulations for insiders. These regulations are available on the website of ING Group (www.ing.com).

ANCILLARY POSITIONS/CONFLICTING INTERESTS

No member of the Executive Board has corporate directorships at listed companies outside ING. This is in accordance with ING Group's policy to avoid conflicts of interest.

TRANSACTIONS INVOLVING ACTUAL OR POTENTIAL CONFLICTS OF INTEREST

In accordance with the Corporate Governance Code, transactions with members of the Executive Board in which there are significant conflicting interests will be disclosed in the Annual Report. In deviation of the Corporate Governance Code however, this does not apply if (i) disclosure would be against the law; (ii) the confidential, share-price sensitive or competition-sensitive character of the transaction prevents disclosure; and/or (iii) the information is so competition-sensitive that the disclosure could damage the competitive position of ING Group.

Significant conflicting interests are considered to be absent and are not reported if a member of the Executive Board obtains financial products and services, other than loans, which are provided by ING Group subsidiaries in the ordinary course of their business on terms that apply to all employees. In connection with the foregoing, 'loans' does not include financial products in which the granting of credit is of a subordinated nature, e.g. credit cards and overdrafts in current account, because of a lack of materiality.

INFORMATION ON MEMBERS OF THE EXECUTIVE BOARD

JAN H.M. HOMMEN, CHIEF EXECUTIVE OFFICER

(*Born 1943, Dutch nationality, male; appointed in 2009, term expires in 2013*)
Jan Hommen graduated with a master's degree in Business Economics from Tilburg University. He was appointed a member of the Executive Board on 27 April 2009. He is also CEO of ING Bank N.V. and CEO of ING Verzekeringen N.V. Jan Hommen was a member of the Supervisory Board of ING Group as of 1 June 2005 and became chairman of the Supervisory Board of ING Group in January 2008. Until 1 May 2005, he was vice-chairman and chief financial officer of Koninklijke Philips Electronics N.V. From 1975 to 1997, he worked for Alcoa Inc. From 1978, he worked at the Alcoa head office in the US, becoming chief financial officer in 1991. Jan Hommen is a member of the board of Royal Concertgebouw Orchestra. Six Group staff departments report directly to Jan Hommen: Corporate Legal Department, Corporate Human Resources, Corporate Development, Corporate Communications & Affairs, Public & Government Affairs and Corporate Audit Services.

PATRICK G. FLYNN, CHIEF FINANCIAL OFFICER

(*Born 1960, Irish nationality, male; appointed in 2009, term expires in 2013*)
Patrick Flynn is a Chartered Accountant and a member of the Association of Corporate Treasurers in the UK. He also holds a bachelor's degree in Business Studies from Trinity College Dublin. He was appointed a member of the Executive Board of ING Group on 27 April 2009. From 2007 to 2009, he was the chief financial officer of HSBC Insurance Holdings Ltd. Patrick Flynn is responsible for ING's finance departments.

J.V. (KOOS) TIMMERMANS, CHIEF RISK OFFICER

(*Born 1960, Dutch nationality, male; appointed in 2007, term expires in 2011*)
Koos Timmermans graduated from Erasmus University Rotterdam with a master's degree in Economics. Until 1991 he worked at ABN AMRO in the field of derivatives and for IBM's European treasury he was stationed in Ireland. Koos Timmermans joined ING in 1996. He performed various roles: head of Treasury ING Insurance, head of Corporate Market Risk Management and from 2006 to 2007 he was deputy chief risk officer of ING Group, until his appointment to the Executive Board. Koos Timmermans is responsible for ING's risk departments including compliance.

CHANGES IN THE COMPOSITION

In 2010 there were no changes in the composition of the Executive Board.

The current term of appointment of Koos Timmermans will expire at the end of the 2011 annual General Meeting. At this meeting he will be nominated for reappointment.

SUPERVISORY BOARD

APPOINTMENT AND DISMISSAL

Members of the Supervisory Board are appointed by the General Meeting from a binding list to be drawn up by the Supervisory Board. Pursuant to Dutch law, this list is to contain at least two candidates for each vacancy, and if not, the list will be non-binding. With respect to the second candidate, ING Group's policy is to propose retired senior managers or other high-ranking officers who, in view of the forthcoming abolition of this requirement, do not have to meet the independency requirements of the Corporate Governance Code or the requirements of the Supervisory Board Profile. The list will also be non-binding pursuant to a resolution to that effect of the General Meeting adopted by an absolute majority of the votes cast which majority represents more than one-third of the issued share capital. Candidates for appointment to the Supervisory Board must comply with the expertise and reliability requirements set out in the Dutch Financial Supervision Act.

Members of the Supervisory Board may be suspended or dismissed at any time by a majority resolution of the General Meeting. A resolution to suspend or dismiss members of the Supervisory Board that has not been brought forward by the Supervisory Board may only be adopted by the General Meeting by an absolute majority of the votes cast which majority represents more than one-third of the issued share capital.

Corporate governance continued

In connection with the issue of the Securities to the Dutch State, ING Group and the Dutch State agreed that the Dutch State may recommend candidates for appointment to the Supervisory Board in such a way that upon appointment of all recommended candidates by the General Meeting, the Supervisory Board would comprise two State Nominees among its members. The Dutch State may recommend a Supervisory Board member already in office. The recommendation right of the Dutch State is subject to applicable law and to corporate governance practices, generally accepted under stock exchange listing regimes applicable to ING Group and continues as long as the Dutch State holds at least 250 million Securities, as long as the IABF continues or any of the Bonds is outstanding (whichever occurs last). Should the holding of the Dutch State decrease below 250 million Securities, and both the IABF and the Bonds have expired, the State Nominees will remain in office and complete their term of appointment.

Candidates recommended by the Dutch State will be nominated for appointment by way of a binding nomination, unless one or more specified situations would occur. These include that:

- the candidate is not fit and proper to discharge his duties as a Supervisory Board member;
- upon appointment the composition of the Supervisory Board would not be appropriate and/or not be in accordance with the Supervisory Board Profile;
- appointment would be incompatible with any provision of the Articles of Association, the Supervisory Board Charter, any principle or best-practice provision of the Corporate Governance Code as applied by ING Group and/or any other generally accepted corporate governance practice or requirement which is applicable to ING Group as an internationally listed company;
- the relevant candidate has a structural conflict of interest with ING Group; and
- the Dutch central bank refuses to issue a statement of 'no objection' for the appointment of the relevant candidate.

The Dutch State recommended Lodewijk de Waal and Tineke Bahlmann for appointment to the Supervisory Board, who were both appointed by the General Meeting on 27 April 2009.

FUNCTION OF THE SUPERVISORY BOARD

The function of the Supervisory Board is to supervise the policy of the Executive Board and the general course of events of ING Group and its business, as well as to provide advice to the Executive Board. In line with Dutch company law, the Corporate Governance Code and the Articles of Association, the Supervisory Board Charter requires all members of the Supervisory Board, including the State Nominees, to act in accordance with the interests of ING Group and the business connected with it, taking into account the relevant interests of all the stakeholders of ING Group, to perform their duties without mandate and independent of any interest in the business of ING Group, and to refrain from supporting one interest without regard to the other interests involved.

Certain resolutions of the Executive Board, specified in the Articles of Association of ING Group, the Executive Board Charter and in the Supervisory Board Charter, are subject to the approval of the Supervisory Board.

Pursuant to the agreements concerning the transactions with the Dutch State mentioned above, certain resolutions of the Supervisory Board are subject to the condition that no State Nominee voted against the proposal. These rights became effective as from the 2009 annual General Meeting. These resolutions relate to the following matters:

a. the issue or acquisition of its own shares by ING Group, other than related to the Securities issue (including, for the avoidance of doubt, for the purpose of conversion or financing of a repurchase of Securities), as part of regular hedging operations or in connection with employment schemes;
b. the cooperation by ING Group in the issue of depositary receipts for shares;
c. the application for listing on or removal from the price list of any stock exchange of the securities referred to in a. or b.;
d. the entry into or termination of lasting cooperation between ING Group or a dependent company and another legal entity or partnership or as general partner in a limited partnership or general partnership where such cooperation or termination thereof has material significance for ING Group, i.e. amounting to one-quarter or more of ING Group's issued capital and reserves as disclosed in its balance sheet and notes thereto;
e. the acquisition by ING Group or a dependent company of a participating interest in the capital of another company amounting to one-quarter or more of ING Group's issued capital and reserves as disclosed in its balance sheet and notes thereto or a material increase or decrease in the magnitude of such a participating interest;
f. investments involving an amount equal to one-quarter or more of ING Group's issued capital and reserves as disclosed in its balance sheet and notes thereto;
g. a proposal to wind up ING Group;
h. filing of a petition for bankruptcy or moratorium of ING Group;
i. a proposal to reduce the issued capital of ING Group (other than related to the Securities issue);
j. a proposal for merger, split-off or dissolution of ING Group;
k. a proposal to change ING Group's remuneration policy; and
l. appointment of the chief executive officer of the Executive Board.

PROFILE OF MEMBERS OF THE SUPERVISORY BOARD

The Supervisory Board has drawn up a profile to be used as a basis for its composition. The profile was submitted for discussion to the General Meeting in 2010. It is available on the website of ING Group (www.ing.com) and at the ING Group head office.

In view of their experience and the valuable contribution that former members of the Executive Board can make to the Supervisory Board, it has been decided, taking into account the size of the Supervisory Board and ING's wide range of activities that such individuals may become members of the Supervisory Board of ING Group. There is, however, a restriction in that only one in every five other members of the Supervisory Board may be a former member of the Executive Board. In addition, this member must wait at least one year after resigning from the Executive Board before becoming eligible for appointment to the Supervisory Board. Former members of the Executive Board are not eligible for appointment to the position of chairman of the Supervisory Board.

After being appointed to the Supervisory Board, a former member of the Executive Board may also be appointed to one of the

Corporate governance continued

Supervisory Board's committees. However, appointment to the position of chairman of a committee is only possible if the individual in question resigned from the Executive Board at least four years prior to such appointment.

TERM OF APPOINTMENT OF MEMBERS OF THE SUPERVISORY BOARD

A member of the Supervisory Board retires no later than at the end of the first general meeting held four years after his or her last appointment or reappointment. In accordance with the Corporate Governance Code, members of the Supervisory Board may as a general rule be reappointed for two additional four-year terms. Under special circumstances however, the Supervisory Board may deviate from this general rule, among others in order to maintain a balanced composition of the Supervisory Board and/or to preserve valuable expertise and experience. As a general rule, members of the Supervisory Board shall also resign at the end of the annual general meeting in the year in which they attain the age of 70 and shall not be reappointed. The schedule for resignation by rotation is available on the website of ING Group (www.ing.com).

ANCILLARY POSITIONS/CONFLICTING INTERESTS

Members of the Supervisory Board are asked to provide details on any other directorships, paid positions and ancillary positions they may hold. Such positions may not conflict with the interests of ING Group. It is the responsibility of the individual member of the Supervisory Board and the Corporate Governance Committee to ensure that the directorship duties are performed properly and are not affected by any other positions that the individual may hold outside the Group.

In accordance with the Corporate Governance Code, members of the Supervisory Board are to disclose material conflicts of interest and potential conflicts of interest and to provide all information relevant thereto. Thereupon the Supervisory Board – without the member concerned taking part – decides whether a conflict of interest exists. In special circumstances, the Supervisory Board may deviate from this rule and decide that, notwithstanding the fact that the matter would entail a conflict of interest according to the Corporate Governance Code, a conflict of interest does not exist. This concerns in particular situations in which the conflict of interest is based on a marriage that exists no longer, to allow for situations where there is no material family relation.

In case of a conflict of interest, the relevant member of the Supervisory Board, as the Corporate Governance Code recommends, abstains from discussions and decision-making on the topic or the transaction in relation to which he or she has a conflict of interest with ING Group.

TRANSACTIONS INVOLVING ACTUAL OR POTENTIAL CONFLICTS OF INTEREST

In accordance with the Corporate Governance Code, transactions with members of the Supervisory Board in which there are significant conflicting interests will be disclosed in the Annual Report. In deviation of the Corporate Governance Code however, this does not apply if (i) disclosure would be against the law; (ii) the confidential, share-price sensitive or competition-sensitive character of the transaction prevents disclosure; and/or (iii) the information is so competition-sensitive that disclosure could damage the competitive position of ING Group.

Significant conflicting interests are considered to be absent in case of a relationship that a member of the Supervisory Board may have with ING Group subsidiaries as an ordinary, private individual, with the exception of any loans that may have been granted (for an overview of loans granted to members of the Supervisory Board see page 85).

INDEPENDENCE

Annually, the members of the Supervisory Board are requested to assess whether the criteria of dependence set out in the Corporate Governance Code do not apply to them and to confirm this in writing. On the basis of these criteria, all members of the Supervisory Board are to be regarded as independent on 31 December 2010. Members of the Supervisory Board to whom the independence criteria of the Corporate Governance Code do not apply, and members of the Supervisory Board to whom the criteria do apply but who can explain why this does not undermine their independence, are deemed to be independent.

COMPANY SECRETARY

ING Group's company secretary is Jan-Willem Vink, general counsel of ING Group.

COMMITTEES OF THE SUPERVISORY BOARD

On 31 December 2010, the Supervisory Board had five standing committees: the Audit Committee, the Risk Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee.

The organisation, powers and conduct of the Supervisory Board are detailed in the Supervisory Board Charter. Separate charters have been drawn up for the Audit Committee, Risk Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee. These charters are available on the website of ING Group (www.ing.com). A short description of the duties for the five Committees follows below.

The Audit Committee assists the Supervisory Board in monitoring the integrity of the financial statements of ING Group, ING Verzekeringen N.V. and ING Bank N.V., in monitoring the compliance with legal and regulatory requirements and in monitoring the independence and performance of ING's internal and external auditors. On 31 December 2010, the members of the Audit Committee were: Jackson Tai (chairman), Tineke Bahlmann, Henk Breukink, Godfried van der Lugt and Jeroen van der Veer.

The Supervisory Board has determined that Aman Mehta, appointed to the Audit Committee per 14 February 2011, is a financial expert as referred to in the Corporate Governance Code. He has gathered his experience by serving as chief executive officer of Hong Kong & Shanghai Banking Corporation (HSBC) in Hong Kong.

The Risk Committee assists and advises the Supervisory Board in monitoring the risk profile of ING Group as well as the structure and operation of the internal risk management and control systems. On 31 December 2010, the members of the Risk Committee were: Peter Elverding (chairman), Tineke Bahlmann, Claus Dieter Hoffmann, Piet Klaver, Godfried van der Lugt and Jackson Tai.

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The Remuneration Committee advises the Supervisory Board, among other things, on the terms and conditions of employment (including remuneration) of the members of the Executive Board and on the policies and general principles on which the terms and conditions of employment of the members of the Executive Board and of senior managers of ING and its subsidiaries are based. On 31 December 2010, the members of the Remuneration Committee were: Jeroen van der Veer (chairman), Peter Elverding, Piet Klaver, Joan Spero and Lodewijk de Waal. The Nomination Committee advises the Supervisory Board, among other things, on the composition of the Supervisory Board and Executive Board. On 31 December 2010, the members of the Nomination Committee were: Peter Elverding (chairman), Piet Klaver, Joan Spero, Jeroen van der Veer and Lodewijk de Waal.

The Corporate Governance Committee assists the Supervisory Board in monitoring and evaluating the corporate governance of ING as a whole and the reporting thereon in the Annual Report and to the General Meeting and advises the Supervisory Board on improvements. On 31 December 2010, the members of the Corporate Governance Committee were: Peter Elverding (chairman), Henk Breukink, Claus Dieter Hoffmann, Aman Mehta and Lodewijk de Waal.

The current composition of the Supervisory Board Committees can be found on the Company's website (www.ing.com), which is updated on a regular basis.

REMUNERATION AND SHARE OWNERSHIP

The remuneration of the members of the Supervisory Board is determined by the General Meeting and is not dependent on the results of ING Group. Details of the remuneration are provided in the Remuneration report on pages 84 and 85. Members of the Supervisory Board are permitted to hold shares and depositary receipts for shares in the share capital of ING Group for long-term investment purposes. Details are given on page 85. Transactions by members of the Supervisory Board in these shares and these depositary receipts for shares are subject to the ING regulations for insiders. These regulations are available on the website of ING Group (www.ing.com).

INFORMATION ON MEMBERS OF THE SUPERVISORY BOARD

PETER A.F.W. ELVERDING (CHAIRMAN)

(*Born 1948, Dutch nationality, male; appointed in 2007, term expires in 2011*)
Former chairman of the Managing Board of Directors of Koninklijke DSM N.V. Former vice-chairman of the Supervisory Board of De Nederlandsche Bank N.V. (Dutch central bank).
Other business activities: chairman of the Supervisory Board of Océ N.V. (listed company). Member of the Supervisory Board of SHV Holdings N.V. Chairman of the Supervisory Board of Q-Park N.V. Member of the Supervisory Board of Koninklijke FrieslandCampina N.V. Chairman of the Supervisory Board of Oostwegel Holding BV. Member of the Board of Stichting Instituut GAK.

JEROEN VAN DER VEER (VICE-CHAIRMAN)

(*Born 1947, Dutch nationality, male; appointed in 2009, term expires in 2013*)
Former chief executive officer of Royal Dutch Shell plc.
Other business activities: vice-chairman and senior independent director of Unilever N.V., non-executive director of Royal Dutch Shell plc and member of the Supervisory Board of Koninklijke Philips Electronics N.V. (listed companies). Member of the Supervisory Board of Het Concertgebouw N.V. Chairman of Platform Bètatechniek. Chairman of the Supervisory Council of Nederlands Openluchtmuseum. Member of the Board of Nationale Toneel (theatre).

J.P. (TINEKE) BAHLMANN

(*Born 1950, Dutch nationality, female; appointed in 2009, term expires in 2013*)
Professor in Business Administration, University of Utrecht. Chairman of the Dutch Media Authority.
Other business activities: vice-chairman of the Supervisory Board of N.V. Nederlandsche Apparatenfabriek 'Nedap' (listed company). Member of the Board of Maatschappelijk Verantwoord Ondernemen Nederland (CSR). Chairman of Stichting Max Havelaar. Member of the Board of De Baak Management Centre VNO-NCW. Member of the Board of Toneelgroep Amsterdam (theatre).

HENK W. BREUKINK

(*Born 1950, Dutch nationality, male; appointed in 2007, term expires in 2011*)
Former managing director of F&C and country head for F&C Netherlands (asset management firm).
Other business activities: non-executive/vice-chairman of VastNed Offices/Industrial (real estate fund) and non-executive director of F&C hedge funds, Ireland (listed companies). Non-executive director of Brink Groep BV. Non-executive chairman of Heembouw Holding B.V. Chairman of the Supervisory Board of Omring (health care institution). Member of the Supervisory Board of HaagWonen (housing corporation). Senior executive coach.

CLAUS DIETER HOFFMANN

(*Born 1942, German nationality, male; appointed in 2003, term expires in 2011*)
Former chief financial officer of Robert Bosch GmbH. Managing partner of H+H Senior Advisors, Stuttgart.
Other business activities: chairman of the Supervisory Board of EnBW AG (listed company). Member of the Supervisory Board of de Boer Structures Holding B.V. Member of the Supervisory Board of C.A. Leuze GmbH & Co. KG. Chairman of the Charlottenklinik Foundation (hospital).

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PIET C. KLAVER
(*Born 1945, Dutch nationality, male; appointed in 2006, term expires in 2014*)
Former chairman of the Executive Board of SHV Holdings N.V.
Other business activities: chairman of the Supervisory Board of TNT N.V. (listed company). Chairman of the Supervisory Board of each of Dekker Hout Groep B.V., Jaarbeurs Holding B.V., Dura Vermeer Groep N.V., Blokker Holding B.V., Credit Yard Group B.V. and Utrecht School of the Arts. Member of the Supervisory Board of SHV Holdings N.V. Member of the Board of the African Parks Foundation.

GODFRIED J.A. VAN DER LUGT
(*Born 1940, Dutch nationality, male; appointed in 2001, resigned on 24 January 2011)*
Former chairman of the Executive Board of ING Group (retired in May 2000).
Other business activities: chairman of the Supervisory Board of Stadsherstel Amsterdam N.V. Chairman of the Advisory Board of Kasteel De Haar and R.C. Oude Armenkantoor. Member of the Investment Advisory Committee of Stichting Instituut GAK.

AMAN MEHTA
(*Born 1946, Indian nationality, male; appointed in 2008, term expires in 2012*)
Former chief executive officer of Hong Kong & Shanghai Banking Corporation (HSBC) in Hong Kong.
Other business activities: non-executive director of each of Tata Consultancy Services, Jet Airways Ltd., PCCW Ltd., Vedanta Resources Plc, Wockhardt Ltd., Godrej Consumer Products Ltd., Cairn India Ltd., Emaar MGF Land Ltd. and Max India Ltd. Member of the governing board of Indian School of Business. Member of the International Advisory Council of INSEAD.

JOAN E. SPERO
(*Born 1944, American nationality, female; appointed in 2008, term expires in 2012*)
Former executive vice-president Corporate Affairs and Communications of American Express Company. Former Under Secretary for Economic Business & Agricultural Affairs, US State Department. Former president Doris Duke Charitable Foundation.
Other business activities: non-executive director of IBM Corporation. Trustee of Council on Foreign Relations, Wisconsin Alumni Research Foundation, Morgridge Institute for Research. Trustee Emerita of Columbia University and Amherst College.

JACKSON P. TAI
(*Born 1950, American nationality, male; appointed in 2008, resigned on 6 January 2011*)
Former vice-chairman and chief executive officer of DBS Group Holdings. Former managing director in the Investment Banking Division of JP Morgan.
Other business activities: non-executive director of each of NYSE Euronext, MasterCard Incorporated, CapitaLand, and Bank of China Limited (pending regulatory approval). Non-executive chairman and director of Brookstone, Inc. Trustee of Rensselaer Polytechnic Institute.

LODEWIJK J. DE WAAL
(*Born 1950, Dutch nationality, male; appointed in 2009, term expires in 2013*)
Former general manager of Humanitas.
Other business activities: member of the Supervisory Board of PGGM N.V. Member of the Advisory Board of Zorgverzekeraars Nederland. Chairman of the Supervisory Council of SNV. Chairman of the Advisory Board of Stichting Nationaal Fonds Kunstbezit. Member of the Netherlands' National Contact Point (NCP) of the OECD. Chairman of the Supervisory Council of Museum Volkenkunde.

CHANGES IN THE COMPOSITION
At the 2010 annual General Meeting Piet Klaver was reappointed as member of the Supervisory Board. In addition, Piet Hoogendoorn, Harish Manwani and Karel Vuursteen retired from the Supervisory Board at the end of the 2010 annual General Meeting.

The current terms of appointment of Henk Breukink, Peter Elverding and Claus Dieter Hoffmann will expire at the end of the 2011 annual General Meeting. At this meeting, Henk Breukink and Peter Elverding will be nominated for reappointment.

Claus Dieter Hoffmann has decided to retire from the Supervisory Board at the end of the 2011 annual General Meeting.

In view of his proposed appointment as a non-executive director of the Bank of China, Jackson Tai resigned as a Supervisory Board member, effective 6 January 2011. Godfried van der Lugt resigned for personal reasons as a Supervisory Board member, effective 24 January 2011.

More information can be found in the convocation for the 2011 annual General Meeting, available on the website of ING Group (www.ing.com) from 24 March 2011.

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FINANCIAL REPORTING

A description of the main features of ING Group's internal control and risk management systems in relation to the financial reporting process is included in the statement with respect to Section 404 Sarbanes-Oxley Act on page 76 which is deemed to be incorporated by reference herein.

CHANGE OF CONTROL PROVISIONS

LEGAL PROVISIONS

Pursuant to the terms of the Dutch Financial Supervision Act a declaration of no objection from the Dutch Minister of Finance must be obtained by anyone wishing to obtain or hold a participating interest of at least 10% in ING Group and to exercise control attached to such a participating interest. Similarly, on the basis of indirect change of control statutes in the various jurisdictions where subsidiaries of ING Group are operating, permission from or notification to local regulatory authorities may be required for the acquisition of a substantial interest in ING Group.

CHANGE OF CONTROL CLAUSES IN MATERIAL AGREEMENTS

ING Group is not a party to any material agreement that becomes effective or is to be amended or terminated, in case of a change of control of ING Group following a public bid as defined in section 5:70 of the Dutch Financial Supervision Act. ING Group subsidiaries may have customary change of control arrangements included in agreements related to various business activities, such as joint venture agreements, letters of credit and other credit facilities, ISDA-agreements, hybrid capital and debt instruments, reinsurance agreements and futures and option trading agreements. Following a change of control of ING Group (as the result of a public bid or otherwise), such agreements may be amended or terminated, leading, for example, to an obligatory transfer of the interest in the joint venture, early repayment of amounts due, loss of credit facilities or reinsurance cover and liquidation of outstanding futures and option trading positions.

SEVERANCE PAYMENTS TO MEMBERS OF THE EXECUTIVE BOARD

The employment contracts with the members of the Executive Board provide for severance payments, which become due on termination of the contract in connection with a public bid as defined in section 5:70 of the Dutch Financial Supervision Act. For the amounts due, it is not relevant whether or not termination of the contract is related to a public bid. In accordance with the terms of the issuance of the Securities, severance payments to the members of the Executive Board have been limited to a maximum of one year's fixed salary, in line with the Corporate Governance Code.

AMENDMENT OF THE ARTICLES OF ASSOCIATION

The General Meeting may resolve to amend the Articles of Association, provided the resolution is adopted on a proposal of the Executive Board which has been approved by the Supervisory Board. Such a resolution of the General Meeting requires a majority of at least two-thirds of the votes cast in a general meeting at which at least two-thirds of the issued share capital is represented. An amendment has to be passed by notarial deed, and this in turn requires a declaration of no objection to be issued by the Minister of Justice.

EXTERNAL AUDITOR

At the annual General Meeting held on 22 April 2008, Ernst & Young was appointed to audit the financial statements of ING Group for the financial years 2008 to 2011 inclusive, to report on the outcome of these audits to the Executive Board and the Supervisory Board and to provide an audit opinion on the financial statements of ING Group. Furthermore, Ernst & Young also audited and reported on the effectiveness of internal control over financial reporting on 31 December 2010. In the 2012 annual General Meeting it will be proposed to extend the appointment of Ernst & Young by two more years, i.e. for the financial years 2012 and 2013.

The external auditor attended the meetings of the Audit Committee and the 2010 annual General Meeting.

After a maximum period of five years of performing the financial audit of ING Group or ING Verzekeringen N.V. or ING Bank N.V., the lead audit partners of the external audit firm and the audit partners responsible for reviewing the audits, have to be replaced by other partners of the external audit firm. The Audit Committee provides recommendations to the Supervisory Board regarding these replacements based, among other things, on an annual evaluation of the provided services. In line with this requirement, the lead audit partner of Ernst & Young was succeeded after the year-end audit 2006. The rotation of other partners involved with the audit of the financial statements of ING is subject to applicable independence legislation.

The external auditor may be questioned at the annual general meeting in relation to its audit opinion on the annual accounts. The external auditor will therefore attend and be entitled to address this meeting.

The external auditor may only provide audit and non-audit services to ING Group and its subsidiaries with the permission of the Audit Committee. The Audit Committee generally pre-approves certain types of audit, audit-related, tax and non-audit services to be provided by the external auditor on an annual basis. Services that have not been generally pre-approved by the Audit Committee should not be provided by the external auditor unless they are specifically pre-approved by the Audit Committee at the recommendation of local management.

The Audit Committee also sets the maximum annual amount that may be spent for pre-approved services. Throughout the year the external auditor and ING monitor the amounts paid versus the pre-approved amounts. The external auditor provides the Audit Committee with a full overview of all services provided to ING, including related fees, supported by sufficiently detailed information. This overview is periodically evaluated by the Audit Committee during the year.

More information on ING Group's policy on external auditor independence is available on the website of ING Group (www.ing.com).

Report of ING Trust Office

The following report is issued in compliance with the provisions of article 15 of the trust conditions for registered shares in the share capital of ING Groep N.V. and best-practice provision IV.2.6 of the Dutch Corporate Governance Code.

OBJECT

Pursuant to its articles of association (the 'Articles of Association'), the object of Stichting ING Aandelen, a foundation organised under the laws of the Netherlands, with its registered seat in Amsterdam ('ING Trust Office') is:

a. to acquire and administer for the purpose of management registered shares in the capital of ING Groep N.V., a public limited company with its registered office in Amsterdam ('ING Group') and any bonus shares which may be distributed thereon or shares acquired as stock dividend or by the exercise of subscription rights and to issue exchangeable depositary receipts for these shares, to exercise voting rights and all other rights attaching to the shares, to exercise subscription rights and to receive dividends and other distributions, including proceeds of liquidation, subject to the obligation to distribute the income to the holders of depositary receipts, save that depositary receipts shall be issued for bonus shares, shares acquired as stock dividend and shares acquired on behalf of holders of depositary receipts by virtue of the exercise of subscription rights;
b. to promote the exchange of information between ING Group on the one hand and the holders of depositary receipts and shareholders in ING Group on the other;
c. to promote the solicitation of proxies of shareholders other than the foundation itself and of specific proxies and/or voting instructions of holders of depositary receipts,

and further to engage in any activity which may be related to the foregoing in the widest sense, whereby all activities which entail commercial risk shall be excluded from the foundation's object.

ACTIVITIES

BOARD MEETINGS AND MEETINGS WITH ING GROUP

During the 2010 reporting year, the board of ING Trust Office (the 'Board') held nine meetings.

On 2 February 2010, the Board met to discuss the appeal with the General Court of the European Union against specific elements of the European Commission's decision regarding ING's restructuring plan. The general counsel of ING Group was invited to the meeting to give an explanation on this subject. During the same meeting, without presence of the general counsel, the Board discussed, among other things, the purported class litigation filed in the US alleging violations of the federal securities laws with respect to disclosures made in connection with the 2007 and 2008 offerings of ING's Perpetual Hybrid Capital Securities, the composition of the Board and prepared for the annual General Meeting of ING Group of 27 April 2010 (the 'AGM').

On 19 February 2010, the Board held a meeting to discuss the position of ING Trust Office in general. The general counsel of ING Group was invited to this meeting.

On 31 March 2010 the Board met again to discuss the position of ING Trust Office, as well as to prepare for the AGM. Prior to this meeting the Board met with the chairmen of the Executive Board and the Supervisory Board of ING Group. During this meeting the Board asked for an explanation of, among other things, the activities and performance of ING Group over 2009 on the basis of the press release of 18 March 2010 and the 2009 figures, the split of the banking and insurance business and several items on the agenda of the AGM as published on 18 March 2010.

On 14 April 2010 the Board held a meeting to adopt the balance sheet and statement of income and expenses of ING Trust Office.

Report of ING Trust Office continued

During this meeting the Board also discussed, among other things, the position of ING Trust Office in general and prepared for the AGM. After this meeting the Board met with the chairmen of the Executive Board and the Supervisory Board of ING Group. During this meeting the Board asked for an explanation of, among other things, the implementation by ING Group of the revised Dutch Corporate Governance Code.

On 27 April 2010, the Board convened before the AGM to discuss the proxy voting results and to decide on the initial position of the Board vis-à-vis the items on the agenda of the AGM.

On 30 August 2010, the Board held a meeting to discuss, among other things, the composition and profile of the Board and to prepare for the meeting of holders of depositary receipts of 24 November 2010. During this meeting the Board also discussed the proposed amendments to the Articles of Association and the trust conditions for registered shares in the share capital of ING Group (the 'Trust Conditions'). These amendments were effectuated on 7 October 2010, as a result of which the Articles of Association and the Trust Conditions are fully in line with the Dutch Corporate Governance Code.

On 27 September 2010 the Board convened to discuss the procedure of appointment of members of the Board and to prepare for the meeting of holders of depositary receipts.

On 28 October 2010 the Board met with the chairmen of the Executive Board and the Supervisory Board of ING Group and asked for an explanation of, among other things, the activities and performance of ING Group over the first six months of 2010 on the basis of the press release of 11 August 2010.

On 16 November 2010, the Board held a meeting to prepare for the meeting of holders of depositary receipts.

On 8 December 2010 the Board met to discuss, among other things, the proceedings at the meeting of holders of depositary receipts and the composition of the Board. On that same day the Board had a meeting with the chairmen of the Executive Board and the Supervisory Board of ING Group. During this meeting the Board asked for an explanation of, among other things, the activities and performance of ING Group over the first nine months of 2010 on the basis of the press release of 10 November 2010.

ANNUAL GENERAL MEETING ING GROUP, VOTES CAST AND VOTING BEHAVIOUR

ING Trust Office attended the AGM. During this meeting ING Trust Office asked the Executive Board and the Supervisory Board of ING Group various questions, answered questions of shareholders and holders of depositary receipts and made a statement on how it proposed to vote, where desired.

ING Trust Office granted proxies to holders of depositary receipts who attended the AGM in person or who were represented by a third party, to vote at their own discretion on such a number of shares equal to the number of depositary receipts held by the relevant holder of depositary receipts on the record date, with due observance of the Articles of Association and the Trust Conditions.

Holders of depositary receipts who did not attend the AGM in person or who were not represented by a third party, were entitled to give binding voting instructions to ING Trust Office for a number of shares equal to the number of depositary receipts held by the relevant holder of depositary receipts on the record date. During the AGM, ING Trust Office voted on these shares in accordance with the voting instructions given. A more detailed overview of these voting results can be found on the website of ING Group (www.ing.com).

In accordance with the Articles of Association and the Trust Conditions, ING Trust Office voted at its own discretion on the shares for which it did not issue voting proxies and did not receive voting instructions, representing 58.7% of the total votes that might be cast at the AGM. In voting such shares, ING Trust Office was guided primarily by the interests of all holders of depositary receipts, taking into account the interests of ING Group and its affiliated enterprise. As a result, ING Trust Office voted on these shares in favour of all voting items on the agenda of the AGM.

ING Trust Office promotes the solicitation of proxies of shareholders of ING Group other than ING Trust Office itself and of specific proxies or voting instructions of holders of depositary receipts. ING Trust Office encourages the greatest possible participation of shareholders and holders of depositary receipts and promotes the execution of voting rights in a transparent way. At the same time it prevents that a minority of shareholders and holders of depositary receipts could use a chance majority of votes to the disadvantage of the shareholders and holders of depositary receipts present nor represented at a general meeting of ING Group.

MEETING OF HOLDERS OF DEPOSITARY RECEIPTS

According to the Trust Conditions, ING Trust Office may consult holders of depositary receipts in a separate meeting if and when it considers this necessary or desirable. In addition, one or more holders of depositary receipts who jointly hold at least 10% of the total number of depositary receipts issued by ING Trust Office, may request the Board in writing, setting out the matters to be considered in detail, to convene a meeting of holders of depositary receipts.

The Board convened a meeting of holders of depositary receipts, which was held on 24 November 2010. 0.07% of the total number of depositary receipts issued was present or represented during this meeting. During the meeting a report was made on the activities of ING Trust Office in 2009 and 2010 up to the date of the meeting. In addition, the Board answered various questions of holders of depositary receipts attending the meeting.

DEPOSITARY-RECEIPTS STRUCTURE

During the years 2007–2010, participation of shareholders, excluding ING Trust Office, and holders of depositary receipts in annual general meetings of ING Group continually increased from 36.7% to 41.3%. Only the extraordinary general meeting of 25 November 2009 deviates from this trend with a markedly lower turnout of 31.1%.

In view of the above, ING evaluated the position of ING Trust Office and the depositary-receipts structure, the outcome of which was discussed in the AGM. On the basis of this evaluation, ING concluded that it would be premature to change or abolish the depositary-receipts structure in 2010 and that it would be more appropriate to reconsider this as part of a re-evaluation of ING Group's entire governance structure following the current restructuring and the completion of the divestments approved in the extraordinary General Meeting in 2009.

Report of ING Trust Office continued

OUTSTANDING DEPOSITARY RECEIPTS

On 31 December 2010, the nominal value of administered ordinary shares amounted to EUR 919,254,486.48 for which 3,830,227,027 depositary receipts were issued, each with a nominal value of EUR 0.24. During the reporting year, the net number of depositary receipts decreased with 386,717.

The decrease came about as follows:

add:	
conversion of shares into depositary receipts	65,141
less:	
conversion of depositary receipts into shares	451,858

COMPOSITION AND REMUNERATION BOARD

The members of the Board are appointed by the Board itself for a maximum term of four years and may be reappointed two times. Holders of depositary receipts may make recommendations to the Board on persons to be appointed as members of the Board. The Board informs them for such purpose and in good time when, for what reason and according to which profile a vacancy must be filled and in which manner a recommendation should take place.

The Board currently consists of Jan Veraart, chairman, Mick den Boogert, Carel van den Driest, Paul Frentrop and Herman Hazewinkel.

Huib Blaisse stepped down as a member of the Board as of 1 September 2010. On 11 October 2010 the Board announced through the website of ING Trust Office that it intended to fill the vacancy, and, with a view to a balanced spread of the succession, to reappoint the sitting members of the Board, each for a different term. At the same time the Board announced that the holders of depositary receipts could make recommendations to the Board in connection with the vacancy and the reappointments during a period ending on 18 November 2010. The Board did not receive any recommendations. As a result the Board decided to appoint Mick den Boogert as a member of the Board as of 8 February 2011 for a term ending per 1 January 2015. Furthermore, Jan Veraart, Carel van den Driest, Paul Frentrop and Herman Hazewinkel were reappointed as members of the Board as of 1 January 2011, for terms ending per 1 May 2013, 1 May 2012, 1 May 2014 and 1 January 2015 respectively.

A profile and an overview of relevant positions held by the members of the Board can be found on the website of ING Trust Office (www.ingtrustoffice.com).

All members of the Board stated that they meet the conditions regarding independence as referred to in the Articles of Association and in the Dutch Corporate Governance Code.

The annual remuneration for the chairman of the Board amounts to EUR 25,000.00 and for the other members of the Board to EUR 20,000.00.

COSTS

In 2010, the costs of the activities of ING Trust Office amounted to EUR 503,871.36.

OTHER

In 2010, ING Trust Office obtained external legal advice on several issues relevant for the performing of its activities.

The activities involved in the administration of shares are performed by Administratiekantoor van het Algemeen Administratie- en Trustkantoor B.V., Amsterdam.

CONTACT DETAILS

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AMSTERDAM, 14 MARCH 2011
BOARD OF STICHTING ING AANDELEN

Report of ING Continuity Foundation

Stichting Continuïteit ING ('ING Continuity Foundation'), a foundation organised under the laws of the Netherlands, established in Amsterdam, was founded on 22 January 1991.

A call-option agreement concluded between ING Continuity Foundation and ING Groep N.V. ('ING Group') vests ING Continuity Foundation with the right to acquire cumulative preference shares in the share capital of ING Group up to a maximum of 4.5 billion cumulative preference shares. The acquisition of cumulative preference shares by ING Continuity Foundation is subject to the restriction that, immediately after the issue of cumulative preference shares, the total amount of cumulative preference shares may not exceed one third of the total issued share capital of ING Group. If new shares other than cumulative preference shares are subsequently issued, ING Continuity Foundation may again exercise its right, subject to the provisions of the preceding sentence. On acquisition of cumulative preference shares, at least 25% of the nominal value must be paid on said shares.

In 2010, the board of ING Continuity Foundation (the 'Board') held three meetings, on 28 April, 8 December and 22 December.

The composition of the Board is currently as follows: Bas Kortmann, chairman of the Board, who was reappointed as of 13 May 2010, Rob van den Bergh, appointed as of 10 February 2011, Allard Metzelaar and Wim van Vonno.

All members of the Board stated that they meet the conditions regarding independence as referred to in the Articles of Association of ING Continuity Foundation.

AMSTERDAM, 14 MARCH 2011
BOARD OF STICHTING CONTINUÏTEIT ING

Conformity statement

The Executive Board is required to prepare the Annual Accounts and the Annual Report of ING Groep N.V. for each financial year in accordance with applicable Dutch law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

CONFORMITY STATEMENT PURSUANT TO SECTION 5:25C PARAGRAPH 2(C) OF THE DUTCH FINANCIAL SUPERVISION ACT

(Wet op het financieel toezicht)

The Executive Board is responsible for maintaining proper accounting records, for safeguarding assets and for taking reasonable steps to prevent and detect fraud and other irregularities. It is responsible for selecting suitable accounting policies and applying them on a consistent basis, making judgements and estimates that are prudent and reasonable. It is also responsible for establishing and maintaining internal procedures which ensure that all major financial information is known to the Executive Board, so that the timeliness, completeness and correctness of the external financial reporting are assured.

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

- the ING Groep N.V. 2010 Annual Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of ING Groep N.V. and the entities included in the consolidation taken as a whole;

- the ING Groep 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 Groep N.V. and the entities included in the consolidation taken as a whole, together with a description of the principal risks ING Groep N.V. is confronted with.

AMSTERDAM, 14 MARCH 2011

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

Patrick G. Flynn
CFO, member of the Executive Board

J.V. (Koos) Timmermans
CRO, member of the Executive Board

Section 404 Sarbanes-Oxley Act

Internal control over financial reporting

Due to the listing of ING shares on the New York Stock Exchange, ING Group is required to comply with the SEC regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act, or SOX 404. These regulations require that the CEO (the chairman of the Executive Board) and the CFO of ING Group report and certify on an annual basis on the effectiveness of ING Group's internal controls over financial reporting. Furthermore, the external auditors are required to provide an opinion on the effectiveness of ING Group's internal controls over financial reporting.

ING Group has long-established Business Principles and a strong internal control culture, which all staff must adhere to. SOX 404 activities are organised along the lines of the governance structure, and involve the participation of senior management across ING. Following the SOX 404 process, ING is in the position to publish an unqualified statement which denotes that the Company's internal control over financial reporting is effective as of 31 December 2010. The SOX 404 statement by the Executive Board is included below, followed by the report of the external auditor.

REPORT OF THE EXECUTIVE BOARD ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Executive Board is responsible for establishing and maintaining adequate internal control over financial reporting. ING's 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 the assets of ING;
- 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.

The Executive Board assessed the effectiveness of our internal control over financial reporting as of 31 December 2010. In making this assessment, the Executive Board performed tests based on the criteria of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on the Executive Board's assessment and those criteria, the Executive Board concluded that the Company's internal control over financial reporting is effective as of 31 December 2010.

Our independent registered public accounting firm has audited and issued their report on ING's internal control over financial reporting, which appears on the following page.

AMSTERDAM, 14 MARCH 2011

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

Patrick G. Flynn
CFO, member of the Executive Board

Section 404 Sarbanes-Oxley Act continued

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS, THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD OF ING GROEP N.V.

We have audited ING Groep N.V.'s internal control over financial reporting as of 31 December 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). ING Groep N.V.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of the Executive Board on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the company's assets that could have a material effect on the 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.

In our opinion, ING Groep N.V. maintained, in all material respects, effective internal control over financial reporting as of 31 December 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of ING Groep N.V. as of 31 December 2010, the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended. Our report dated 14 March 2011 expressed an unqualified opinion thereon.

AMSTERDAM, 14 MARCH 2011
ERNST & YOUNG ACCOUNTANTS LLP

Remuneration report

This chapter sets out the remuneration for the Executive Board and the Supervisory Board. The remuneration policy for the Executive Board was adopted by the annual General Meeting (AGM) on 27 April 2010. As set out on page 80, the Supervisory Board proposes to amend the remuneration policy in order to comply with the Capital Requirements Directive III (CRD III) issued by the European Union. This amendment will be submitted to the AGM on 9 May 2011. Following adoption of this amendment, the amended remuneration policy will become effective as of compensation year 2011. The Remuneration report also provides an outline of how the Remuneration Committee is applying the new policy in 2011. In addition, the Remuneration report provides information on the remuneration paid for 2010. Furthermore, information is included on loans and advances to the Executive Board and Supervisory Board members as well as ING depositary receipts for shares held by members of both Boards.

REMUNERATION POLICY

The primary objective of the remuneration structure is to enable ING to retain and recruit qualified and expert leaders, senior staff and other high-qualified employees, who have a drive for excellence in serving the interests of the company's various stakeholders. ING endeavours to match compensation of the company's leadership appropriately against a variety of factors, such as the complexity of functions, the scope of responsibilities, the alignment of risks and rewards, and the long-term objectives of the company and its stakeholders, which is all the more important given the changing international standards regarding responsible remuneration. These factors differ for each role, line of business and country. This is especially the case for ING with its operations in over 40 countries and over 100,000 employees of whom around 73,000 are based outside the Netherlands (over 60% of senior management is non-Dutch). As much as possible for a global financial institution of this size, ING aims to take account of all these differences and also of the standards applied within similar financial institutions in the various countries in which it operates.

REMUNERATION POLICY FOR THE EXECUTIVE BOARD ADOPTED IN 2010

According to the remuneration policy of the Executive Board as adopted by the annual General Meeting on 27 April 2010, remuneration of Executive Board members consists of a combination of fixed compensation (base salary) and variable compensation (together 'total direct compensation'), pension arrangements and benefits as described below.

Total direct compensation: moderation and reduced emphasis on variable remuneration

Total direct compensation levels are based on market data that include peers both inside and outside the financial sector in the international context in which ING operates. Total direct compensation is benchmarked against a peer group of companies that, in the opinion of the Supervisory Board, are comparable with ING in terms of size and scope. In line with the foregoing, the Supervisory Board has determined that the peer group consists of the companies in the Dow Jones EURO STOXX 50 Index. These are 50 companies, in a range of financial and non-financial industries, which are based in countries within the economic and monetary union of the European Union. In accordance with the Dutch Banking Code, ING's new remuneration policy for the Executive Board aims for total direct compensation levels slightly below market median levels for comparable positions in the relevant markets.

In addition, the remuneration policy provides for a balanced mix between fixed and variable compensation. Variable compensation will not exceed 100% of fixed salary at the time of allocation. Fixed compensation (i.e. the base salary levels) will be determined in line with the relevant market environment as an integral part of total direct compensation, and will be reviewed from time to time by the Supervisory Board. The policy provides for an at target variable compensation of 40% in cash and 40% in stock (in total 80%) of base salary if performance criteria are met. If performance criteria (as predetermined by the Supervisory Board) are exceeded, the variable component can be increased from target to maximum, not exceeding 100% of base salary at the time of allocation.

Remuneration report continued

Increased emphasis on long-term value creation

The remuneration policy for the Executive Board combines the short- and long-term variable components into one structure. This structure intends to support both long-term value creation and short-term company objectives. The emphasis on long-term performance indicators within the variable component of the compensation package is increased by means of deferral, a reasonableness test and claw back mechanisms.

The allocation of variable compensation is conditional on the achievement of a number of performance objectives. The short-term component, at maximum 50% of total variable compensation, is paid in cash the year following the performance year. The other 50% of the total variable compensation is deferred. This long-term component is allocated in stock in order to ensure alignment of the Executive Board's interests with the interests of shareholders. It also intends to serve the objective of retaining the members of the Executive Board for a longer period of time. The value of the stock award is set such that total variable compensation at the time that the maximum number of shares to be granted is determined stays within the 100% limit.

The stock awards will vest on the third anniversary of the grant date, subject to a reasonableness test by the Supervisory Board to determine whether application of the predetermined criteria does not result in undesired outcomes. Adjustments to the number of shares will only be considered in extraordinary circumstances. Executive Board members are not allowed to sell depositary receipts obtained within a period of five years from the grant date. However, they are allowed to sell part of their depositary receipts at the date of vesting to pay tax over the vested share award.

Increased focus on risk and non-financial performance

Variable compensation is increasingly linked to risk considerations and non-financial performance and will take into account both individual and company performance criteria. Performance measurement will account for estimated risks and costs of capital. In addition to financial indicators, performance will also be assessed based on non-financial drivers, by means of a number of targets regarding economic, environmental, customer satisfaction and social criteria.

Pensions Executive Board members

Members of the Executive Board who are employed on the basis of a Dutch employment contract, will participate in the new defined contribution pension plans introduced in 2010 as part of the remuneration policy. Individual board members participating in the pension plan that existed before the introduction of the new plans were given the choice to keep their existing pension arrangement. The existing pension arrangement, approved by the 2006 General Meeting, is based on a defined contribution plan. Alternatively, they can also switch to the new arrangements.

Members of the Executive Board will be required to pay a contribution to their pension premium in line with the contributions under ING's Collective Labour Agreement in the Netherlands.

Members of the Executive Board working on a non-Dutch employment contract will be offered pensions in line with local practices.

Benefits

Executive Board members will continue to be eligible for a range of additional benefits (e.g. the use of company cars, contributions to company savings plans and, if applicable, expatriate allowances). Executive Board members may obtain banking and insurance services from ING Group subsidiaries in the ordinary course of their business and on terms that apply to most other comparable employees of ING. In addition, tax and financial planning services will be provided to ensure compliance with the relevant legislative requirements.

Tenure

The contract of employment for Executive Board members provides for an appointment for a period of four years and allows for reappointment by the General Meeting. In the case of an involuntary exit, Executive Board members are entitled to an exit-arrangement limited to one year base salary.

OTHER ITEMS FOR SUPERVISORY BOARD DISCRETION

Claw back and adjustments

The Supervisory Board has the authority to reclaim variable remuneration allocated to a member of the Executive Board based on inaccurate data and/or behaviour that led to significant harm to the company. The Supervisory Board also has the authority to adjust variable remuneration if application of the predetermined performance criteria results in undesired outcomes. Accordingly, the Supervisory Board has decision authority in situations not addressed in the policy.

Special employment conditions

Special employment conditions, such as commitments made to secure the recruitment of new executives, may be used in exceptional circumstances subject to strict control by the Supervisory Board.

Supervisory Board discretion to review the policy and the remuneration paid

ING as a company is expected to go through significant changes during the coming year. Moreover, the relevant international employment market is very much in flux. In order to ensure that ING can adapt to these two uncertain factors, the Supervisory Board will re-evaluate in 2012, or earlier should regulatory developments require this, whether the new remuneration policy (adopted in 2010) will be in line with the long-term objectives of the company, the relevant international context, as well as the societal perception of ING as a company. Should it become clear, after such evaluation, that the new remuneration policy has led to an unintended or inequitable outcome, the Supervisory Board will have the discretion to correct the previously allocated variable remuneration. However, it is understood that any such correction could not lead to a deviation from the requirement that variable compensation cannot exceed 100% of base salary during any year, as required under the Dutch Banking Code.

The remuneration policy is leading in the international financial markets in terms of moderation of pay. The Supervisory Board and the Executive Board also have an obligation to safeguard the continuity of the company. The Supervisory Board will therefore evaluate from time to time how these two responsibilities relate to each other. If and when appropriate, it can make adjustments.

Remuneration report continued

PROPOSED AMENDMENTS TO REMUNERATION POLICY ADOPTED IN 2010

In 2010 the European Union issued the Capital Requirements Directive III which contained significant regulations in relation to remuneration for certain categories of employees in banks and asset managers. The implementation date is 1 January 2011 and in the Netherlands incorporation into law took place by means of a decree. The Dutch central bank (DNB), which is responsible for the day-to-day supervision, published its final guidelines in December 2010. Many of the specific requirements under CRD III relate to executive remuneration and therefore affect the current Executive Board remuneration policy.

In order to comply with the Capital Requirements Directive III, it is proposed to amend the Executive Board remuneration policy with respect to the allocation of variable compensation as set out hereinafter.

The short-term component of total variable compensation will be reduced by 10% to a maximum of 40% (was: 50%) and will be equally divided between cash and stock (was: cash only) and paid in the year following the performance year. The remaining 60% of the total variable compensation (was: 50%) will be deferred. This long-term component will also be equally divided between cash and stock (was: stock only) and conditionally granted in the year following the performance year.

The deferred cash and deferred stock awards will be subject to tiered vesting at the first, second and third anniversary of the grant date (one-third per annum). Vesting is conditional on an ex-post assessment by the Supervisory Board. The ex-post assessment cannot lead to an upward adjustment of the value of the cash deferred portion or the number of deferred shares.

Executive Board members are not allowed to sell depositary receipts obtained within a period of five years from the grant date. However, they are allowed to sell part of their depositary receipts at the date the stock becomes unconditionally theirs in order to pay tax over these share awards.

These amendments to the current remuneration policy for the Executive Board will be put forward for adoption at the 2011 annual General Meeting. If adopted, it will become effective as of compensation year 2011. The general principles underlying the adjustments to the remuneration policy for the Executive Board will also be applied in the remuneration of members of the Management Boards and other senior managers throughout the organisation.

The Capital Requirements Directive III has been implemented in most European Union Members States. However, due to the short timeframe, not everything has been clarified yet at this moment. The proposed amendments to the Executive Board remuneration policy as set out above are based on the current interpretation of the Directive. Should it become clear, after everything has been clarified that further amendments are mandatory, the policy is amended accordingly.

EXECUTIVE BOARD REMUNERATION STRUCTURE 2011

With regard to the remuneration for 2011, the Supervisory Board continues to build upon the remuneration policy adopted in 2010. However, the policy will now include the proposed amendments to the allocation of variable compensation effective 2011, as outlined above.

Executive Board base salary 2011

A market competitive analysis is conducted from time to time to ensure market competitiveness. As outlined in the 2009 Annual Report, the total remuneration levels are significantly below the market median of the Dow Jones EURO STOXX 50. In light of the concerns of the competitiveness of the executive compensation levels as well as internal and external developments, for 2011 the Supervisory Board has concluded to increase the base salary levels by 2% for the Executive Board members. The 2011 base salary for members of the Executive Board amounts to EUR 765,000 and for the CEO to EUR 1,380,500. Total remuneration levels in 2011 will continue to be significantly below the relevant market median.

Executive Board variable compensation 2011

The 2011 target variable compensation of 80% of base salary remains the same as for 2010. The actual payout may vary between 0% and 125% of the target level (i.e. between 0% and 100% of base salary). In connection herewith, the Supervisory Board performed an analysis of various scenarios which were considered relevant. Financial and non-financial performance indicators will be individually set for each Executive Board member and agreed by the Supervisory Board.

There will be financial parameters for each Executive Board member to measure the performance at Bank and Insurance levels. These financial parameters include for Bank: underlying net result, underlying net ROE, cost/income ratio, risk weighted assets, core Tier 1 ratio, loan-to-deposit ratio; and for Insurance: underlying net result, operating result, financial leverage ratio, sales, administrative expenses and net pension & asset management inflow. The quantitative elements of the targets are considered stock price sensitive and competition sensitive; accordingly these are not disclosed.

For 2011, at least 40% of total variable compensation will be based on predefined non-financial performance indicators. The incorporation of non-financial indicators in the overall assessment is particularly aimed at further improving sustainable business practices within ING. These indicators depend on the specific responsibilities of the individual Executive Board member. For each Executive Board member a number of performance objectives are formulated relating to customer relationships, improving sustainable business practices/corporate responsibility, execution of the restructuring and separation plans, employee engagement, leadership and talent.

Variable compensation for members of the Executive Board will only be awarded as long as ING Group has a positive net underlying profit in 2011. The Supervisory Board will review the remuneration paid over time, in line with the policy.

The vesting of deferred cash and deferred stock awards is conditional and subject to an ex-post assessment by the Supervisory Board. The ex-post assessment is based on factors such as trailing liabilities stemming from prior decisions made by each Board member; whether the company suffered a significant failure

Remuneration report continued

in risk management; and/or for as long as ING has not paid back the Dutch State, whether there has been a significant change in the economic or regulatory capital base.

REMUNERATION POLICY FOR SENIOR MANAGEMENT

As much as possible for a global financial institution of this size, ING aims to take account of all the differences and standards applied within similar financial institutions in the various countries in which it operates. The remuneration of members of the Management Boards and senior management will be in line with the general principles of the amended remuneration structure for the Executive Board, taking into account international and local practices.

Total direct compensation

Total direct compensation levels will be based on benchmark data in the international context in which ING operates. ING aims for compensation levels to be set at market median levels. Total compensation levels will be determined in line with the relevant market.

Increased focus on long-term value creation, risk and non-financial performance

Variable compensation is increasingly linked to long-term value creation and risk. It is determined based on individual, business and company performance criteria. Performance measurement will increasingly account for estimated risks and costs of capital. There will be increased emphasis on long-term value creation by means of long-term incentives, deferral and claw back mechanisms.

Furthermore, and in addition to financial indicators, performance is also assessed based on non-financial drivers. The incorporation of non-financial indicators in the overall assessment is particularly aimed at further improving sustainable business practices within ING. Therefore, a number of action targets have been formulated regarding ING's performance in the area of, for example, workforce diversity, customer satisfaction, stakeholder engagement and sustainable product development.

SENIOR MANAGEMENT REMUNERATION STRUCTURE 2011

Given the differences in the regulatory requirements for banking and insurance and the separation of ING's banking and insurance activities, the remuneration structures for senior management in ING's banking and insurance operations were determined separately in 2010.

The remuneration policy for the Executive Board will apply in full to members of the Management Board Banking. For senior management in Banking, a gradual shift to a more balanced mix of fixed and variable remuneration, in line with the remuneration policy for the Executive Board, was initiated in 2010 and will continue during the coming two years. Exceptions may exist for high value specialists and senior management working in certain divisions and/or geographical areas.

The remuneration for a select group of employees will be reviewed and amended as necessary in order to comply with the Capital Requirements Directive III. The amendments relate to the allocation of variable compensation.

Moreover, compensation packages related to control functions (such as risk management functions) will be structured such that they provide for a reduced emphasis on variable compensation.

To ensure the autonomy of the individual, financial performance metrics will depend on objectives determined at the divisional level (i.e. not at the level of the relevant business unit). In addition, performance assessments will not only be determined by business unit management, but also by the functional line.

For the Management Board Insurance and senior management in ING's insurance operations, remuneration will be in line with the general principles of the new remuneration policy for the Executive Board. However, changes in the mix between fixed salary and variable pay as well as the allocation of variable compensation will need to be weighted in light of the different regulatory requirements within the international insurance industry and the separation of ING's banking and insurance activities.

The regulatory environment is still in development and not everything has been clarified yet at this moment. The structure as set out above is based on information currently available. Should it become clear, after everything has been clarified, that amendments are necessary, ING will amend the structure as deemed appropriate.

2010 REMUNERATION

REMUNERATION EXECUTIVE BOARD 2010

The Executive Board remuneration for 2010 is based on the remuneration policy approved by the 2010 annual General Meeting.

Executive Board base salary 2010

The base salary of all Executive Board members was set at the time of the introduction of the remuneration policy in 2010.

Executive Board variable compensation 2010

The target variable compensation is set at 80% of base salary. The actual payout may vary between 0% and 125% of the target level (i.e. between 0% and 100% of base salary).

For 2010, at least 40% of total variable compensation is based on predefined non-financial performance indicators. The incorporation of non-financial indicators in the overall assessment is particularly aimed at improving business performances within ING. These indicators depend on the specific responsibilities of the individual Executive Board member. For each Executive Board member a number of performance objectives were formulated relating to customer satisfaction, improve sustainable business practices, the diversity of the workforce, employee engagement and corporate responsibility. Early in 2011, the Remuneration Committee conducted an evaluation of each Executive Board member's individual and collective performance against predefined objectives. Each Executive Board member was allotted a performance score, which was approved by the Supervisory Board. This performance score determined the payout factor. The Remuneration Committee concluded that 2010 was a good year in which above target financial performance had been achieved. The performance overall was at or above target for non-financial objectives, too. In general, all the Executive Board members performed well in their respective areas of responsibility. The overall bottom line results were well-balanced and either at or above target, which led to a payout of respectively 80% and 92% of base salary as shown in the table on page 82.

The short-term component, 50% of total variable compensation, is paid in cash the year following the performance year. The other 50% of the total variable compensation will be deferred. This long-term component is allocated in stock.

Remuneration report continued

Compensation of the individual members of the Executive Board

amounts in thousands of euros	2010 amount	2010 number of shares [1]	2009 amount	2009 number of options/shares	2008 amount	2008 number of options/shares
Jan Hommen						
Base salary [2]	**1,353**		923			
Variable compensation in cash	**623**		0			
Variable compensation in stock	**623**[3]	**69,878**	0			
Patrick Flynn [4]						
Base salary	**750**		454			
Variable compensation in cash	**300**		0			
Variable compensation in stock	**300**[3]	**33,671**	0			
Koos Timmermans						
Base salary	**750**		665		665	
Variable compensation in cash	**345**		0		0	
Variable compensation in stock	**345**[3]	**38,721**	0		0	

(1) The number of shares is based on the average ING stock price on the day on which the 2010 year-end results were published. The maximum number of shares to be granted to the Executive Board members will be tabled for approval at the General Meeting. The shares will be awarded in May.
(2) Jan Hommen was appointed to the Executive Board on 27 April 2009. Jan Hommen has been remunerated as of 27 April 2009 in accordance with the 'new' remuneration policy adopted by the General Meeting in 2010. The figure for 2009 reflects a partial year as Executive Board Member and was paid in 2010 after the 'new' remuneration policy was adopted. Jan Hommen did not receive variable remuneration for 2009.
(3) This amount of variable compensation is deferred. This long-term component is allocated in stock. These stock awards will vest on the third anniversary of the grant date, subject to a reasonableness test by the Supervisory Board to determine whether application of the predetermined criteria does not result in undesired outcomes.
(4) Patrick Flynn was appointed to the Executive Board on 27 April 2009. The figures for this member reflect compensation earned in the capacity as Executive Board member. Thus, the figure for 2009 reflects a partial year as Executive Board member.

Compensation of former members of the Executive Board amounted to nil for 2010, EUR 2,842 thousand for 2009 and EUR 6,387 thousand for 2008.

Pension costs

The table below shows the pension costs of the individual members of the Executive Board.

Pension costs of the individual members of the Executive Board

amounts in thousands of euros	2010	2009	2008
Jan Hommen [1]	**0**	0	
Patrick Flynn [2]	**134**	78	
Koos Timmermans	**158**	115	247

(1) Jan Hommen does not participate in the pension plan.
(2) Patrick Flynn was appointed to the Executive Board on 27 April 2009. The 2009 pension costs for this member reflect the partial year as Executive Board member.

Pension costs of former members of the Executive Board amounted to nil in 2010, EUR 742 thousand in 2009 and EUR 3,333 thousand in 2008.

Remuneration report continued

Long-term incentives awarded in previous years

The long-term incentive plan (LTIP) at ING in place until 2010 included both stock options and performance shares. The ING stock options have a total term of ten years and a vesting period of three years after which they can be exercised for the remaining seven years.

Information on the options outstanding and the movements during the financial year of options held by the members of the Executive Board as at 31 December 2010 (1)

number of options	Outstanding as at 31 December 2009	Granted in 2010	Exercised in 2010	Waived or expired in 2010(2)	Outstanding as at 31 December 2010	Exercise price in euros	Vesting date	Expiry date
Jan Hommen		**0**	**0**	**0**	**0**			
Patrick Flynn		**0**	**0**	**0**	**0**			
Koos Timmermans	13,674	**0**	**0**	**0**	**13,674**	22.57	11 Mar 2005	11 Mar 2012
	7,814	**0**	**0**	**0**	**7,814**	14.37	15 Mar 2007	15 Mar 2014
	11,460	**0**	**0**	**0**	**11,460**	17.88	30 Mar 2008	30 Mar 2015
	8,504	**0**	**0**	**0**	**8,504**	25.16	23 Mar 2009	23 Mar 2016
	46,157	**0**	**0**	**0**	**46,157**	24.72	22 Mar 2010	22 Mar 2017
	56,405	**0**	**0**	**0**	**56,405**	19.53	15 May 2011	15 May 2018
	20,675	**0**	**0**	**0**	**20,675**	14.36	17 Sept 2011	17 Sept 2018

(1) The number of options and the strike prices of these options reflect the number and strike prices adjusted for the effects of the rights issue of December 2009.
(2) Waived at vesting date or expired at expiry date.

Performance shares were conditionally granted. The number of ING depositary receipts that would ultimately be granted at the end of a three-year performance period depended on ING's Total Shareholder Return (TSR) performance over three years (return in the form of capital gains and reinvested dividends that shareholders received in that period) relative to the TSR performance of a predefined peer group.

ING's TSR ranking within this group of companies determines the final number of performance shares that vest at the end of the three-year performance period. The performance shares granted in 2007 had a three-year performance period of 2007–2009 and vested in 2010. The actual results of 43% are based upon ING's TSR ranking of 15th within the designated peer group. The performance shares granted in 2008 have a three-year performance period of 2008–2010 and will vest in 2011. The actual results of 57% are based upon ING's TSR ranking of 14th within the designated peer group. The results were determined by an independent third party. ING's external auditor has reviewed the calculations performed.

For Koos Timmermans, a number of 4,152 performance shares vested in 2010 (43% of the 9,656 shares awarded). The value at vesting amounted to EUR 29,894. In 2011 a number of 10,411 performance shares will vest (57% of the 18,266 shares awarded). The number of performance shares reflects the number adjusted for the effects of the rights issue of December 2009.

Patrick Flynn received a conditional grant of restricted stock in 2009 to a maximum of 130,230 shares. The cumulative value of the conditional share award is capped at EUR 1.3 million. The first vesting in the amount of 39,069 shares occurred on 27 April 2010. The value at vesting amounted to EUR 288,329. A second vesting of 39,069 shares will occur at the annual General Meeting in 2011, and the remaining 52,092 shares will vest at the annual General Meeting in 2012, subject to satisfactory performance and the aforementioned cumulative value cap of EUR 1.3 million. The number of shares reflects the number adjusted for the effects of the rights issue of December 2009.

Remuneration report continued

The Executive Board members are not allowed to sell depositary receipts obtained within a period of five years from the grant date. They are only allowed to sell part of their depositary receipts at the date of vesting to pay tax over the vested performance-share award. Depositary receipts obtained from exercised stock options may only be sold within a period of five years from the grant date of the options to pay tax over the exercised award.

Loans and advances to Executive Board members
The table below presents the loans and advances provided to Executive Board members and outstanding on 31 December 2010, 2009 and 2008. These loans were concluded in the normal course of business and on terms generally applicable to Company personnel as a whole and were approved by the Supervisory Board.

Loans and advances to the individual members of the Executive Board

amounts in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments	Amount outstanding 31 December	Average interest rate	Repayments	Amount outstanding 31 December	Average interest rate	Repayments
			2010			2009			2008
Jan Hommen	**1,588**	**3.4%**							
Koos Timmermans	**380**	**4.6%**		380	4.6%		380	4.6%	

ING depositary receipts for shares held by Executive Board members
Executive Board members are permitted to hold ING depositary receipts for shares as a long-term investment. The table below shows the holdings by members of the Executive Board.

ING depositary receipts for shares held by members of the Executive Board

number of shares	**2010**	2009	2008
Jan Hommen	**76,426**	46,426	
Patrick Flynn	**25,793**		
Koos Timmermans	**16,504**	14,457	2,546

REMUNERATION SUPERVISORY BOARD
The annual remuneration of the Supervisory Board members as adopted by the General Meetings in 2006 and 2008 amounts to: chairman EUR 75,000, vice-chairman EUR 65,000, other members EUR 45,000. In addition to the remuneration each member receives an expense allowance. For the chairman and vice-chairman the annual amount is EUR 6,810. For the other members the amount is EUR 2,270.

The remuneration for the membership of committees is as follows: chairman of the Audit Committee EUR 8,000, members of the Audit Committee EUR 6,000, chairmen of other Supervisory Board committees EUR 7,500 and members of other Supervisory Board committees EUR 5,000. In addition to the fixed remuneration, committee members receive a fee for each meeting they attend. For the Audit Committee chairman this fee is EUR 2,000 per meeting and for its members EUR 1,500. For the chairman and members of other committees the attendance fee amounts to EUR 450 per meeting.

Supervisory Board members receive an additional fee of EUR 2,000 per attended Supervisory Board or Committee meeting in the event the meeting is held outside the country of residence of the Supervisory Board member, or an additional amount of EUR 7,500 per attended Supervisory Board or Committee meeting if intercontinental travel is required for attending the meeting.

Remuneration report continued

Remuneration Supervisory Board 2010

The table below shows the remuneration, expense allowances and attendance fees per Supervisory Board member for 2010 and previous years.

Compensation of the members of the Supervisory Board

amounts in thousands of euros	2010 (1)	2009 (1)	2008 (1)
Peter Elverding (2)	**84**	79	68
Jeroen van der Veer (3)	**74**	35	
Tineke Bahlmann (4)	**69**	46	
Henk Breukink	**69**	61	61
Claus Dieter Hoffmann	**74**	78	67
Piet Klaver	**68**	65	62
Godfried van der Lugt	**69**	67	70
Aman Mehta (5)	**114**	113	62
Joan Spero (5)	**104**	105	55
Jackson Tai (5)	**139**	152	89
Lodewijk de Waal (6)	**66**	50	
Piet Hoogendoorn (7)	**20**	64	70
Harish Manwani (8)	**40**	69	51
Karel Vuursteen (9)	**20**	61	62

(1) In 2010, 2009 and 2008 the remuneration and attendance fees for the membership of a committee have not been paid to the chairman and vice-chairman of the Supervisory Board. Effective 2011, remuneration and attendance fees for the membership of a committee will be paid to the chairman and vice-chairman of the Supervisory Board.
(2) Peter Elverding has been chairman of the Supervisory Board since April 2009.
(3) Jeroen van der Veer is a member of the Supervisory Board as of July 2009. The compensation figure for 2009 reflects the partial year as member of the Supervisory Board. Jeroen van der Veer has been vice-chairman of the Supervisory Board since October 2009.
(4) Tineke Bahlmann is a member of the Supervisory Board as of April 2009. The compensation figure for 2009 reflects the partial year as member of the Supervisory Board.
(5) Aman Mehta, Joan Spero and Jackson Tai are members of the Supervisory Board as of April 2008. The compensation figures for 2008 reflect the partial year as members of the Supervisory Board.
(6) Lodewijk de Waal is a member of the Supervisory Board as of April 2009. He has been acting as an observer in the Supervisory Board as of November 2008. The compensation figure for 2009 reflects the partial year as member of the Supervisory Board. Up to the appointment date Lodewijk de Waal has received remuneration, expense allowances and attendance fees in line with the remuneration of the Supervisory Board.
(7) Piet Hoogendoorn retired in April 2010. The compensation figure for 2010 reflects the partial year as member of the Supervisory Board.
(8) Harish Manwani retired in April 2010. The compensation figure for 2010 reflects the partial year as member of the Supervisory Board.
(9) Karel Vuursteen retired in April 2010. The compensation figure for 2010 reflects the partial year as member of the Supervisory Board.

Compensation of former members of the Supervisory Board who are not included in the above table amounted to nil in 2010, EUR 83 thousand in 2009 and EUR 269 thousand in 2008.

Loans and advances to Supervisory Board members

Supervisory Board members may obtain banking and insurance services from ING Group subsidiaries in the ordinary course of their business and on terms that are customary in the sector. The table below presents the loans and advances to Supervisory Board members outstanding on 31 December 2010, 2009 and 2008.

Loans and advances to members of the Supervisory Board

	Amount outstanding 31 December	Average interest rate	Repayments	Amount outstanding 31 December	Average interest rate	Repayments	Amount outstanding 31 December	Average interest rate	Repayments
amounts in thousands of euros			**2010**			2009			2008
Jeroen van der Veer (1)	**282**	**8.6%**		282	8.6%				

(1) The amount reflects a housing mortgage loan granted in 1992, well before Jeroen van der Veer's appointment to the Supervisory Board (effective as of 1 July 2009).

ING depositary receipts for shares and options held by Supervisory Board members

Supervisory Board members are permitted to hold ING depositary receipts for shares as a long-term investment. The table below shows the holdings by members of the Supervisory Board. Supervisory Board members did not hold ING options at year-end 2010.

ING depositary receipts for shares held by members of the Supervisory Board (1)

number of shares	2010	2009	2008
Piet Klaver	**43,796**	13,796	7,430
Godfried van der Lugt	**24,142**	24,142	
Jeroen van der Veer (2)	**99,469**	99,469	

(1) The numbers of depositary receipt for shares reflect the shares held by the members of the Supervisory Board and their partners.
(2) Jeroen van der Veer is a member of the Supervisory Board as of July 2009.

Works councils

CENTRAL WORKS COUNCIL
as at 1 January 2011

Rob Eijt, *chairman*
Alex Hoogendoorn, *secretary*
Goof Bode, *deputy chairman*
Rudie van Doorn, *deputy secretary*
Hans de Boer, Wim Bruijnes, Arno Daams, Anneke Dalger, Jeffrey Dinsbach, Erik Hoijtink, Aad Kant, Jan Krutzen, Job van Luyken, Sjaak Muller, Hennie Post, Koos Rodenburg, Sunil Tahloe, Henk Timmer, Cindy Uit de Bulten, Gerard Veldman, Michel Vonk, Jelte Wiersinga, Bernard Wolters, Bert Woltheus.

EUROPEAN WORKS COUNCIL
as at 1 January 2011

Mathieu Blondeel, *chairman*, Belgium
Marcel Koopman, *secretary*, the Netherlands
Norbert Lucas, *deputy chairman*, Germany
Leo D Antuono, *deputy secretary*, Belgium
Werner Fözö, Austria
Jean-Claude Van Den Abeele, Jean Pierre Lambert, Belgium
Kaloyan Marinov, Bulgaria
Vladimir Koudela, Czech Republic
Mourad Benzaaza, France
Carolin Simonis, Germany
Nikolaos Ploumis, Greece
Csilla Dobos, Hungary
Matilde D'Alessandro, Italy
Arsène Kihm, Luxembourg
Bernard Bodt, Jeffrey Dinsbach, Robert Milewski, Gerrit Riphagen, Havva Tasgil, Gerard Veldman, Jelte Wiersinga, the Netherlands
Mieczyslaw Bielawski, Mariusz Cieslik, Poland
Mihai Ailincai, Roxana Florescu, Romania
Miguel Angel Hernandez, Raoul Lopez, Spain
Sam Chaudhuri, Rina Goldenberg, UK.

Contents

Consolidated balance sheet of ING Group

as at 31 December

amounts in millions of euros	2010	2009
ASSETS		
Cash and balances with central banks 1	**13,072**	15,390
Amounts due from banks 2	**51,828**	43,397
Financial assets at fair value through profit and loss 3		
– trading assets	**125,675**	111,444
– investments for risk of policyholders	**120,481**	104,597
– non-trading derivatives	**11,722**	11,632
– designated as at fair value through profit and loss	**6,016**	5,517
Investments 4		
– available-for-sale	**222,547**	197,703
– held-to-maturity	**11,693**	14,409
Loans and advances to customers 5	**613,204**	578,946
Reinsurance contracts 17	**5,789**	5,480
Investments in associates 6	**3,925**	3,699
Real estate investments 7	**1,900**	3,638
Property and equipment 8	**6,132**	6,119
Intangible assets 9	**5,372**	6,021
Deferred acquisition costs 10	**10,604**	11,398
Assets held for sale 11	**681**	5,024
Other assets 12	**36,469**	39,229
Total assets	**1,247,110**	1,163,643
EQUITY		
Shareholders' equity (parent) 13	**41,555**	33,863
Non-voting equity securities 13	**5,000**	5,000
	46,555	38,863
Minority interests	**729**	915
Total equity	**47,284**	39,778
LIABILITIES		
Subordinated loans 14	**10,645**	10,099
Debt securities in issue 15	**135,604**	119,981
Other borrowed funds 16	**22,291**	23,151
Insurance and investment contracts 17	**270,582**	240,858
Amounts due to banks 18	**72,852**	84,235
Customer deposits and other funds on deposit 19	**511,362**	469,508
Financial liabilities at fair value through profit and loss 20		
– trading liabilities	**108,050**	98,245
– non-trading derivatives	**17,782**	20,070
– designated as at fair value through profit and loss	**12,707**	11,474
Liabilities held for sale 11	**424**	4,890
Other liabilities 21	**37,527**	41,354
Total liabilities	**1,199,826**	1,123,865
Total equity and liabilities	**1,247,110**	1,163,643

References relate to the notes starting on page 112. These form an integral part of the consolidated annual accounts.

Consolidated profit and loss account of ING Group

for the years ended 31 December

amounts in millions of euros	2010	2010	2009	2009	2008	2008
Interest income banking operations	**68,334**		79,850		97,011	
Interest expense banking operations	**–55,011**		–67,475		–85,969	
Interest result banking operations **35**		**13,323**		12,375		11,042
Gross premium income **36**		**27,947**		30,492		43,812
Investment income **37**		**7,563**		3,342		4,664
Net result on disposals of group companies **38**		**310**		264		17
Gross commission income	**6,303**		6,790		7,504	
Commission expense	**–1,725**		–2,177		–2,539	
Commission income **39**		**4,578**		4,613		4,965
Valuation results on non-trading derivatives **40**		**–410**		–4,676		2,300
Net trading income **41**		**627**		1,125		–749
Share of profit from associates **6**		**314**		–461		–404
Other income **42**		**635**		691		644
Total income		**54,887**		47,765		66,291
Gross underwriting expenditure **43**	**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 **43**		**32,765**		30,984		49,485
Addition to loan loss provisions **5**		**1,751**		2,973		1,280
Intangible amortisation and other impairments **44**		**1,112**		568		464
Staff expenses **45**		**7,771**		7,338		8,764
Other interest expenses **46**		**792**		716		978
Other operating expenses **47**		**6,219**		6,711		6,807
Total expenses		**50,410**		49,290		67,778
Result before tax		**4,477**		–1,525		–1,487
Taxation **48**		**1,152**		–472		–721
Net result (before minority interests)		**3,325**		–1,053		–766
Attributable to:						
Equityholders of the parent		**3,220**		–935		–729
Minority interests		**105**		–118		–37
		3,325		–1,053		–766

amounts in euros	2010	2009	2008
Basic earnings per ordinary share **49**	**0.73**	–0.57	–0.27
Diluted earnings per ordinary share **49**	**0.73**	–0.57	–0.27
Dividend per ordinary share **50**	**0.00**	0.00	0.74

References relate to the notes starting on page 112. These form an integral part of the consolidated annual accounts.

Consolidated statement of comprehensive income of ING Group

for the years ended 31 December

amounts in millions of euros	2010	2009	2008
Net result	**3,325**	–1,053	–766
Unrealised revaluations after taxation [1]	**2,603**	11,867	–18,485
Realised gains/losses transferred to profit and loss [1]	**86**	1,554	2,476
Changes in cash flow hedge reserve	**475**	–805	746
Transfer to insurance liabilities/DAC	**–1,644**	–2,079	2,193
Exchange rate differences	**2,884**	59	–1,086
Other revaluations	**–3**	–9	–23
Total amount recognised directly in equity (other comprehensive income)	**4,401**	10,587	–14,179
Total comprehensive income	**7,726**	9,534	–14,945
Comprehensive income attributable to:			
Equity holders of the parent	**7,634**	9,665	–14,703
Minority interests	**92**	–131	–242
	7,726	9,534	–14,945

[1] Reference is made to Note 13 'Shareholders' equity (parent)/non-voting equity securities' for a breakdown of the individual components.

The Unrealised revaluations after taxation comprises EUR –2 million (2009: EUR 15 million; 2008: EUR 218 million) related to the share of other comprehensive income of associates.

The Exchange rate differences comprises EUR 251 million (2009: EUR 131 million; 2008: EUR –214 million) related to the share of other comprehensive income of associates.

Reference is made to Note 48 'Taxation' for the disclosure on the income tax effects on each component of the other comprehensive income.

Consolidated statement of cash flows of ING Group

for the years ended 31 December

amounts in millions of euros		2010	2009	2008
Result before tax		**4,477**	–1,525	–1,487
Adjusted for:	– depreciation	**1,723**	1,701	1,492
	– deferred acquisition costs and value of business acquired	**1,296**	–1,131	–444
	– increase in provisions for insurance and investment contracts	**3,860**	3,829	16,363
	– addition to loan loss provisions	**1,751**	2,973	1,280
	– other	**3,047**	6,015	6,955
Taxation paid		**–503**	–412	–49
Changes in:	– amounts due from banks, not available on demand	**–4,333**	8,611	7,162
	– trading assets	**–14,782**	47,963	32,386
	– non-trading derivatives	**–1,590**	864	–2,020
	– other financial assets at fair value through profit and loss	**832**	2,196	3,174
	– loans and advances to customers	**–16,926**	11,552	–76,215
	– other assets	**2,003**	6,948	–11,847
	– amounts due to banks, not payable on demand	**–9,831**	–67,410	13,210
	– customer deposits and other funds on deposit	**21,202**	21,073	6,831
	– trading liabilities	**9,804**	–54,366	3,501
	– other financial liabilities at fair value through profit and loss	**1**	–5,798	13,016
	– other liabilities	**–6,806**	–10,483	–485
Net cash flow from operating activities		**–4,775**	–27,400	12,823
Investments and advances:	– group companies		–5	–1,725
	– associates	**–165**	–181	–1,034
	– available-for-sale investments	**–163,038**	–165,771	–228,291
	– held-to-maturity investments	**–141**		–314
	– real estate investments	**–73**	–130	–905
	– property and equipment	**–527**	–640	–708
	– assets subject to operating leases	**–1,284**	–1,034	–1,401
	– investments for risk of policyholders	**–52,370**	–65,362	–64,735
	– other investments	**–372**	–338	–881
Disposals and redemptions:	– group companies	**1,757**	2,643	1,590
	– associates	**232**	294	972
	– available-for-sale investments	**154,640**	167,075	225,539
	– held-to-maturity investments	**2,620**	1,675	1,640
	– real estate investments	**295**	656	415
	– property and equipment	**96**	82	137
	– assets subject to operating leases	**53**	93	428
	– investments for risk of policyholders	**54,817**	64,158	59,251
	– other investments	**111**	24	19
Net cash flow from investing activities **53**		**–3,349**	3,239	–10,003
Proceeds from issuance of subordinated loans				2,721
Proceeds from borrowed funds and debt securities		**412,804**	437,772	391,915
Repayments of borrowed funds and debt securities		**–405,120**	–425,182	–354,015
Issuance of ordinary shares			7,276	448
Issuance of non-voting equity securities				10,000
Repayment of non-voting equity securities			–5,000	
Payments to acquire treasury shares		**–136**	–101	–2,388
Sales of treasury shares		**92**	118	252
Dividends paid [(1)]			–1,030	–3,207
Net cash flow from financing activities		**7,640**	13,853	45,726
Net cash flow **54**		**–484**	–10,308	48,546
Cash and cash equivalents at beginning of year		**20,959**	31,271	–16,811
Effect of exchange rate changes on cash and cash equivalents		**265**	–4	–464
Cash and cash equivalents at end of year **55**		**20,740**	20,959	31,271

[(1)] 2009 includes payments on non-voting equity securities (payment of the 2008 coupon of EUR 425 million, the repayment premium of EUR 346 million and the coupon in the repayment of EUR 259 million). 2008 includes dividends paid on ordinary shares.

As at 31 December 2010 Cash and cash equivalents includes cash and balances with central banks of EUR 13,072 million (2009: EUR 15,390 million; 2008: EUR 22,045 million). Reference is made to Note 55 'Cash and Cash equivalents'.

References relate to the notes starting on page 112. These form an integral part of the consolidated annual accounts.

Consolidated statement of changes in equity of ING Group

for the years ended 31 December

amounts in millions of euros	Share capital	Share premium	Reserves	Total shareholders' equity (parent)	Non-voting equity securities	Minority interests	Total equity
Balance as at 1 January 2008	534	8,739	27,935	37,208		2,323	39,531
Unrealised revaluations after taxation			–18,437	–18,437		–48	–18,485
Realised gains/losses transferred to profit and loss			2,476	2,476			2,476
Changes in cash flow hedge reserve			746	746			746
Transfer to insurance liabilities/DAC			2,193	2,193			2,193
Exchange rate differences			–952	–952		–134	–1,086
Other revaluations						–23	–23
Total amount recognised directly in equity			–13,974	–13,974		–205	–14,179
Net result			–729	–729		–37	–766
			–14,703	–14,703		–242	–14,945
Issuance costs incurred			–20	–20			–20
Employee stock option and share plans			31	31			31
Issue of non-voting equity securities					10,000		10,000
Changes in the composition of the group						–455	–455
Dividends [1]			–3,600	–3,600		–32	–3,632
Purchase/sale of treasury shares	–44		–1,986	–2,030			–2,030
Exercise of warrants and options	5	443		448			448
Balance as at 31 December 2008	495	9,182	7,657	17,334	10,000	1,594	28,928
Unrealised revaluations after taxation			11,874	11,874		–7	11,867
Realised gains/losses transferred to profit and loss			1,554	1,554			1,554
Changes in cash flow hedge reserve			–805	–805			–805
Transfer to insurance liabilities/DAC			–2,079	–2,079			–2,079
Exchange rate differences			56	56		3	59
Other revaluations						–9	–9
Total amount recognised directly in equity			10,600	10,600		–13	10,587
Net result			–935	–935		–118	–1,053
			9,665	9,665		–131	9,534
Issuance costs incurred		–222		–222			–222
Employee stock option and share plans			64	64			64
Repayment of non-voting equity securities					–5,000		–5,000
Changes in the composition of the group						–546	–546
Dividend and repayment premium [2]			–605	–605		–2	–607
Proceeds from rights issue	424	7,074		7,498			7,498
Purchase/sale of treasury shares			129	129			129
Balance as at 31 December 2009	919	16,034	16,910	33,863	5,000	915	39,778

[1] 2007 final dividend of EUR 0.82 per ordinary share, 2008 interim dividend of EUR 0.74 per ordinary share and final dividend of EUR 0.425 per non-voting equity security.
[2] The 2009 amount of EUR 605 million includes the coupon (EUR 259 million) and repayment premium (EUR 346 million) on the repayment of EUR 5 billion non-voting equity securities.

Consolidated statement of changes in equity of ING Group continued

amounts in millions of euros	Share capital	Share premium	Reserves	Total shareholders' equity (parent)	Non-voting equity securities	Minority interests	Total equity
Balance as at 1 January 2010	919	16,034	16,910	33,863	5,000	915	39,778
Unrealised revaluations after taxation			2,607	2,607		–4	2,603
Realised gains/losses transferred to profit and loss			86	86			86
Changes in cash flow hedge reserve			475	475			475
Transfer to insurance liabilities/DAC			–1,644	–1,644			–1,644
Exchange rate differences			2,890	2,890		–6	2,884
Other revaluations						–3	–3
Total amount recognised directly in equity			4,414	4,414		–13	4,401
Net result			3,220	3,220		105	3,325
			7,634	7,634		92	7,726
Employee stock option and share plans			36	36			36
Changes in the composition of the group						–272	–272
Dividend						–6	–6
Purchase/sale of treasury shares			22	22			22
Balance as at 31 December 2010	919	16,034	24,602	41,555	5,000	729	47,284

Reserves include Revaluation reserve of EUR 4,752 million (2009: EUR 2,466 million; 2008: EUR –8,502 million), Currency translation reserve of EUR 105 million (2009: EUR –2,008 million; 2008: EUR –1,918 million) and Other reserves of EUR 19,745 million (2009: EUR 16,452 million; 2008: EUR 18,077 million). Changes in individual components are presented in Note 13 'Shareholders' equity (parent)/non-voting equity securities'.

Accounting policies for the consolidated annual accounts of ING Group

AUTHORISATION OF ANNUAL ACCOUNTS

The consolidated annual accounts of ING Groep N.V. ('ING Group') for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Executive Board on 14 March 2011. The Executive 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 Groep N.V. is incorporated and domiciled in Amsterdam, the Netherlands. The principal activities of ING Group are described in the section 'ING at a glance' in section 1.1.

BASIS OF PRESENTATION

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

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

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

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

- Classification of Rights Issues (Amendment to IAS 32);
- Amendment to IAS 24 'Related Party Disclosures';
- Amendment to IFRIC 14 'Prepayments of a Minimum Funding Requirement';
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments';
- Amendment to IFRS 1 'Limited Exemption from Comparative IFRS 7 Disclosure for First-time Adopters';
- 2010 Annual Improvements to IFRS;
- Amendments to IFRS 7 'Disclosures – Transfers of Financial Assets', effective as of 2012.

ING Group 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 Group.

International Financial Reporting Standards as adopted by the EU provide several options in accounting policies. ING Group's accounting policies under these standards and its decision on the options available are set out in the section 'Principles of valuation and determination of results' below.

In this document the term 'IFRS-EU' is used to refer to International Financial Reporting Standards as adopted by the EU, including the decisions ING Group made with regard to the options available under International Financial Reporting Standards as adopted by the EU.

As explained in the section 'Principles of valuation and determination of results' and in Note 24 'Derivatives and hedge accounting' ING Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU.

The presentation of, and certain terms used in, the consolidated balance sheet, the consolidated profit and loss account, consolidated statement of cash flows, consolidated statement of changes in equity and certain notes has 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 Group 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 loan loss provision, the determination of the fair values of real estate and financial assets and liabilities, impairments and employee benefits. In each case, the determination of these items is fundamental to the financial condition and results of operations, and requires management to make complex judgements based on information and financial data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgements as to future events and are subject to change, as the use of different assumptions or data could produce materially different results. For a further discussion of the application of these accounting policies, reference is made to the applicable notes to the consolidated financial statements and the information below under 'Principles of valuation and determination of results'.

Accounting policies for the consolidated annual accounts of ING Group continued

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

Insurance provisions also include the impact of minimum guarantees which are contained within certain variable annuity products. This impact is dependent upon the difference between the potential minimum benefits payable and the total account balance, expected mortality and surrender rates. The determination of the potential minimum benefits payable also involves the use of assumptions about factors such as inflation, investment returns, policyholder behaviour, and mortality and morbidity trends. 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 'Risk management' section.

Reference is made to the 'Risk management' section 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.

LOAN LOSS PROVISIONS
Loan loss provisions are recognised based on an incurred loss model. Considerable judgement is exercised in determining the extent of the loan loss provision (impairment) and is based on the management's evaluation of the risk in the portfolio, current economic conditions, loss experience in recent years and credit, industry, geographical and concentration trends. Changes in such judgements and analyses may lead to changes in the loan loss provisions over time.

The identification of impairment and the determination of the recoverable amount are an inherently uncertain processes involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

Future cash flows in a portfolio of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Current observable data may include changes in unemployment rates, property prices and commodity prices. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Accounting policies for the consolidated annual accounts of ING Group continued

FAIR VALUES 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.

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 34 'Fair value of financial assets and liabilities' for the basis of the determination of the fair value 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 Group'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.

Accounting policies for the consolidated annual accounts of ING Group continued

Impairments on other debt instruments (Loans and held-to-maturity investments) are part of the loan loss provision as described on the previous page.

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

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

EMPLOYEE BENEFITS

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

The liability recognised in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains and losses, and unrecognised past service costs.

The determination of the defined benefit plan liability is based on internal and external actuarial models and calculations. The defined benefit obligation is calculated using the projected unit credit method. Inherent in these actuarial models are assumptions including discount rates, rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs, consumer price index, and the expected return on plan assets. The assumptions are based on available market data and the historical performance of plan assets, and are updated annually.

The actuarial assumptions may differ significantly from the actual results due to changes in market conditions, economic and mortality trends, and other assumptions. Any changes in these assumptions could have a significant impact on the defined benefit plan liabilities and future pension costs. The effects of changes in actuarial assumptions and experience adjustments are not recognised in the profit and loss account unless the accumulated changes exceed 10% of the greater of the defined benefit obligation and the fair value of the plan assets. If such is the case the excess is then amortised over the employees' expected average remaining working lives. Reference is made to Note 21 '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 Group ('the Group') comprises ING Groep N.V. ('the Company'), ING Verzekeringen N.V., ING Bank N.V. and all other subsidiaries. The consolidated financial statements of ING Group comprise the accounts of ING Groep N.V. and all entities in which it either owns, directly or indirectly, more than half of the voting power or over which it has control of their operating and financial policies through situations including, but not limited to:

- Ability to appoint or remove the majority of the board of directors;
- Power to govern such policies under statute or agreement; and
- Power over more than half of the voting rights through an agreement with other investors.

A list of principal subsidiaries is included in Note 29 'Principal subsidiaries'.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Group controls another entity. For interests in investment vehicles, the existence of control is determined taking into account both ING Group'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 Group has agreed to sell but is still legally owned by ING Group may still be controlled by ING Group 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.

Accounting policies for the consolidated annual accounts of ING Group continued

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 group policies. In general, the reporting dates of subsidiaries are the same as the reporting date of ING Groep N.V.

ING Group's interests in jointly controlled entities are accounted for using proportionate consolidation. ING Group 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 Group's financial statements. ING Group recognises the portion of gains or losses on the sale of assets to the joint venture that is attributable to the other venturers. ING Group does not recognise its share of profits or losses from the joint venture that results from the purchase of assets by ING Group 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.

SEGMENT REPORTING

An operating segment is a distinguishable component of the Group, engaged in providing products or services, subject to risks and returns that are different from those of other operating segments. A geographical area is a distinguishable component of the Group 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 business is included in 'life'.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Group'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 Group's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Exchange rate differences resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as part of qualifying cash flow hedges or qualifying net investment hedges.

Exchange rate differences on non-monetary items, measured at fair value through profit and loss, are reported as part of the fair value gain or loss. Non-monetary items are retranslated at the date 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 41 '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 13 'Shareholders' equity (parent)/non-voting equity securities', 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.

Accounting policies for the consolidated annual accounts of ING Group continued

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 VALUES 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 the Group is the current bid price; the quoted market price used for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. The Group 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 34 'Fair value of financial assets and liabilities' for the basis of the determination of the fair value of financial instruments.

FINANCIAL ASSETS

Recognition of financial assets

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

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement. The extent of continuing involvement is determined by the extent to which the Group is exposed to changes in the value of the asset.

Realised gains and losses on investments

Realised gains and losses on investments are determined as the difference between the sale proceeds and (amortised) cost. For equity securities, the cost is determined using a weighted average per portfolio. For debt securities, the cost is determined by specific identification.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss include equity securities, debt securities, derivatives, loans and receivables and other, and comprise the following sub-categories: trading assets, non-trading derivatives, financial assets designated at fair value through profit and loss by management and investments for risk of policyholders.

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 Interest income from banking operations and 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 investments 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.

Accounting policies for the consolidated annual accounts of ING Group continued

Investments

Investments (including loans quoted in active markets) are classified either as held-to-maturity or available-for-sale and are initially recognised at fair value plus transaction costs. Investment securities and loans quoted in active markets with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities and actively traded loans intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale.

Available-for-sale financial assets

Available-for-sale financial assets include available-for-sale debt securities and available-for-sale equity securities. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. For available-for-sale debt securities, the difference between cost and redemption value is amortised. Interest income is recognised using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available-for-sale is recognised in Interest income from banking operations and Investment income in the profit and loss account using the effective interest method. Dividend income from equity instruments classified as available-for-sale is generally recognised in Investment income in the profit and loss account when the dividend has been declared. Unrealised gains and losses arising from changes in the fair value are recognised in equity. When the securities are disposed of, the related accumulated fair value adjustments are included in the profit and loss account as investment income. For impairments of available-for-sale financial assets reference is made to the section 'Impairments of other financial assets'. Investments in prepayment sensitive securities such as Interest-Only and Principal-Only strips are generally classified as available-for-sale.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Group has the positive intent and ability to hold to maturity and which are designated by management as held-to-maturity assets are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from debt securities classified as held-to-maturity is recognised in Interest income in the profit and loss account using the effective interest method. Held-to-maturity investments include only debt securities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Loans and receivables include: Cash and balances with central banks, Amounts due from banks, Loans and advances to customers and Other assets and are reflected in these balance sheet lines. Interest income from loans and receivables is recognised in Interest income and 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 Group 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 Group's investment portfolio and mainly relates to the balance sheet classification Investments (available-for-sale and held-to-maturity);
- Money market risk arises when ING Group places short term deposits with a counterparty in order to manage excess liquidity and among others relates to the balance sheet classifications Amounts due from banks and Loans and advances to customers;
- Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING Group has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk classification mainly relates to the balance sheet classification Financial assets at fair value through profit and loss (trading assets and non-trading derivatives) and to securities financing;
- 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 Group has paid or delivered its side of the trade. Settlement risk mainly relates to the risk arising on disposal of financial instruments that are classified in the balance sheet as Financial assets at fair value through profit and loss (trading assets and non-trading derivatives) and Investments (available-for-sale and held-to-maturity).

DERIVATIVES AND HEDGE ACCOUNTING

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

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

Accounting policies for the consolidated annual accounts of ING Group continued

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit and loss, and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account. An assessment is carried out when the Group first becomes party to the contract. A reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group 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 Group documents the relationship between hedging instruments and hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

ING Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve-out' macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket.

ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve-out' to its retail operations. The net exposures of retail funding (savings and current accounts) and retail lending (mortgages) are hedged. The hedging activities are designated under a portfolio fair value hedge on the mortgages. Changes in the fair value of the derivatives are recognised in the profit and loss account, together with the fair value adjustment on the mortgages (hedged items) insofar as attributable to interest rate risk (the hedged risk).

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

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

Net investment hedges
Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity 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 the Group as part of its risk management strategies, but which do not qualify for hedge accounting under ING Group'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.

Accounting policies for the consolidated annual accounts of ING Group continued

OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities are offset, and the net amount reported, in the balance sheet when the Group has a current legally enforceable right to set off the recognised amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Offsetting is applied to certain interest rate swaps for which the services of a central clearing house are used. Furthermore, offsetting is also applied to certain current accounts for which the product features and internal procedures allow net presentation under IFRS-EU.

REPURCHASE TRANSACTIONS AND REVERSE REPURCHASE TRANSACTIONS

Securities sold subject to repurchase agreements ('repos') are retained in the consolidated financial statements. The counterparty liability is included in Amounts due to banks, Other borrowed funds, Customer deposits and other funds on deposit, or Trading as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recognised as Loans and advances to customers or Amounts due from banks, as appropriate. The difference between the sale and repurchase price is treated as interest and amortised over the life of the agreement using the effective interest method.

IMPAIRMENTS OF LOANS AND ADVANCES TO CUSTOMERS (LOAN LOSS PROVISIONS)

ING Group 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 Group has granted concessions, for economic or legal reasons relating to the borrower's financial difficulty, the effect of which is a reduction in the expected future cash flows of the financial asset; and
- Historical experience, updated for current events where necessary, provides evidence that a proportion of a group of assets is impaired although the related events that represent impairment triggers are not yet captured by the Group's credit risk systems.

The Group does not consider events that may be expected to occur in the future as objective evidence, and consequently they are not used as a basis for concluding that a financial asset or group of assets is impaired.

In determining the impairment, expected future cash flows are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Losses expected as a result of future events, no matter how likely, are not recognised.

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The collective evaluation of impairment includes the application of a 'loss confirmation period' to default probabilities. The loss confirmation period is a concept which recognises that there is a period of time between the emergence of impairment triggers and the point-in-time at which those events are captured by the Group's credit risk systems. Accordingly, the application of the loss confirmation period ensures that impairments that are incurred but not yet identified are adequately reflected in the Group's loan loss provision. Although the loss confirmation periods are inherently uncertain,

Accounting policies for the consolidated annual accounts of ING Group continued

the Group applies estimates to sub-portfolios (e.g. large corporations, small and medium size enterprises and retail portfolios) that reflect factors such as the frequency with which customers in the sub-portfolio disclose credit risk sensitive information and the frequency with which they are subject to review by the Group'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, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the specific case of equity investments classified as available-for-sale, (the combination of) a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities; generally 25% and 6 months are used as triggers. If any objective evidence exists for available-for-sale debt and equity investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in net result – is removed from equity and recognised in the profit and loss account. Impairment losses recognised on equity instruments can never be reversed. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

INVESTMENTS IN ASSOCIATES

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

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

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

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

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

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

REAL ESTATE INVESTMENTS

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

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

The valuations are based on the assumption that the properties are let and sold to third parties based on the actual letting status. Valuations drawn up earlier in the year are updated if necessary to reflect the situation at year end. The fair values are based on market

Accounting policies for the consolidated annual accounts of ING Group continued

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 Group and the cost of an item can be measured reliably. All other repairs and maintenance costs are charged to the income statement.

PROPERTY AND EQUIPMENT

Property in own use

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

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

Property developed and under development for which ING Group 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 Group 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 Group'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 Group has the intention to sell the property under development after its completion and where there is a specifically negotiated contract is valued using the percentage of completion method (pro rata profit recognition). The stage of completion is measured by reference to costs incurred to date as 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 Group has the intention to recognise the property under development after completion as real estate investments.

Equipment

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

Assets under operating leases

Assets leased out under operating leases in which ING Group is the lessor are stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight-line basis over the lease term. Reference is made to the section 'Leases'.

Disposals

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

Accounting policies for the consolidated annual accounts of ING Group continued

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.

The Group as the lessee
The leases entered into by ING Group are primarily operating leases. The total payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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

ACQUISITIONS, GOODWILL AND OTHER INTANGIBLE ASSETS
Acquisitions and goodwill
ING Group'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 the Group'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 Group'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 Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of. Acquisition-related costs are recognised in profit or loss as incurred and presented in the profit and loss account as Other operating expenses.

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

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

Goodwill is only capitalised on acquisitions after the implementation date of IFRS-EU (1 January 2004). Accounting for acquisitions before that date has not been restated; goodwill and internally generated intangibles on these acquisitions were charged directly to shareholders' equity. Goodwill is allocated to reporting units for the purpose of impairment testing. These reporting units represent the lowest level at which goodwill is monitored for internal management purposes. This test is performed annually or more frequently if there are indicators of impairment. Under the impairment tests, the carrying value of the reporting units (including goodwill) is compared to its recoverable amount which is the higher of its fair value less costs to sell and its value in use.

Adjustments to the fair value as at the date of acquisition of acquired assets and liabilities that are identified within one year after acquisition are recognised as an adjustment to goodwill; any subsequent adjustment is recognised as income or expense. On disposal of 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.

Accounting policies for the consolidated annual accounts of ING Group continued

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

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

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

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

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

For other types of flexible life insurance contracts DAC is amortised over the lives of the policies in relation to the emergence of estimated gross profits. Amortisation is adjusted when estimates of current or future gross profits, to be realised from a group of products, are revised. The estimates and the assumptions are reassessed at the end of each reporting period. For DAC on flexible insurance contracts the approach is that in determining the estimate of future gross profits ING Group 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 it is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity.

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group 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.

Accounting policies for the consolidated annual accounts of ING Group continued

FINANCIAL LIABILITIES

Financial liabilities at amortised cost

Financial liabilities at amortised cost include the following sub-categories: preference shares, other borrowed funds, debt securities in issue, subordinated loans, amounts due to banks and customer deposits and other funds on deposit.

Borrowings are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in the profit and loss account.

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss comprise the following sub-categories: trading liabilities, non-trading derivatives and other financial liabilities designated at fair value through profit and loss by management. Trading liabilities include equity securities, debt securities, funds on deposit and derivatives. Designation by management will take place only if it eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis. ING Group has designated an insignificant part of the issued debt, related to market-making activities, at fair value through profit and loss. This issued debt consists mainly of own bonds. The designation as fair value through profit and loss eliminates the inconsistency in the timing of the recognition of gains and losses. All other financial liabilities are measured at amortised cost.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are initially recognised at fair value and 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 all 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 the 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 Group.

Accounting policies for the consolidated annual accounts of ING Group continued

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 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 the Group.

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 revaluation 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 insurance 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, the Group remains liable to its policyholders for the portion reinsured. Consequently, provisions are made for receivables on reinsurance contracts which are deemed uncollectible.

Adequacy test
The adequacy of the Provision for life insurance, net of unamortised interest rate rebates, DAC and VOBA (the net insurance liabilities), is evaluated regularly by each business unit 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 Group 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 Group 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 51 '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.

Accounting policies for the consolidated annual accounts of ING Group continued

OTHER LIABILITIES

Employee benefits – pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses, and unrecognised past service costs. The defined benefit obligation is calculated annually by internal and external actuaries using the projected unit credit method.

The expected value of the assets is calculated using the expected rate of return on plan assets. Differences between the expected return and the actual return on these plan assets and actuarial changes in the deferred 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.

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

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group 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 group 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 the Group 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, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Accounting policies for the consolidated annual accounts of ING Group continued

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

Fees and commissions

Fees and commissions are generally recognised as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as income when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds 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. Fees received and paid between banks for payment services are classified as commission income and expenses.

Lease income

The proceeds from leasing out assets under operating leases are recognised on a straight-line basis over the life of the lease agreement. Lease payments received in respect of finance leases when ING Group is the lessor are divided into an interest component (recognised as interest income) and a repayment component.

EXPENSE RECOGNITION

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

Share-based payments

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

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.

EARNINGS PER ORDINARY SHARE

Earnings per ordinary share is calculated on the basis of the weighted average number of ordinary shares outstanding. In calculating the weighted average number of ordinary shares outstanding:

- Own shares held by group companies are deducted from the total number of ordinary shares in issue;
- The computation is based on daily averages;
- In case of exercised warrants, the exercise date is taken into consideration.

The non-voting equity securities are not ordinary shares, because their terms and conditions (especially with regard to coupons and voting rights) are significantly different. Therefore, the weighted average number of ordinary shares outstanding during the period is not impacted by the non-voting equity securities.

Due to the rights issue in 2009, the 2008 earnings per share figures have been restated. Reference is made to Note 49 'Earnings per ordinary share' for a further explanation on the nature and the effect of this restatement.

Diluted earnings per share data are computed as if all convertible instruments outstanding at year-end were exercised at the beginning of the period. It is also assumed that ING Group uses the assumed proceeds thus received to buy its own shares against the average market price in the financial year. The net increase in the number of shares resulting from the exercise is added to the average number of shares used to calculate diluted earnings per share.

Share options with fixed or determinable terms are treated as options in the calculation of diluted earnings per share, even though they may be contingent on vesting. They are treated as outstanding on the grant date. Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

Accounting policies for the consolidated annual accounts of ING Group continued

FIDUCIARY ACTIVITIES

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

STATEMENT OF CASH FLOWS

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

For the purposes of the statement of cash flows, Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, amounts due from other banks and amounts due to banks. Investments qualify as a cash equivalent if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash flows arising from foreign currency transactions are translated into the functional currency using the exchange rates at the date of the cash flows.

The net cash flow shown in respect of Loans and advances to customers relates only to transactions involving actual payments or receipts. The Addition to loan loss provision which is deducted from the item Loans and advances to customers in the balance sheet has been adjusted accordingly from the result before tax and is shown separately in the statement of cash flows.

The difference between the net cash flow in accordance with the statement of cash flows and the change in Cash and cash equivalents in the balance sheet is due to exchange rate differences and is accounted for separately 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 Group

amounts in millions of euros, unless stated otherwise

ASSETS

1 CASH AND BALANCES WITH CENTRAL BANKS

Cash and balances with central banks		
	2010	2009
Amounts held at central banks	**7,983**	10,989
Cash and bank balances	**4,264**	3,965
Short term deposits insurance operations	**825**	436
	13,072	15,390

2 AMOUNTS DUE FROM BANKS

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

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

As at 31 December 2010, the non-subordinated receivables amounted to EUR 51,788 million (2009: EUR 43,396 million) and the subordinated receivables amounted to EUR 40 million (2009: EUR 1 million).

No individual amount due from banks has terms and conditions that materially affect the amount, timing or certainty of consolidated cash flows of the Group. For details on significant concentrations see 'Risk management' section.

3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial assets at fair value through profit and loss		
	2010	2009
Trading assets	**125,675**	111,444
Investments for risk of policyholders	**120,481**	104,597
Non-trading derivatives	**11,722**	11,632
Designated as at fair value through profit and loss	**6,016**	5,517
	263,894	233,190

Trading assets by type		
	2010	2009
Equity securities	**5,861**	2,732
Debt securities	**27,979**	25,287
Derivatives	**42,390**	41,450
Loans and receivables	**49,445**	41,975
	125,675	111,444

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

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

Notes to the consolidated annual accounts of ING Group continued

Investments for risk of policyholders by type		
	2010	2009
Equity securities	**109,191**	93,268
Debt securities	**8,944**	8,215
Loans and 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).

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

Non-trading derivatives by type		
	2010	2009
Derivatives used in:		
– fair value hedges	**4,127**	2,727
– cash flow hedges	**4,440**	5,521
– hedges of net investments in foreign operations	**81**	38
Other non-trading derivatives	**3,074**	3,346
	11,722	11,632

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	**392**	392
Debt securities	**3,672**	3,478
Loans and receivables	**570**	524
Other	**1,382**	1,123
	6,016	5,517

Included in the Financial assets designated as at fair value through profit and loss is a portfolio of loans and receivables which is economically hedged by credit derivatives. The hedges do not meet the criteria for hedge accounting and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans and receivables included in Financial assets designated as at fair value through profit and loss approximates its carrying value. The cumulative change in fair value of the loans attributable to changes in credit risk amounts to a gain of EUR 29 million (2009: EUR 24 million) and the change for the current year is EUR 5 million (2009: nil).

The notional value of the related credit derivatives is EUR 205 million (2009: EUR 79 million). The change in fair value of the credit derivatives attributable to changes in credit risk since the loans were first designated was nil (2009: nil) and the change for the current year was nil (2009: nil).

The changes in fair value of the (designated) loans attributable to changes in credit risk have been calculated by determining the changes in credit spread implicit in the fair value of bonds issued by entities with similar credit characteristics.

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

Notes to the consolidated annual accounts of ING Group continued

4 INVESTMENTS

Investments by type

	2010	2009
Available-for-sale		
– equity securities	9,754	8,853
– debt securities	212,793	188,850
	222,547	197,703
Held-to-maturity		
– debt securities	11,693	14,409
	11,693	14,409
	234,240	212,112

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

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

	Available-for-sale equity securities		Available-for-sale debt securities		Held-to-maturity		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Opening balance	8,853	8,822	188,850	234,030	14,409	15,440	212,112	258,292
Additions	2,381	1,590	160,658	161,312	141		163,180	162,902
Amortisation			–103	84	–13	–30	–116	54
Transfers and reclassifications	12	19	282	–29,651	–282	689	12	–28,943
Changes in the composition of the group and other changes	–5	–1,354	–23	–4,223			–28	–5,577
Changes in unrealised revaluations	642	3,151	5,001	14,994			5,643	18,145
Impairments	–75	–409	–735	–2,077			–810	–2,486
Reversals of impairments			10	2			10	2
Disposals and redemptions	–2,228	–3,052	–150,569	–186,968	–2,620	–1,675	–155,417	–191,695
Exchange rate differences	174	86	9,422	1,347	58	–15	9,654	1,418
Closing balance	9,754	8,853	212,793	188,850	11,693	14,409	234,240	212,112

Included in transfers and reclassifications of available-for-sale and held-to-maturity investments

	Available-for-sale equity securities		Available-for-sale debt securities		Held-to-maturity		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
To/from held-to-maturity			282	–689			282	–689
To/from available-for-sale					–282	689	–282	689
To/from loans and advances to customers/ amounts due from banks		10		–28,962				–28,952
To/from Investment in associates	12	9					12	9
	12	19	282	–29,651	–282	689	12	–28,943

Held-to-maturity debt securities – sale and reclassification to available-for-sale investments (2010)
In the second quarter of 2010 EUR 51 million of Greek government bonds that were classified as held-to-maturity investments were sold. Furthermore, EUR 282 million of Greek government bonds were reclassified from held-to-maturity to available-for-sale investments. As the decisions to sell and reclassify were based on the significant deterioration in the issuer's creditworthiness compared to the credit rating at initial recognition, this sale and reclassification does not impact the intent for the remainder of the held-to-maturity investment portfolio.

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

Reclassifications to Loans and advances to customers and Amounts due from banks (2009 and 2008)
Reclassifications out of available-for-sale investments to loans and receivables are allowed under IFRS-EU as of the third quarter of 2008. In the second and first quarter of 2009 and in the fourth quarter of 2008 ING Group reclassified certain financial assets from Investments available-for-sale to Loans and advances to customers and Amounts due from banks. The Group identified assets, eligible for reclassification, for which at the reclassification date it had an intent to hold for the foreseeable future. The table below provides information on the three

Notes to the consolidated annual accounts of ING Group continued

reclassifications made in the fourth quarter of 2008 and the first and second quarter of 2009. Information is provided for each of the three reclassifications (see columns) as at the date of reclassification and as at the end of the subsequent reporting periods (see rows). This information is disclosed under IFRS-EU as long as the reclassified assets continue to be recognised in the balance sheet.

Reclassifications to Loans and advances to customers and Amounts due from banks

	Q2 2009	Q1 2009	Q4 2008
As per reclassification date			
Fair value	6,135	22,828	1,594
Effective interest rate (weighted average)	1.4%–24.8%	2.1%–11.7%	4.1%–21%
Expected recoverable cash flows	7,118	24,052	1,646
Unrealised fair value losses in shareholders' equity (before tax)	–896	–1,224	–69
Recognised fair value gains (losses) in shareholders' equity (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	173	nil	–79
Recognised impairment (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	nil	nil	nil
2010			
Carrying value as at 31 December	**6,418**	**16,906**	**857**
Fair value as at 31 December	**6,546**	**16,099**	**889**
Unrealised fair value losses recognised in shareholders' equity (before tax) as at 31 December	**–491**	**–633**	**–65**
Effect on shareholders' equity (before tax) if reclassification had not been made	**128**	**–807**	**32**
Effect on result (before tax) if reclassification had not been made	**nil**	**nil**	**nil**
Effect on result (before tax) for the year (mainly interest income)	**78**	**467**	**34**
Recognised impairments (before tax)	**nil**	**nil**	**nil**
Recognised provision for credit losses (before tax)	**nil**	**nil**	**nil**
2009			
Carrying value as at 31 December	6,147	20,551	1,189
Fair value as at 31 December	6,472	20,175	1,184
Unrealised fair value losses in shareholders' equity (before tax) as at 31 December	–734	–902	–67
Effect on shareholders' equity (before tax) if reclassification had not been made	325	–376	–5
Effect on result (before tax) if reclassification had not been made	nil	nil	nil
Effect on result (before tax) after the reclassification until 31 December (mainly interest income)	54	629	n/a
Effect on result (before tax) for the year (mainly interest income)	n/a	n/a	47
Recognised impairments (before tax)	nil	nil	nil
Recognised provision for credit losses (before tax)	nil	nil	nil
2008			
Carrying value as at 31 December			1,592
Fair value as at 31 December			1,565
Unrealised fair value losses recognised in shareholders' equity (before tax) as at 31 December	–971	–192	–79
Effect on shareholders' equity (before tax) if reclassification had not been made	n/a	n/a	–28
Effect on result (before tax) if reclassification had not been made	n/a	n/a	nil
Effect on result (before tax) after the reclassification until 31 December (mainly interest income)	n/a	n/a	9
Recognised impairments (before tax)	nil	nil	nil
Recognised provision for credit losses (before tax)	n/a	n/a	nil
2007			
Unrealised fair value losses recognised in shareholders' equity (before tax) as at 31 December			–20
Recognised impairments (before tax)			nil

Notes to the consolidated annual accounts of ING Group continued

Derecognition of Available-for-sale debt securities – Transaction with the Dutch State (2009)
ING Group and the Dutch government ('State') reached an agreement on an Illiquid Assets Back-Up Facility ('IABF') on 26 January 2009; the transaction closed on 31 March 2009. Under the IABF, ING 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 33 'Related parties' for more details.

Available-for-sale equity securities by banking and insurance operations

	Listed		Unlisted		Total	
	2010	2009	**2010**	2009	**2010**	2009
Banking operations	**2,159**	3,209	**582**	473	**2,741**	3,682
Insurance operations	**4,438**	3,257	**2,575**	1,914	**7,013**	5,171
	6,597	6,466	**3,157**	2,387	**9,754**	8,853

Debt securities by banking and insurance operations

	Available-for sale		Held-to-maturity		Total	
	2010	2009	**2010**	2009	**2010**	2009
Banking operations	**96,459**	88,500	**11,693**	14,409	**108,152**	102,909
Insurance operations	**116,334**	100,350			**116,334**	100,350
	212,793	188,850	**11,693**	14,409	**224,486**	203,259

As at 31 December 2010, the balance sheet value included debt securities which were lent or sold in repurchase transactions amounting to EUR 3,302 million (2009: EUR 6,853 million) and EUR 14,617 million (2009: EUR 20,900 million), respectively.

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.

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

Debt securities

	2010	2009
Available-for-sale investments	**212,793**	188,850
Held-to-maturity investments	**11,693**	14,409
Loans and advances to customers	**34,251**	38,391
Due from banks	**8,122**	8,720
Available-for-sale investments and Assets at amortised cost	**266,859**	250,370
Trading assets	**27,979**	25,287
Investments for risk of policyholders	**8,944**	8,215
Designated as at fair value through profit and loss	**3,672**	3,477
Financial assets at fair value through profit and loss	**40,595**	36,979
	307,454	287,349

Notes to the consolidated annual accounts of ING Group continued

ING Group's total exposure to debt securities included in available-for-sale investments and assets at amortised cost of EUR 266,859 million (2009: EUR 250,370 million) is specified as follows by type of exposure and by banking and insurance operations:

Debt securities by type and by banking and insurance operations

	Banking operations		Insurance operations		Total	
	2010	2009	**2010**	2009	**2010**	2009
Government bonds	**51,960**	47,955	**48,455**	41,417	**100,415**	89,372
Covered bonds	**28,947**	31,986	**1,327**	1,605	**30,274**	33,591
Corporate bonds	**1,066**	978	**38,404**	29,611	**39,470**	30,589
Financial institution bonds	**25,863**	25,727	**13,047**	13,696	**38,910**	39,423
Bond portfolio (excluding ABS)	**107,836**	106,646	**101,233**	86,329	**209,069**	192,975
US agency RMBS	**10,930**	8,280	**4,799**	4,347	**15,729**	12,627
US prime RMBS	**706**	877	**1,625**	1,310	**2,331**	2,187
US Alt-A RMBS	**2,431**	2,560	**358**	336	**2,789**	2,896
US subprime RMBS	**87**	59	**1,560**	1,368	**1,647**	1,427
Non-US RMBS	**14,677**	16,836	**5,174**	4,569	**19,851**	21,405
CDO/CLO	**574**	575	**731**	936	**1,305**	1,511
Other ABS	**4,490**	5,542	**2,429**	2,222	**6,919**	7,764
CMBS	**2,409**	2,507	**4,810**	5,071	**7,219**	7,578
ABS portfolio	**36,304**	37,236	**21,486**	20,159	**57,790**	57,395
	144,140	143,882	**122,719**	106,488	**266,859**	250,370

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'.

5 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers by banking and insurance operations

	2010	2009
Banking operations	**589,039**	554,682
Insurance operations	**31,065**	29,060
	620,104	583,742
Eliminations	**–6,900**	–4,796
	613,204	578,946

Loans and advances to customers by type – banking operations

	Netherlands		International		Total	
	2010	2009	**2010**	2009	**2010**	2009
Loans to, or guaranteed by, public authorities	**28,671**	28,149	**27,282**	22,933	**55,953**	51,082
Loans secured by mortgages	**161,938**	159,990	**172,801**	147,484	**334,739**	307,474
Loans guaranteed by credit institutions	**308**	468	**5,460**	6,228	**5,768**	6,696
Personal lending	**5,125**	4,972	**16,618**	14,988	**21,743**	19,960
Asset backed securities			**18,605**	21,831	**18,605**	21,831
Corporate loans	**53,785**	52,888	**103,620**	99,104	**157,405**	151,992
	249,827	246,467	**344,386**	312,568	**594,213**	559,035
Loan loss provisions	**–1,932**	–1,461	**–3,242**	–2,892	**–5,174**	–4,353
	247,895	245,006	**341,144**	309,676	**589,039**	554,682

Notes to the consolidated annual accounts of ING Group continued

Loans and advances to customers analysed by subordination – banking operations		
	2010	2009
Non-subordinated	583,616	554,267
Subordinated	5,423	415
	589,039	554,682

Loans and advances to customers by type – insurance operations	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	3,046	2,228	3,137	2,072	6,183	4,300
Mortgage backed securities	6,385	6,138			6,385	6,138
Other	442	427	1,182	1,335	1,624	1,762
	16,514	15,543	14,668	13,628	31,182	29,171
Loan loss provisions	–71	–52	–46	–59	–117	–111
	16,443	15,491	14,622	13,569	31,065	29,060

As at 31 December 2010, Loans and advances to customers included receivables with regard to securities which have been acquired in reverse repurchase transactions related to the banking operations amounting to EUR 1,609 million (2009: EUR 2,409 million).

No individual loan or advance has terms and conditions that materially affect the amount, timing or certainty of the consolidated cash flows of the Group. For details on significant concentrations see 'Risk management' section.

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

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

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

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

Notes to the consolidated annual accounts of ING Group continued

Loan loss provisions analysed by type – banking operations

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

Changes in loan loss provisions

	Banking operations		Insurance operations		Total	
	2010	2009	**2010**	2009	**2010**	2009
Opening balance	**4,399**	2,611	**111**	59	**4,510**	2,670
Changes in the composition of the group		–3		–3		–6
Write-offs	**–1,166**	–1,217	**–42**	–13	**–1,208**	–1,230
Recoveries	**105**	148	**1**	1	**106**	149
Increase in loan loss provisions	**1,751**	2,973	**41**	67	**1,792**	3,040
Exchange rate differences	**155**	–47	**6**		**161**	–47
Other changes	**–49**	–66			**–49**	–66
Closing balance	**5,195**	4,399	**117**	111	**5,312**	4,510

The increase in loan loss provisions relating to insurance operations is presented under Investment income. The increase in the loan loss provisions relating to banking operations is presented under Addition to loan loss provisions on the face of the profit and loss account.

Notes to the consolidated annual accounts of ING Group continued

6 INVESTMENTS IN ASSOCIATES

Investments in associates

2010	Interest held (%)	Fair value of listed investment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	30	773	565	14,055	12,826	321	262
Sul America S.A.	36	948	388	5,223	4,178	3,749	3,307
ING Dutch Retail Master Fund C.V.	15		201	1,643	267	146	34
ING Dutch Office Master Fund C.V.	16		195	1,480	268	67	24
ING Retail Property Fund Iberica LP	29		144	1,635	1,122	149	86
ING Dutch Residential Master Fund C.V.	13		111	1,004	180	52	20
ING Real Estate Asia Retail Fund	28		107	782	450	51	53
ING Dutch Office Master Fund II C.V.	16		101	755	129	45	29
ING Lionbrook Property Partnership LP	21		96	620	171	77	19
ING Vastgoed Kantoren C.V.	10		90	945	46	75	40
ING Vastgoed Winkels C.V.	10		89	900	5	90	20
Lion Properties Fund	4		86	3,412	1,428	1,606	1,150
Lion Industrial Trust	8		85	2,691	1,583	247	130
ING Industrial Fund Australia	8	81	85	1,830	756	162	86
ING Real Estate French Residential Fund C.V.	45		76	233	63	20	8
ING Property Fund Central Europe LP	25		74	806	510	66	37
Steadfast Capital Fund II LP	68		74	145		3	2
ING Retail Property Fund France Belgium C.V.	15		70	1,382	916	102	56
Lion Value Fund	30		69	341	109	53	10
ING Dutch Residential Master Fund II C.V.	13		63	612	143	22	18
ING Real Estate Nordic Property Fund FGR	15		61	940	543	81	59
ING REI Investment DOF B.V.	3		59	2,235	414	199	175
ING Retail Property Partnership Southern Europe C.V.	21		52	1,001	759	48	67
ING Real Estate European Industrial Fund C.V.	15		50	647	308	42	28
Other investments in associates			934				
			3,925				

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

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

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

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

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

Where the listed fair value is lower than the balance sheet value, an impairment review and an evaluation of the going concern basis has been performed.

Notes to the consolidated annual accounts of ING Group continued

Investments in associates							
2009	Interest held (%)	Fair value of listed investment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	30	338	457	11,474	10,503	309	281
Sul America S.A.	36	694	288	4,714	3,904	3,360	3,138
ING Dutch Retail Master Fund C.V.	16		210	1,642	310	56	37
ING Dutch Office Master Fund C.V.	16		201	1,527	285	–12	30
ING Lionbrook Property Partnership LP	33		151	572	148	27	20
ING Retail Property Fund Iberica LP	30		140	1,635	1,156	–51	50
ING Dutch Residential Master Fund C.V.	13		111	1,019	194	–34	22
ING Retail Property Fund Australia	29		107	886	479	20	65
ING Dutch Office Master Fund II C.V.	16		104	775	129	31	27
ING Real Estate Asia Retail Fund	28		99	723	417	–46	140
ING Vastgoed Kantoren C.V.	10		89	952	44	10	33
ING Vastgoed Winkels C.V.	10		87	870	5	53	19
ING Industrial Fund Australia	8	61	78	2,265	1,343	344	387
Lion Industrial Trust	10		72	2,374	1,640	–174	729
ING Retail Property Fund France Belgium C.V.	15		71	1,381	909	2	87
ING Real Estate French Residential Fund C.V.	45		67	233	83	–1	8
ING Property Fund Central Europe LP	25		67	806	540	–25	52
ING REI Investment DOF B.V.	3		66	2,402	514	–215	266
ING Dutch Residential Master Fund II C.V.	13		65	626	141	–25	26
Lion Properties Fund	5		65	2,766	1,506	–226	1,167
ING Real Estate Nordic Property Fund FGR	16		56	940	588	–7	52
Steadfast Capital Fund II LP	68		56	83		2	6
ING Retail Property Partnership Southern Europe C.V.	21		55	1,001	745	–27	69
ING Logistics Property Fund Europe C.V.	25		51	467	263	–22	23
Other investments in associates			886				
			3,699				

Changes in Investments in associates	2010	2009
Opening balance	**3,699**	4,355
Additions	**165**	180
Changes in the composition of the group	**–29**	–96
Transfers to and from Investments	**–12**	–9
Revaluations	**–2**	19
Share of results	**317**	–458
Dividends received	**–229**	–126
Disposals	**–232**	–294
Impairments	**–3**	–3
Exchange rate differences	**251**	131
Closing balance	**3,925**	3,699

In 2010, share of results of EUR 317 million (2009: EUR –458 million) and impairments of EUR –3 million (2009: EUR –3 million) are presented in the profit and loss account in Share of profit from associates for EUR 314 million (2009: EUR –461 million).

Notes to the consolidated annual accounts of ING Group continued

7 REAL ESTATE INVESTMENTS

Changes in real estate investments	2010	2009
Opening balance	**3,638**	4,300
Additions	**73**	130
Changes in the composition of the group	**–1,632**	–54
Transfers to and from Property in own use		58
Transfers to and from Other assets	**–23**	322
Fair value gains/(losses)	**–98**	–713
Disposals	**–295**	–656
Exchange rate differences	**237**	251
Closing balance	**1,900**	3,638

In 2010, Changes in the composition of the group comprises the sale of ING Summit Industrial Fund LP. Reference is made to Note 30 'Companies acquired and companies disposed'.

Real estate investments by banking and insurance operations	2010	2009
Banking operations	**837**	2,569
Insurance operations	**1,063**	1,069
	1,900	3,638

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2010 was EUR 304 million (2009: EUR 345 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).

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 113 million (2009: EUR 87 million). The total amount of direct operating expenses (including repairs and maintenance) incurred from Real estate investments that did not generate rental income for the year ended 31 December 2010 was EUR 6 million (2009: EUR 46 million).

Real estate investments by year of most recent appraisalby independent qualified valuers in percentages	2010
Most recent appraisal in 2010	**97**
Most recent appraisal in 2009	**3**
	100

ING Group's exposure to real estate is included in the following balance sheet lines:

Real estate exposure	2010	2009
Real estate investments	**1,900**	3,638
Investments in associates	**2,568**	2,580
Other assets – property development and obtained from foreclosures	**2,153**	2,515
Property and equipment – property in own use	**1,642**	1,686
Investments – available-for-sale	**633**	689
	8,896	11,108

Furthermore, the exposure is impacted by third party interests, leverage in funds and off-balance commitments, resulting in an overall exposure of EUR 11.1 billion (2009: EUR 13.1 billion) of which EUR 5.2 billion (2009: EUR 7.0 billion) relates to banking operations and EUR 5.9 billion (2009: EUR 6.1 billion) relates to insurance operations. Reference is made to the section 'Risk management'.

Notes to the consolidated annual accounts of ING Group continued

8 PROPERTY AND EQUIPMENT

Property and equipment by type	2010	2009
Property in own use	**1,642**	1,686
Equipment	**1,435**	1,442
Assets under operating leases	**3,055**	2,991
	6,132	6,119

Property in own use by banking and insurance operations	2010	2009
Banking operations	**1,329**	1,364
Insurance operations	**313**	322
	1,642	1,686

Changes in property in own use	2010	2009
Opening balance	**1,686**	1,841
Additions	**51**	46
Changes in the composition of the group		–2
Transfers to and from Real estate investments		–58
Transfers to and from Other assets	**–4**	–24
Depreciation	**–31**	–33
Revaluations	**–20**	–51
Impairments	**–27**	–8
Reversal of impairments	**5**	12
Disposals	**–43**	–37
Exchange rate differences	**25**	–1
Other changes		1
Closing balance	**1,642**	1,686
Gross carrying amount as at 31 December	**2,487**	2,574
Accumulated depreciation as at 31 December	**–700**	–764
Accumulated impairments as at 31 December	**–145**	–124
Net book value	**1,642**	1,686
Revaluation surplus		
Opening balance	**531**	606
Revaluation in year	**–3**	–3
Released in year		–72
Closing balance	**528**	531

The cost or the purchase price amounted to EUR 1,959 million (2009: EUR 2,043 million). Cost less accumulated depreciation and impairments would have been EUR 1,114 million (2009: EUR 1,155 million).

Property in own use by year of most recent appraisal by independent qualified valuers	
in percentages	**2010**
Most recent appraisal in 2010	**51**
Most recent appraisal in 2009	**14**
Most recent appraisal in 2008	**25**
Most recent appraisal in 2007	**2**
Most recent appraisal in 2006	**8**
	100

Notes to the consolidated annual accounts of ING Group continued

Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2010	2009	**2010**	2009	**2010**	2009
Opening balance	**344**	320	**1,098**	1,087	**1,442**	1,407
Additions	**192**	189	**284**	407	**476**	596
Changes in the composition of the group	**–4**	–9	**–7**	–88	**–11**	–97
Disposals	**–12**	–13	**–41**	–32	**–53**	–45
Depreciation	**–167**	–155	**–262**	–261	**–429**	–416
Impairments	**–1**				**–1**	
Exchange rate differences	**12**	6	**20**	4	**32**	10
Other changes	**12**	6	**–33**	–19	**–21**	–13
Closing balance	**376**	344	**1,059**	1,098	**1,435**	1,442
Gross carrying amount as at 31 December	**1,707**	1,593	**2,642**	3,084	**4,349**	4,677
Accumulated depreciation as at 31 December	**–1,330**	–1,249	**–1,583**	–1,986	**–2,913**	–3,235
Accumulated impairments as at 31 December	**–1**				**–1**	
Net book value	**376**	344	**1,059**	1,098	**1,435**	1,442

Changes in assets under operating leases

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

Transfer and other changes relates mainly to the transfer of cars under operating lease to Other assets due to the expiration of the lease contract.

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

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

The Group leases assets to third parties under operating leases as lessor. The future minimum lease payments to be received under non–cancellable operating leases are as follows:

Future minimum lease payments by maturity

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

Notes to the consolidated annual accounts of ING Group continued

9 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	**3,071**	3,070	**803**	881	**645**	880	**6,021**	6,915
Additions				39	**223**	188	**1**	3	**224**	230
Capitalised expenses	**90**	79			**148**	132			**238**	211
Amortisation and unlocking	**–113**	–120			**–358**	–342	**–118**	–120	**–589**	–582
Impairments			**–540**		**–31**			–9	**–571**	–9
Effect of unrealised revaluations in equity	**–286**	–482							**–286**	–482
Changes in the composition of the group		–11	**3**	–94	**–49**	–62	**–31**	–143	**–77**	–310
Exchange rate differences	**127**	–48	**238**	62	**13**	10	**48**	36	**426**	60
Disposals			**–7**	–6	**5**	–4	**–12**	–2	**–14**	–12
Closing balance	**1,320**	1,502	**2,765**	3,071	**754**	803	**533**	645	**5,372**	6,021
Gross carrying amount as at 31 December	**2,449**	2,518	**3,370**	3,136	**2,557**	2,217	**1,013**	1,007	**9,389**	8,878
Accumulated amortisation as at 31 December	**–1,129**	–1,016			**–1,751**	–1,393	**–426**	–308	**–3,306**	–2,717
Accumulated impairments as at 31 December			**–605**	–65	**–52**	–21	**–54**	–54	**–711**	–140
Net book value	**1,320**	1,502	**2,765**	3,071	**754**	803	**533**	645	**5,372**	6,021

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

Goodwill

Changes in Goodwill

There were no additions to goodwill in 2010. Additions to Goodwill in 2009 mainly relate to the consolidation of 3W Holding BV (EUR 26 million) and to the extension of ING Group's Interhyp AG share of EUR 7 million. A goodwill impairment of EUR 540 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.

Allocation of Goodwill to reporting units

Goodwill is allocated to reporting units as follows:

Goodwill allocation to reporting units

	2010	2009
Retail Central Europe	**870**	834
Retail Belgium	**49**	49
Retail Netherlands	**1**	1
ING Direct	**468**	460
Commercial Banking – Lease	**68**	66
ING Real Estate	**31**	39
Commercial Banking – Other	**15**	14
Insurance Benelux	**48**	48
Insurance Central & Rest of Europe	**123**	122
Insurance Latin America	**680**	591
Insurance US *		483
Insurance Asia/Pacific – South Korea	**192**	171
Insurance Asia/Pacific – Rest of Asia	**2**	2
ING Investment Management	**218**	191
	2,765	3,071

* Excluding US Closed Block VA

Notes to the consolidated annual accounts of ING Group continued

As of 2010 ING Investment Management is a separate reporting unit following the change in operating segments as explained in Note 51 '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-EU net asset value including goodwill. The recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Several methodologies are applied to arrive at the best estimate of the recoverable amount.

As a first step of the impairment test, the best estimate of the recoverable amount of reporting units to which goodwill is determined separately for each relevant reporting unit based on Price to Earnings, Price to Book, and Price to Assets under management ratios. The main assumptions in this valuation are the multiples for Price to Earnings, Price to Book and Price to Assets under management; these are developed internally but are either derived from or corroborated against market information that is related to observable transaction in the market for comparable businesses. Earnings and book values are equal to or derived from the relevant measure under IFRS-EU. 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 51 '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 540 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.

Retail Central Europe

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

Notes to the consolidated annual accounts of ING Group continued

10 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 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 51 '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).

11 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 but for which the transaction has not yet fully closed. For 31 December 2010 this relates mainly to Pacific Antai Life Insurance Company Ltd. (PALIC), ING Arrendadora, S.A. de C.V. in Mexico, ING Real Estate Investment Management (ING REIM) and Clarion Real Estate Securities. For 31 December 2009 this relates mainly to the Swiss and Asian Private Banking business, PALIC, and three US independent retail broker-dealer units. Reference is made to Note 30 'Companies acquired and companies disposed' for more details.

Assets held for sale

	2010	2009
Cash and balances with central banks	**28**	264
Amounts due from banks		474
Financial assets at fair value through profit and loss	**16**	389
Available-for-sale investments	**144**	458
Loans and advances to customers	**244**	3,242
Reinsurance contracts		3
Investments in associates	**43**	
Property and equipment	**12**	37
Intangible assets	**15**	3
Deferred acquisition costs	**43**	35
Other assets	**136**	119
	681	5,024

Liabilities held for sale

	2010	2009
Other borrowed funds	**35**	
Insurance and investments contracts	**217**	191
Amounts due to banks		31
Customer deposits and other funds on deposit		4,480
Financial liabilities at fair value through profit and loss		36
Other liabilities	**172**	152
	424	4,890

Cumulative other comprehensive income includes EUR 7 million (2009: EUR 13 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 33 '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 Group continued

12 OTHER ASSETS

Other assets by type	2010	2009
Reinsurance and insurance receivables	**2,201**	2,125
Deferred tax assets	**3,425**	3,969
Property development and obtained from foreclosures	**2,153**	2,515
Income tax receivable	**527**	836
Accrued interest and rents	**16,194**	18,306
Other accrued assets	**2,888**	2,497
Pension assets	**3,458**	3,143
Other	**5,623**	5,838
	36,469	39,229

Other includes EUR 1,875 million (2009: EUR 2,058 million) related to transactions still to be settled at balance sheet date.

Disclosures in respect of deferred tax assets and pension assets are provided in Note 21 'Other liabilities'.

Accrued interest and rents includes EUR 7,113 million (2009: EUR 6,956 million) accrued interest on assets measured at amortised cost under the IAS 39 classification Loans and receivables.

The total amount of borrowing costs relating to Property development and obtained from foreclosures, capitalised in 2010 is EUR 18 million (2009: EUR 98 million).

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.

Property development and obtained from foreclosures	2010	2009
Property under development	**821**	1,438
Property developed	**1,024**	917
Property obtained from foreclosures	**308**	160
	2,153	2,515
Gross carrying amount as at 31 December	**3,240**	3,228
Accumulated impairments as at 31 December	**–1,087**	–713
Net book value	**2,153**	2,515

Notes to the consolidated annual accounts of ING Group continued

EQUITY

13 SHAREHOLDERS' EQUITY (PARENT)/NON-VOTING EQUITY SECURITIES

Shareholders' equity (parent)

	2010	2009	2008
Share capital	**919**	919	495
Share premium	**16,034**	16,034	9,182
Revaluation reserve	**4,752**	2,466	–8,502
Currency translation reserve	**105**	–2,008	–1,918
Other reserves	**19,745**	16,452	18,077
Shareholders' equity (parent)	**41,555**	33,863	17,334

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

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

Share capital

	Ordinary shares (par value EUR 0.24)					
	Number x1,000			Amount		
	2010	2009	2008	2010	2009	2008
Authorised share capital	**4,500,000**	4,500,000	4,500,000	**1,080**	1,080	1,080
Unissued share capital	**668,439**	668,439	2,436,852	**161**	161	585
Issued share capital	**3,831,561**	3,831,561	2,063,148	**919**	919	495

Changes in issued share capital

	Ordinary shares (par value EUR 0.24)	
	Number x1,000	Amount
Issued share capital as at 1 January 2008	2,226,445	534
Issue of shares	1,848	
Buy-back of shares	–183,158	–44
Exercise of B warrants	18,013	5
Issued share capital as at 31 December 2008	2,063,148	495
Issue of shares	1,768,413	424
Issued share capital as at 31 December 2009	3,831,561	919

No changes have occurred in the issued share capital in 2010.

Share premium
Changes in Share premium are disclosed in the Consolidated statement of changes in equity of ING Group.

Rights issue (2009)
On 27 November 2009 existing holders of (depositary receipts for) ordinary shares were offered rights entitling to subscribe for new (depositary receipts for) ordinary shares subject to applicable securities laws. Eligible rights holders could subscribe for 6 new (depositary receipts for) ordinary shares in relation to every 7 subscription rights that they hold. The issue price was set at EUR 4.24 per share. This represented a discount of 37.3% to the Theoretical Ex-Rights Price (TERP), based on the closing price of EUR 8.92 of ING Groep N.V.'s, (depositary receipts for) shares on Euronext Amsterdam and on Euronext Brussels on 26 November 2009.

A total of 1,768,412,544 (depositary receipts for) ordinary shares were offered and sold, of which approximately 97% through the exercise of rights and the remainder through placements to institutional investors. As a result, ING received approximately EUR 7.3 billion in proceeds, net of fees and expenses.

Notes to the consolidated annual accounts of ING Group continued

Share buy-back programme (2007/2008)
In May 2007, ING Group announced a plan to adopt a buy-back programme under which it planned to purchase (depositary receipts for) ordinary shares with a total value of EUR 5 billion over a period of 12 months, beginning in June 2007. On 23 May 2008 this programme was terminated as ING Group had almost reached the legal limit then in force for the acquisition of its own shares (10% of the issued share capital). In total, 183.2 million (depositary receipts for) ordinary shares were repurchased under this programme at an average price of EUR 26.77 and a total consideration of EUR 4.9 billion (98% of the total amount of the share buy back programme as announced). Repurchased ordinary shares and depositary receipts are included in the table 'Changes in treasury shares'.

These ordinary shares repurchased, were cancelled in two blocks, effective on 25 June 2008 and 7 October 2008 respectively. These now form part of the unissued share capital.

Ordinary shares
All ordinary shares are in registered form. No share certificates have been issued. Ordinary shares may be transferred by means of a deed of transfer. A transfer of ordinary shares requires written acknowledgement by ING Groep N.V. The par value of ordinary shares is EUR 0.24. The authorised ordinary share capital of ING Groep N.V. currently consists of 4,500 million ordinary shares; it increased in 2008 from 3,000 million shares to 4,500 million shares as a result from an amendment made to the Articles of Association on 8 October 2008. As at 31 December 2010, 3,832 million of ordinary shares were issued and fully paid.

Depositary receipts for ordinary shares
More than 99.9% of the ordinary shares issued by ING Groep N.V. are held by Stichting ING Aandelen (ING Trust Office). In exchange for these shares, ING Trust Office has issued depositary receipts in bearer form for these shares. The depositary receipts are listed on various stock exchanges. Depositary receipts can be exchanged upon request of the holders of depositary receipts for (non-listed) ordinary shares without any restriction, other than payment of an administrative fee of EUR 0.01 per depositary receipt with a minimum of EUR 25 per exchange transaction.

The holder of a depositary receipt is entitled to receive from ING Trust Office payment of dividends and distributions corresponding to the dividends and distributions received by ING Trust Office on an ordinary share.

In addition, the holder of a depositary receipt is entitled to attend and to speak at the General Meeting of Shareholders of ING Groep N.V. either in person or by proxy. A holder of a depositary receipt, who thus attends the General Meeting of Shareholders, is entitled to vote as a proxy of the ING Trust Office but entirely at his own discretion for a number of shares equal to the number of his depositary receipts.

A holder of depositary receipts who does not attend the General Meeting of Shareholders in person or by proxy is entitled to give a binding voting instruction to the Trust Office for a number of shares equal to the number of his depositary receipts.

Depositary receipts for ordinary shares held by ING Group (Treasury shares)
As at 31 December 2010, 51.3 million (2009: 47.0 million; 2008: 36.5 million) depositary receipts for ordinary shares ING Groep N.V. with a par value of EUR 0.24 were held by ING Groep N.V. or its subsidiaries. These depositary receipts for ordinary shares were purchased to hedge option rights granted to the Executive Board members and other employees. 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 out of exercise and vesting. Once all shares in the hedge portfolio are used ING will fund these obligations by issuing new shares.

Restrictions with respect to dividend and repayment of capital
ING Groep N.V. is subject to legal restrictions regarding the amount of dividends it can pay to the holders of its ordinary shares. Pursuant to the Dutch Civil Code, 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.

Moreover, ING Groep N.V.'s ability to pay dividends is dependent on the dividend payment ability of its subsidiaries and associates. ING Groep N.V. is legally required to create a non-distributable reserve insofar profits of its subsidiaries and associates are subject to dividend payment restrictions which apply to those subsidiaries and associates themselves. Such restrictions may among others be of a similar nature as the restrictions which apply to ING Groep N.V. Furthermore there can be restrictions as a result of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, or other limitations which may exist in certain countries.

Without prejudice to the authority of the Executive Board to allocate profits to reserves and to the fact that the ordinary shares are the most junior securities issued by ING Groep N.V., no specific dividend payment restrictions with respect to ordinary shares exist.

Furthermore, ING Groep N.V. is subject to legal restrictions with respect to repayment of capital to holders of ordinary shares. Capital may be repaid to the holders of ordinary shares pursuant to an amendment of ING Groep N.V.'s Articles of Association whereby the ordinary shares are written down.

Notes to the consolidated annual accounts of ING Group continued

Pursuant to the Dutch Civil Code, capital may only be repaid if none of ING Groep N.V.'s creditors opposes such a repayment within two months following the announcement of a resolution to that effect.

On a distribution of a dividend ING Groep N.V. is in principle required to withhold an income tax on dividends at a rate of 15%.

B warrants (2008)
In 1998, ING Groep N.V. authorised the issue of a maximum of 17,317,132 B warrants, of which 17,220,200 were issued. On 5 January 2008 of the remaining 9,266,097 warrants, 259,484 warrants expired and 9,006,613 were exercised. Accordingly no B warrants were outstanding as at 31 December 2010 (2009 and 2008: nil). B warrant holders were entitled to obtain from ING Groep N.V., for a fixed price, depositary receipts for ordinary shares in the proportion of one B warrant to two depositary receipts. B warrant holders could exercise their rights at their own discretion but no later than 5 January 2008.

The closing date for exercising warrants B was 5 January 2008. The exercise price of warrants B was EUR 49.92 for two depositary receipts.

Changes in revaluation reserve

2010	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	411	1,683	372	2,466
Unrealised revaluations after taxation	–32	3,401		3,369
Realised gains/losses transferred to profit and loss		86		86
Changes in cash flow hedge reserve			475	475
Transfer to insurance liabilities/DAC		–1,644		–1,644
Closing balance	379	3,526	847	4,752

Changes in revaluation reserve

2009	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	461	–10,140	1,177	–8,502
Unrealised revaluations after taxation	–50	12,496		12,446
Realised gains/losses transferred to profit and loss		1,406		1,406
Changes in cash flow hedge reserve			–805	–805
Transfer to insurance liabilities/DAC		–2,079		–2,079
Closing balance	411	1,683	372	2,466

Changes in revaluation reserve

2008	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	439	4,067	431	4,937
Unrealised revaluations after taxation	22	–18,876		–18,854
Realised gains/losses transferred to profit and loss		2,476		2,476
Changes in cash flow hedge reserve			746	746
Transfer to insurance liabilities/DAC		2,193		2,193
Closing balance	461	–10,140	1,177	–8,502

Transfer to insurance liabilities/DAC includes the change in the deferred profit sharing liability (net of deferred tax). Reference is made to Note 17 'Insurance and investment contracts, reinsurance contracts'.

Changes in currency translation reserve

	2010	2009	2008
Opening balance	–2,008	–1,918	–1,354
Unrealised revaluations after taxation	–777	–294	388
Realised gains/losses transferred to profit and loss		148	156
Exchange rate differences	2,890	56	–1,108
Closing balance	105	–2,008	–1,918

Notes to the consolidated annual accounts of ING Group continued

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

Changes in other reserves

2010	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	**21,905**	**645**	**–737**	**–5,361**	**16,452**
Result for the year	**3,220**				**3,220**
Unrealised revaluations after taxation	**–156**	**171**			**15**
Changes in treasury shares			**22**		**22**
Transfer to share of associates reserve	**–91**	**91**			
Employee stock options and share plans	**36**				**36**
Closing balance	**24,914**	**907**	**–715**	**–5,361**	**19,745**

Changes in other reserves

2009	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	23,232	726	–866	–5,015	18,077
Result for the year	–935				–935
Unrealised revaluations after taxation	–273	–5			–278
Changes in treasury shares			129		129
Transfer to share of associates reserve	76	–76			
Dividend and repayment premium	–259			–346	–605
Employee stock options and share plans	64				64
Closing balance	21,905	645	–737	–5,361	16,452

Dividend and repayment premium includes the coupon (EUR 259 million) and repayment premium (EUR 346 million) on the repayment of EUR 5 billion non-voting equity securities.

Changes in other reserves

2008	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	27,025	1,202	–3,740	–135	24,352
Result for the year	–360	–369			–729
Unrealised revaluations after taxation	–77	106			29
Changes in treasury shares			–2,030		–2,030
Dividend	–3,387	–213			–3,600
Employee stock options and share plans	31				31
Issuance costs incurred				–20	–20
Cancellation of shares			4,904	–4,860	44
Closing balance	23,232	726	–866	–5,015	18,077

Changes in treasury shares

			Amount			Number
	2010	2009	2008	**2010**	2009	2008
Opening balance	**737**	866	3,740	**47,047,225**	36,457,118	126,759,829
Purchased/sold	**48**	47	2,159	**6,393,739**	11,648,765	94,105,700
Rights issue		–64				
Cancelled			–4,904			–183,158,017
Share-based payments	**–23**	–27	–22	**–2,140,863**	–1,058,658	–1,250,394
Other	**–47**	–85	–107			
Closing balance	**715**	737	866	**51,300,101**	47,047,225	36,457,118

Notes to the consolidated annual accounts of ING Group continued

Non-voting equity securities (Core Tier 1 securities)
On 12 November 2008, ING Groep N.V. issued one billion non-voting equity securities to the Dutch State at EUR 10 per non-voting equity security, resulting in an increase of ING Group's core Tier 1 capital of EUR 10 billion. The nominal value of each security is EUR 0.24. On 21 December 2009 ING repurchased EUR 5 billion of these securities. The non-voting equity securities do not form part of ING Group's share capital; accordingly they do not carry voting rights in the General Meeting.

These non-voting equity securities are deeply subordinated and rank pari-passu with ordinary shares in a winding up of ING Group.

On these non-voting equity securities a coupon was and is payable of the higher of:
- EUR 0.85 per security, payable annually in arrears, with a first coupon of EUR 0.425 per security paid on 12 May 2009; and
- 110% of the dividend paid on each ordinary share over 2009 (payable in 2010);
- 120% of the dividend paid on each ordinary share over 2010 (payable in 2011);
- 125% of the dividend paid on each ordinary share over 2011 onwards (payable in 2012 onwards).

Since ING Groep N.V. had already paid an interim dividend of EUR 0.74 per ordinary share in August 2008, ING recognised a coupon payable of EUR 425 million to the Dutch State as of 31 December 2008. This coupon was paid out on 12 May 2009.

Further coupons are to be paid on 12 May of each year (the coupon date) in cash if the dividend on ordinary shares is paid in cash or to be paid in scrip securities in the event of a scrip dividend on ordinary shares. Coupons are only due and payable, on a non-cumulative basis and if a dividend is paid on ordinary shares over the financial year preceding the coupon date, either on an interim or a final dividend basis, provided that ING Group's capital adequacy position is and remains satisfactory both before and after payment in the opinion of the Dutch central bank.

In December 2009, ING repurchased the first half of the non-voting equity securities (core Tier 1 securities) of EUR 5 billion plus a total premium of EUR 605 million. In March 2011, ING announced that, at the next coupon reset date on 13 May 2011, ING intends to exercise its option for early repurchase of EUR 2 billion of the remaining non-voting equity securities (core Tier 1 securities). The total payment in May 2011 will amount to EUR 3 billion and includes a 50% repurchase premium. ING will fund this repurchase from retained earnings. Provided that the strong capital generation continues, ING intends to repurchase the remaining EUR 3 billion non-voting equity securities (core Tier 1 securities) ultimately by May 2012 from retained earnings. The final decision on repurchase of these non-voting equity securities (core Tier 1 securities) will be made before the envisaged repayment date and will be conditional upon there having been no material changes regarding ING's capital requirements and/or ING's outlook on external market circumstances. The terms for the remaining non-voting equity securities, including restrictions on remuneration and corporate governance, remained unchanged. Reference is made to Note 33 'Related parties'.

Cumulative preference shares
Pursuant to the Articles of Association of ING Groep N.V. as amended on 8 October 2008, the authorised cumulative preference share capital consists of 4.5 billion cumulative preference shares, of which none have been issued. The par value of these cumulative preference shares is EUR 0.24.

The cumulative preference shares rank before the ordinary shares in entitlement to dividend and to distributions upon liquidation of ING Groep N.V.

The dividend on the cumulative preference shares will be equal to a percentage, calculated on the amount compulsorily paid up or yet to be paid up. This percentage shall be equal to the average of the Euro OverNight Index Average (EONIA) as calculated by the European Central Bank. During the financial year for which the distribution is made, this percentage is weighted on the basis of the number of days for which it applies, increased by 2.5 percentage points.

If and to the extent that the profit available for distribution is not sufficient to pay the dividend referred to above in full, the shortfall will be made up from the reserves insofar as possible. If, and to the extent that, the dividend distribution cannot be made from the reserves, the profits earned in subsequent years shall first be used to make up the shortfall before any distribution may be made on shares of any other category.

ING Groep N.V.'s Articles of Association make provision for the cancellation of cumulative preference shares. Upon cancellation of cumulative preference shares and upon liquidation of ING Groep N.V., the amount paid up on the cumulative preference shares will be repaid together with the dividend shortfall in preceding years, insofar as this shortfall has not yet been made up.

Cumulative preference shares – Restrictions with respect to dividend and repayment of capital
ING Groep N.V. is subject to legal restrictions regarding the amount of dividends it can pay to the holders of its cumulative preference shares, when issued. Pursuant to the Dutch Civil Code, 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.

Moreover, ING Groep N.V.'s ability to pay dividends is dependent on the dividend payment ability of its subsidiaries. ING Groep N.V. is legally required to create a non-distributable reserve insofar profits of its subsidiaries are subject to dividend payment restrictions which apply to those subsidiaries themselves. Such restrictions may among others be of a similar nature as the restrictions which apply to ING

Notes to the consolidated annual accounts of ING Group continued

Groep N.V. or may be the result of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, or other limitations which may exist in certain countries.

Without prejudice to the fact that the cumulative preference shares, when issued, will be junior securities of ING Groep N.V., no specific dividend payment restrictions with respect to the cumulative preference shares exist.

Furthermore, ING Groep N.V. is subject to legal restrictions with respect to repayment of capital to holders of cumulative preference shares. Capital may be repaid to the holders of cumulative preference shares pursuant to (i) an amendment of ING Groep N.V.'s articles of association whereby the cumulative preference shares are written down or (ii) a resolution to redeem and cancel the cumulative preference shares.

Pursuant to the Dutch Civil Code, capital may only be repaid if none of ING Groep N.V.'s creditors opposes such a repayment within two months following the announcement of a resolution to that effect.

LIABILITIES
14 SUBORDINATED LOANS

Subordinated loans

					Balance sheet value	
Interest rate	Year of issue	Due date	Notional amount in original currency		**2010**	2009
9.000%	2008	Perpetual	EUR	10	**10**	10
8.500%	2008	Perpetual	USD	2,000	**1,469**	1,357
8.000%	2008	Perpetual	EUR	1,500	**1,485**	1,479
7.375%	2007	Perpetual	USD	1,500	**1,111**	1,022
6.375%	2007	Perpetual	USD	1,045	**773**	713
5.140%	2006	Perpetual	GBP	600	**692**	670
5.775%	2005	Perpetual	USD	1,000	**741**	690
6.125%	2005	Perpetual	USD	700	**504**	472
4.176%	2005	Perpetual	EUR	500	**498**	498
Variable	2004	Perpetual	EUR	1,000	**994**	999
6.200%	2003	Perpetual	USD	500	**363**	337
Variable	2003	Perpetual	EUR	750	**729**	731
7.200%	2002	Perpetual	USD	1,100	**748**	656
7.050%	2002	Perpetual	USD	800	**528**	465
					10,645	10,099

Subordinated loans consist of perpetual subordinated bonds issued by ING Groep N.V. These bonds have been issued to raise hybrid capital for ING Verzekeringen N.V. and Tier 1 capital for ING Bank N.V. Under IFRS-EU these bonds are classified as liabilities. They are considered capital for regulatory purposes.

Except for the 9% 2008 perpetual of EUR 10 million (a private placement), EUR 750 million of the 8% 2008 perpetual and USD 1,000 million of the 5.775% 2005 perpetual (2009: the 9% 2008 perpetual of EUR 10 million), these loans have been subsequently provided as subordinated loans by ING Groep N.V. to ING Verzekeringen N.V. and ING Bank N.V. under the same conditions as the original bonds as follows:

Subordinated loans provided by ING Groep N.V. to ING Bank N.V. and ING Verzekeringen N.V.

	2010	2009
ING Bank N.V.	**7,147**	6,822
ING Verzekeringen N.V.	**2,003**	3,267
	9,150	10,089

Notes to the consolidated annual accounts of ING Group continued

15 DEBT SECURITIES IN ISSUE

Debt securities in issue relate to debentures and other issued debt securities with either fixed interest rates or interest rates based on floating interest rate levels, such as certificates of deposit and accepted bills issued by ING Group, 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 Group does not have debt securities that are issued on terms other than those available in the normal course of business. The maturities of the debt securities are as follows:

Debt securities in issue – maturities		
	2010	2009
Fixed rate debt securities		
Within 1 year	**63,518**	64,994
More than 1 year but less than 2 years	**7,518**	2,376
More than 2 years but less than 3 years	**7,925**	6,551
More than 3 years but less than 4 years	**9,580**	4,938
More than 4 years but less than 5 years	**5,648**	9,542
More than 5 years	**10,987**	8,151
Total fixed rate debt securities	**105,176**	96,552
Floating rate debt securities		
Within 1 year	**14,007**	10,021
More than 1 year but less than 2 years	**4,321**	6,545
More than 2 years but less than 3 years	**3,552**	1,164
More than 3 years but less than 4 years	**2,113**	1,375
More than 4 years but less than 5 years	**864**	1,478
More than 5 years	**5,571**	2,846
Total floating rate debt securities	**30,428**	23,429
Total debt securities	**135,604**	119,981

As of 31 December 2010, ING Group had unused lines of credit available including the payment of commercial paper borrowings relating to debt securities in issue of EUR 6,518 million (2009: EUR 7,029 million).

ING Bank issued 3 year government guaranteed senior unsecured bonds amounting to USD 6 billion in January 2009. USD 5 billion of the issue was priced at a fixed rate of 80 basis points over mid-swaps. USD 1 billion was priced at a variable rate of 80 basis points over 3 month LIBOR.

ING Bank issued a 5 year EUR 4 billion fixed rate government guaranteed senior unsecured bond in February 2009. The issue was priced at a fixed rate of 3.375%, 75 basis points over mid-swaps.

ING Bank issued a 5 year USD 2 billion fixed rate government guaranteed senior unsecured bond in March 2009. The issue was priced at a fixed coupon of 3.90%, 145 basis points over USD mid-swaps.

All were issued under the Credit Guarantee Scheme of the State of the Netherlands and are part of ING Group's regular medium-term funding operations. ING Group pays a fee of 84 basis points over the issued bonds to the Dutch State to participate in the Credit Guarantee Scheme.

Notes to the consolidated annual accounts of ING Group continued

16 OTHER BORROWED FUNDS

Other borrowed funds by remaining term

2010	2011	2012	2013	2014	2015	There after	Total
Subordinated loans of group companies	2,647	1,673	684	81	1,086	7,609	13,780
Preference shares of group companies						1,121	1,121
Loans contracted	2,055			73		1,612	3,740
Loans from credit institutions	2,677	29	30	29	159	726	3,650
	7,379	1,702	714	183	1,245	11,068	22,291

Other borrowed funds by remaining term

2009	2010	2011	2012	2013	2014	There after	Total
Subordinated loans of group companies	1,107	3,570	1,671	681	81	7,320	14,430
Preference shares of group companies						1,040	1,040
Loans contracted	2,985				74	1,636	4,695
Loans from credit institutions	2,046	201	32	29	24	654	2,986
	6,138	3,771	1,703	710	179	10,650	23,151

Subordinated loans of group companies relate to capital debentures and private loans which are subordinated to all current and future liabilities of ING Bank N.V.

Preference shares of group companies comprise non-cumulative guaranteed Trust Preference Securities which are issued by wholly owned subsidiaries of ING Groep N.V. These securities have a liquidation preference of a certain amount plus any accrued interest and unpaid dividend. Dividends with regard to these preference securities are presented as an interest expense in the profit and loss account. These trust preference securities have no voting rights.

17 INSURANCE AND INVESTMENT CONTRACTS, REINSURANCE CONTRACTS

The provisions for insurance and investment contracts, net of reinsurance (i.e. the provision for ING Group's own account) is 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 policyholders	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 Group continued

Changes in life insurance provisions

	Provision net of reinsurance (excluding provision for life insurance for risk of policyholders)		Provision for life insurance for risk of policyholders (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 30 'Companies acquired and companies disposed'.

Where discounting is used in the calculation of life insurance provisions, the rate is within the range 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 31 'Legal proceedings'.

ING 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 reinsurance business originally transferred to Scottish Re in 2004.

ING 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 the 'Risk management' section.

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 Group continued

Changes in provision for unearned premiums and unexpired risks

	Provision net of reinsurance		Reinsurance contracts		Provision for unearned premiums and unexpired risks	
	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 30 'Companies acquired and companies disposed'.

Changes in claims provisions

	Provision net of reinsurance		Reinsurance contracts		Claims provisions	
	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 30 'Companies acquired and companies disposed'.

ING Group had an outstanding balance of EUR 41 million as at 31 December 2010 (2009: EUR 42 million) relating to environmental and asbestos claims of the insurance operations. 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 Group 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 provisions, based on weighted averages, the rate is within the range of 3.0% to 4.0% (2009: 3.0% to 4.0%).

Notes to the consolidated annual accounts of ING Group 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 30 '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

The Group 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.

Notes to the consolidated annual accounts of ING Group continued

18 AMOUNTS DUE TO BANKS

Amounts due to banks include non-subordinated debt due to banks, other than amounts in the form of debt securities. As at 31 December 2010, liabilities concerning securities sold in repurchase transactions amounted to EUR 12,200 million (2009: EUR 17,991 million).

Amounts due to banks by type

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

19 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

Customer deposits and other funds on deposit

	2010	2009
Savings accounts	**324,581**	304,104
Credit balances on customer accounts	**127,177**	110,087
Corporate deposits	**55,024**	53,272
Other	**4,580**	2,045
	511,362	469,508

Customer deposits and other funds on deposit by type

		Netherlands		International		Total
	2010	2009	**2010**	2009	**2010**	2009
Non-interest bearing	**13,522**	13,541	**6,773**	5,936	**20,295**	19,477
Interest bearing	**132,311**	124,488	**358,756**	325,543	**491,067**	450,031
	145,833	138,029	**365,529**	331,479	**511,362**	469,508

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

Savings accounts relate to the balances on savings accounts, savings books, savings deposits and time deposits of personal customers. The interest payable on savings accounts, which is contractually added to the accounts, is also included.

20 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial liabilities at fair value through profit and loss

	2010	2009
Trading liabilities	**108,050**	98,245
Non-trading derivatives	**17,782**	20,070
Designated as at fair value through profit and loss	**12,707**	11,474
	138,539	129,789

Trading liabilities by type

	2010	2009
Equity securities	**4,811**	3,052
Debt securities	**16,707**	12,457
Funds on deposit	**44,767**	42,505
Derivatives	**41,765**	40,231
	108,050	98,245

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

Notes to the consolidated annual accounts of ING Group continued

Non-trading derivatives by type	2010	2009
Derivatives used in:		
– fair value hedges	**8,601**	8,866
– cash flow hedges	**5,264**	6,468
– hedges of net investments in foreign operations	**168**	316
Other non-trading derivatives	**3,749**	4,420
	17,782	20,070

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

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

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

21 OTHER LIABILITIES

Other liabilities by type	2010	2009
Deferred tax liabilities	**2,618**	2,399
Income tax payable	**1,210**	1,225
Pension benefits	**543**	589
Post-employment benefits	**172**	175
Other staff-related liabilities	**1,248**	735
Other taxation and social security contributions	**885**	1,001
Deposits from reinsurers	**1,007**	870
Accrued interest	**13,220**	16,789
Costs payable	**2,873**	2,654
Amounts payable to brokers	**111**	200
Amounts payable to policyholders	**2,130**	2,182
Reorganisation provision	**434**	644
Other provisions	**533**	747
Share-based payment plan liabilities	**40**	24
Prepayments received under property under development	**173**	120
Amounts to be settled	**5,553**	5,167
Other	**4,777**	5,833
	37,527	41,354

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

Other staff-related 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 the Group is liable to taxation.

Notes to the consolidated annual accounts of ING Group 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	209	1,205	–1,359	–2	73	–39	87
Financial assets and liabilities at fair value through profit and loss	–312	–18	–185	–2	5	–15	–527
Deferred acquisition costs and VOBA	2,967	–368	173		336	3	3,111
Fiscal reserve			1				1
Depreciation	12		9	–10	–1	–6	4
Insurance provisions	–1,446	–389	109		–135	–5	–1,866
Cash flow hedges	69	210			–14	–2	263
Pension and post-employment benefits	700		–183		7	–21	503
Other provisions	–1,012	–13	476	5	–127	16	–655
Receivables	–149	–1	82	6	2	9	–51
Loans and advances to customers	714		–201	–5	–15	–20	473
Unused tax losses carried forward	–2,508	1	801	–3	–152	10	–1,851
Other	–814	29	419	11	–32	88	–299
	–1,570	656	142	0	–53	18	–807
Comprising:							
– deferred tax liabilities	2,399						2,618
– deferred tax assets	–3,969						–3,425
	–1,570						–807

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	–5,418	5,330	341	17	–114	53	209
Financial assets and liabilities at fair value through profit and loss	28	–1	–324	–21	10	–4	–312
Deferred acquisition costs and VOBA	3,481	–568	169	–12	–174	71	2,967
Fiscal reserve			–48			48	
Depreciation	15		–4			1	12
Insurance provisions	–494	–483	–467	55	–1	–56	–1,446
Cash flow hedges	277	–197			–2	–9	69
Pension and post-employment benefits	374		326				700
Other provisions	–1,422	2	360	4	116	–72	–1,012
Receivables	–61		–72		–5	–11	–149
Loans and advances to customers	560		136	–28	1	45	714
Unused tax losses carried forward	–1,653		–951	7	82	7	–2,508
Other	–119	–70	–695	–34	19	85	–814
	–4,432	4,013	–1,229	–12	–68	158	–1,570
Comprising:							
– deferred tax liabilities	3,602						2,399
– deferred tax assets	–8,034						–3,969
	–4,432						–1,570

In 2009, the Other changes in Change through net result relates mainly to the tax effect on the additional Illiquid Assets Back-Up Facility payments as part of the overall agreement with the European Commission of EUR 1.3 billion and on tax losses of foreign branches carried forward.

Notes to the consolidated annual accounts of ING Group continued

Deferred tax in connection with unused tax losses carried forward		
	2010	2009
Total unused tax losses carried forward	**9,335**	10,073
Unused tax losses carried forward not recognised as a deferred tax asset	**–2,862**	–1,779
Unused tax losses carried forward recognised as a deferred tax asset	**6,473**	8,294
Average tax rate	**28.6%**	30.2%
Deferred tax asset	**1,851**	2,508

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	**14**	54	**67**	79
More than 1 year but less than 5 years	**406**	510	**461**	381
More than 5 years but less than 10 years	**243**	177	**3,768**	3,199
More than 10 years but less than 20 years	**2,093**	962	**1,285**	3,960
Unlimited	**106**	76	**892**	675
	2,862	1,779	**6,473**	8,294

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

The deferred tax asset includes balances for which the utilisation is dependent on future taxable profits whilst the related entities have incurred losses in either the current year or the preceding year. The aggregate amount for the most significant entities where this applies is EUR 1,009 million (2009: EUR 1,754 million).

This can be specified by jurisdiction as follows:

Breakdown by jurisdiction						
	Banking operations		Insurance operations		Total	
	2010	2009	**2010**	2009	**2010**	2009
The Netherlands	**230**	119	**171**	233	**401**	352
United States	**347**	932		456	**347**	1,388
Great Britain	**87**				**87**	
Belgium	**75**		**15**		**90**	
Australia	**40**				**40**	
Spain	**19**	14			**19**	14
Germany	**19**				**19**	
Thailand			**6**		**6**	
	817	1,065	**192**	689	**1,009**	1,754

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 48 '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 Group 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 Group continued

Changes in reorganisation provision		
	2010	2009
Opening balance	**644**	583
Changes in the composition of the group	**38**	
Additions	**285**	686
Interest	**5**	11
Releases	**–77**	–89
Charges	**–461**	–604
Exchange rate differences	**6**	–2
Other changes	**–6**	59
Closing balance	**434**	644

As at 31 December 2010, the provision for reorganisation, of which EUR 317 million relates to termination benefits, mainly related to the merger of the Dutch Retail Banking activities as well as other restructuring activities.

As at 31 December 2009, the provision for reorganisation, of which EUR 433 million relates to termination benefits, mainly related to the reorganisation of Postbank, Postkantoren, Nationale Nederlanden, RVS and Insurance US.

Changes in other provisions	Litigation		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009
Opening balance	**307**	371	**440**	598	**747**	969
Changes in the composition of the group	**–26**	7	**–1**	–35	**–27**	–28
Additions	**25**	24	**52**	247	**77**	271
Releases	**–1**	–3	**–15**	–11	**–16**	–14
Charges	**–13**	–109	**–59**	–347	**–72**	–456
Exchange rate differences	**3**	1	**3**	6	**6**	7
Other changes	**9**	16	**–191**	–18	**–182**	–2
Closing balance	**304**	307	**229**	440	**533**	747

As at 31 December 2009 Other provisions includes the provision for the industry-wide deposit guarantee scheme in the Netherlands due to the bankruptcy of DSB Bank. In 2010 Dutch banks provided financing for the further dissolution of DSB. ING's share is recognised, net of the 2009 provision, under amounts due from banks at its fair value at issue. 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 17.

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					
	2010	2009	2008	2007	2006
Defined benefit obligation	**16,183**	14,209	14,271	14,499	15,758
Fair value of plan assets	**17,364**	15,310	13,366	14,708	14,361
	–1,181	–1,101	905	–209	1,397
Unrecognised past service costs	**–3**	–3	–5	–3	
Unrecognised actuarial gains/(losses)	**–1,731**	–1,450	–2,072	198	–687
	–2,915	–2,554	–1,172	–14	710
Presented as:					
– Other liabilities	**543**	589	609	425	961
– Other assets	**–3,458**	–3,143	–1,781	–439	–251
	–2,915	–2,554	–1,172	–14	710

Notes to the consolidated annual accounts of ING Group continued

Summary of post-employment benefits					
	2010	2009	2008	2007	2006
Defined benefit obligation	**168**	156	210	220	239
Fair value of plan assets					
	168	156	210	220	239
Unrecognised past service costs	**3**	8	2	4	10
Unrecognised actuarial gains/(losses)	**1**	11	7	8	–2
	172	175	219	232	247

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

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

The Group provides other post-employment employee benefits to certain employees and former employees. These are primarily post-employment healthcare benefits and discounts on ING products provided to employees and former employees.

Certain group companies sponsor defined contribution pension plans. The assets of all ING Group'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 67 million (2009: EUR 81 million).

Actuarial gains and losses related to pensions and post-employment benefits for the year ended 31 December 2010 include EUR 1,085 million (2009: EUR 387 million; 2008: EUR –2,647 million; 2007: EUR –789 million; 2006: EUR –180 million) experience gain adjustments for assets and EUR 154 million (2009: EUR 172 million; 2008: EUR –70 million; 2007: EUR 83 million; 2006: EUR –163 million) experience gain adjustments for liabilities.

Changes in defined benefit obligation				
	Pension benefits		Post-employment benefits other than pensions	
	2010	2009	**2010**	2009
Opening balance	**14,209**	14,271	**156**	210
Current service cost	**298**	320	**5**	–8
Interest cost	**795**	778	**8**	10
Participants contributions	**3**	3		
Benefits paid	**–634**	–640	**–6**	–6
Actuarial gains and losses	**1,396**	–100	**2**	–10
Past service cost		18		–27
Changes in the composition of the group and other changes	**–20**	–372	**–1**	–10
Effect of curtailment or settlement	**–7**	–96		
Exchange rate differences	**143**	27	**4**	–3
Closing balance	**16,183**	14,209	**168**	156
Relating to:				
– funded plans	**16,051**	14,104		
– unfunded plans	**132**	105	**168**	156
	16,183	14,209	**168**	156

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

The estimated unrecognised past services cost and unrecognised actuarial gains and losses for the defined benefit plans to be amortised to pension and other staff related liability costs during 2011 are nil and EUR 24 million, respectively.

Notes to the consolidated annual accounts of ING Group continued

Changes in fair value of plan assets

	Pension benefits	
	2010	2009
Opening balance	**15,310**	13,366
Expected return on plan assets	**886**	842
Employer's contribution	**631**	1,632
Participants contributions	**2**	3
Benefits paid	**–625**	–600
Actuarial gains and losses	**1,085**	387
Changes in the composition of the group and other changes	**–19**	–374
Exchange rate differences	**94**	54
Closing balance	**17,364**	15,310

The actual return on the plan assets amounted to EUR 1,971 million (2009: EUR 1,229 million).

No plan assets are expected to be returned to ING Group 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**	**35**	40	**7.5**	7.8
Debt securities	**51**	**52**	48	**4.3**	4.8
Other	**15**	**13**	12	**6.0**	6.3
	100	**100**	100	**5.7**	6.0

Equity securities include ING Group ordinary shares of EUR 2 million (0.02% of total plan assets) as at 31 December 2010 (2009: EUR 3 million, 0.02% of total plan assets). Debt securities include investments in ING Group of EUR 57 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 Group as at 31 December 2010 which is included in Other includes EUR 5 million (0.04% of total plan assets) (2009: nil, 0.0% of total plan assets).

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

Notes to the consolidated annual accounts of ING Group 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 EUR 5 million as at 31 December 2010 (2009: EUR 4 million) and EUR 1 million increase in the charge for the year (2009: EUR 2 million). A decrease of 1% in the medical cost trend rate for each future year would have resulted in lower defined benefit obligation of EUR 5 million as at 31 December 2010 (2009: EUR 3 million) and EUR 2 million decrease in the charge for the year (2009: EUR 1 million).

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 567 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**
2011	**631**	**15**
2012	**597**	**15**
2013	**576**	**14**
2014	**573**	**14**
2015	**534**	**14**
Years 2016 – 2020	**3,315**	**46**

Notes to the consolidated annual accounts of ING Group continued

22 ASSETS BY CONTRACTUAL MATURITY

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

Assets by contractual maturity

2010	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	13,072						13,072
Amounts due from banks	30,770	4,608	4,706	9,447	2,297		51,828
Financial assets at fair value through profit and loss							
– trading assets	42,785	8,875	11,569	34,468	27,423	555	125,675
– investments for risk of policyholders (1)						120,481	120,481
– non-trading derivatives	474	184	864	4,637	5,563		11,722
– designated as at fair value through profit and loss	140	53	917	1,291	1,902	1,713	6,016
Investments							
– available-for-sale	4,551	3,842	14,273	72,824	103,375	23,682	222,547
– held-to-maturity	328	879	1,143	8,786	557		11,693
Loans and advances to customers	69,678	15,101	34,354	142,308	347,441	4,322	613,204
Reinsurance contracts	17	32	142	727	2,729	2,142	5,789
Intangible assets	6	12	295	698	195	4,166	5,372
Deferred acquisition costs	20	24	109	820	3,149	6,482	10,604
Assets held for sale			681				681
Other assets	13,043	3,137	7,890	6,052	5,518	829	36,469
Remaining assets (where maturities are not applicable) (2)						11,957	11,957
Total assets	174,884	36,747	76,943	282,058	500,149	176,329	1,247,110

(1) Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of ING.
(2) Included in remaining assets where maturities are not applicable are property and equipment, real estate investments and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Assets by contractual maturity

2009	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	15,390						15,390
Amounts due from banks	25,598	2,649	4,448	7,733	2,969		43,397
Financial assets at fair value through profit and loss							
– trading assets	39,844	8,316	12,400	28,014	22,443	427	111,444
– investments for risk of policyholders (1)						104,597	104,597
– non-trading derivatives	320	205	668	4,843	5,596		11,632
– designated as at fair value through profit and loss	412	169	626	1,244	1,577	1,489	5,517
Investments							
– available-for-sale	3,129	6,716	15,449	67,065	83,655	21,689	197,703
– held-to-maturity	172	475	1,840	10,336	1,586		14,409
Loans and advances to customers	61,973	14,357	32,322	141,482	324,625	4,187	578,946
Reinsurance contracts	13	27	122	626	2,591	2,101	5,480
Intangible assets	3	7	254	705	317	4,735	6,021
Deferred acquisition costs	28	20	128	451	2,752	8,019	11,398
Assets held for sale	4,524	218	282				5,024
Other assets	15,564	3,621	7,451	6,385	5,594	614	39,229
Remaining assets (where maturities are not applicable) (2)						13,456	13,456
Total assets	166,970	36,780	75,990	268,884	453,705	161,314	1,163,643

(1) Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of ING.
(2) Included in remaining assets where maturities are not applicable are property and equipment, real estate investments 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 Group continued

23 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 is 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	Adjustment [1]	Total
Subordinated loans						10,918	–273	10,645
Debt securities in issue	20,578	37,140	21,289	40,016	16,079		502	135,604
Other borrowed funds	3,969	2,055	1,289	3,600	9,785	1,121	472	22,291
Amounts due to banks	44,480	15,781	6,082	2,154	4,371		–16	72,852
Customer deposits and other funds on deposit	451,425	25,142	20,690	12,376	1,729			511,362
Financial liabilities at fair value through profit and loss								
– other trading liabilities	46,084	5,329	1,182	9,377	3,779		534	66,285
– trading derivatives	3,096	3,255	9,615	27,747	18,930		–20,878	41,765
– non-trading derivatives	718	229	4,912	18,745	7,040	1,047	–14,909	17,782
– designated as at fair value through profit and loss	260	472	1,014	6,094	4,996		–129	12,707
Financial liabilities	570,610	89,403	66,073	120,109	66,709	13,086	–34,697	891,293
Insurance and investment contracts	1,822	2,108	9,117	37,045	97,918	122,572		270,582
Liabilities held for sale			424					424
Other liabilities	11,787	2,513	9,855	7,516	4,458	1,398		37,527
Non-financial liabilities	13,609	4,621	19,396	44,561	102,376	123,970		308,533
Total liabilities	584,219	94,024	85,469	164,670	169,085	137,056	–34,697	1,199,826
Coupon interest due on financial liabilities	2,813	1,599	3,891	12,277	51,920			72,500

[1] This column reconciles the contractual undiscounted cash flows on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented on a 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	Adjustment [1]	Total
Subordinated loans						10,099		10,099
Debt securities in issue	18,851	36,436	19,717	34,563	11,143		–729	119,981
Other borrowed funds	2,692	528	2,923	4,109	12,332	1,040	–473	23,151
Amounts due to banks	45,326	15,044	10,131	9,768	3,966			84,235
Customer deposits and other funds on deposit	410,522	26,092	21,819	9,418	1,657			469,508
Financial liabilities at fair value through profit and loss								
– other trading liabilities	41,942	1,891	3,243	7,022	4,376		–460	58,014
– trading derivatives	2,725	3,419	11,235	27,908	12,258		–17,314	40,231
– non-trading derivatives	1,459	2,369	6,696	24,150	9,755	677	–25,036	20,070
– designated as at fair value through profit and loss	218	616	1,715	5,220	4,047		–342	11,474
Financial liabilities	523,735	86,395	77,479	122,158	59,534	11,816	–44,354	836,763
Insurance and investment contracts	1,618	1,830	7,300	33,723	90,322	106,065		240,858
Liabilities held for sale	4,630	77	183					4,890
Other liabilities	15,567	3,059	12,256	5,586	4,319	567		41,354
Non-financial liabilities	21,815	4,966	19,739	39,309	94,641	106,632		287,102
Total liabilities	545,550	91,361	97,218	161,467	154,175	118,448	–44,354	1,123,865
Coupon interest due on financial liabilities	4,163	1,578	5,654	15,371	55,681			82,447

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

Notes to the consolidated annual accounts of ING Group continued

24 DERIVATIVES AND HEDGE ACCOUNTING

Use of derivatives and hedge accounting

As described in the 'Risk management' section, ING Group 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 Group'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 'Principles of valuation and determination of results'.

To qualify for hedge accounting under IFRS-EU, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS-EU. The fair value changes of derivatives relating to such non qualifying hedges are taken to the profit and loss account. However, in certain cases, the Group 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 Group uses credit derivatives to manage its exposure to credit risk, including total return swaps and credit default swaps, to sell or buy protection for credit risk exposures in the loan, investment and trading portfolios. Hedge accounting is not applied in relation to credit derivatives.

Fair value hedge accounting

ING Group'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 Group recognised EUR –748 million (2009: EUR –1,130 million) of fair value changes on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was partly offset by EUR 752 million (2009: EUR 975 million) fair value changes recognised on hedged items. This resulted in EUR 4 million (2009: EUR –155 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2010, the fair values of outstanding derivatives designated under fair value hedge accounting was EUR –4,474 million (2009: EUR –6,139 million), presented in the balance sheet as EUR 4,127 million (2009: EUR 2,727 million) positive fair values under assets and EUR 8,601 million (2009: EUR 8,866 million) negative fair values under liabilities.

ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve-out' macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. ING Group applies the IFRS-EU 'carve-out' to its retail operations in which the net exposure of retail funding (savings and current accounts) and retail lending (mortgages) is hedged. The hedging activities are designated under a portfolio fair value hedge on the mortgages, using the IFRS-EU provisions.

Notes to the consolidated annual accounts of ING Group continued

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

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

For the year ended 31 December 2010, ING Group recognised EUR 475 million (2009: EUR –805 million) after tax in equity as effective fair value changes on derivatives under cash flow hedge accounting. As a consequence, the balance of the cash flow hedge reserve in equity as at 31 December 2010 was EUR 1,110 million (2009: EUR 442 million) gross and EUR 847 million (2009: EUR 372 million) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value changes of the underlying derivatives and will be reflected in the profit and loss account under Interest income/expense over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities, up to 46 years for insurance operations and 59 years for banking operations, with the largest concentrations in the range of 1 to 3 years for insurance operations and 1 to 12 years for banking operations. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in a loss of EUR 7 million (2009: EUR 10 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 –824 million (2008: EUR –947 million), presented in the balance sheet as EUR 4,440 million (2009: EUR 5,521 million) positive fair values under assets and EUR 5,264 million (2009: EUR 6,468 million) negative fair values under liabilities.

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

Included in Interest income and interest expense on non-trading derivatives is EUR 3,613 million (2009: EUR 2,159 million) and EUR 3,138 million (2009: EUR 1,964 million), respectively, relating to derivatives used in cash flow hedges.

Hedges of net investments in foreign operations
ING Group'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 –87 million (2009: EUR –278 million), presented in the balance sheet as EUR 81 million (2009: EUR 38 million) positive fair values under assets and EUR 168 million (2009: EUR 316 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 208 million (2009: EUR 555 million).

Accounting ineffectiveness recognised in the profit and loss account for the year ended 31 December 2010 on derivatives and non-derivatives designated under net investment hedge accounting was EUR 5 million (2009: EUR 1 million).

Notes to the consolidated annual accounts of ING Group continued

25 MAXIMUM CREDIT EXPOSURE

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

Maximum credit exposure	2010	2009
Cash and balances with central banks	**13,072**	15,390
Amounts due from banks		
– loans and advances to banks	**49,035**	39,696
– cash advances, overdrafts and other balances	**2,793**	3,701
Trading assets		
– debt securities	**27,979**	25,287
– loans and receivables	**49,445**	41,975
– derivatives	**42,390**	41,450
Non-trading derivatives	**11,722**	11,632
Designated as at fair value through profit and loss	**6,016**	5,517
Available-for-sale debt securities	**212,793**	188,850
Held-to-maturity debt securities	**11,693**	14,409
Loans and advances to customers		
– policy loans	**3,227**	2,903
– to, or guaranteed by, public authorities	**55,950**	51,079
– secured by mortgages	**346,851**	319,174
– guaranteed by credit institutions	**5,768**	6,696
– unsecured loans	**4,325**	4,193
– personal lending	**21,076**	19,270
– asset backed securities	**24,990**	27,954
– corporate loans	**149,868**	146,613
– other	**1,148**	1,062
Reinsurance contracts	**5,789**	5,480
Reinsurance and insurance receivables	**2,201**	2,125
Accrued interest and rents	**16,194**	18,306
Other accrued assets	**2,888**	2,497
Other receivables	**5,623**	5,838
Maximum credit exposure on balance sheet	**1,072,836**	1,001,097
Off-balance sheet credit commitments		
– discounted bills – Bank	**3**	1
– guarantees – Bank	**21,711**	21,545
– irrevocable letters of credit – Bank	**15,540**	12,352
– other – Bank	**428**	202
– irrevocable facilities	**90,027**	85,835
– commitments – Insurance	**1,990**	1,646
– guarantees – Insurance	**678**	955
Maximum credit exposure off balance sheet	**130,377**	122,536
Maximum credit exposure	**1,203,213**	1,123,633

The maximum credit exposure for items on the balance sheet that are exposed to credit risk is generally 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 Group manages credit risk and determines credit risk exposures for that purpose is explained in the 'Risk management' section.

Notes to the consolidated annual accounts of ING Group continued

26 ASSETS NOT FREELY DISPOSABLE

The assets not freely disposable consist primarily of interest bearing securities pledged to secure deposits from De Nederlandsche Bank (the Dutch central bank) and other banks and serve to secure margin accounts or are used for other purposes required by law. The assets not freely disposable are as follows:

Assets not freely disposable

	2010	2009
Investments	8,632	5,906
Loans and advances to customers	37,638	33,053
Banks	12,025	7,441
Other assets	8,731	6,350
	67,026	52,750

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

Loans and advances to customers, not freely disposable, includes the loan to the Dutch State in connection with the Illiquid Assets Back-Up Facility agreement as disclosed in Note 33 'Related parties' and loans that for liquidity purposes have been pledged as collateral in the United States of EUR 7 billion (2009: EUR 7 billion), Germany of EUR 5 billion (2009: EUR 5 billion) and Canada of EUR 5 billion (2009: nil).

The table does not include assets relating to repurchase and stock lending transactions. Reference is made to Note 3 'Financial assets at fair value through profit and loss' and Note 4 'Investments' for the relevant amounts.

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

27 CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business the Group 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, the Group offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Contingent liabilities and commitments

2010	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Banking operations							
Contingent liabilities in respect of							
– discounted bills	1	1	1				3
– guarantees	15,555	472	1,132	1,350	3,202		21,711
– irrevocable letters of credit	7,333	6,070	1,914	192	31		15,540
– other	333	22	64	9			428
	23,222	6,565	3,111	1,551	3,233		37,682
Insurance operations							
Commitments	1,514	117	63	186	7	103	1,990
Guarantees			109	7	556	6	678
	1,514	117	172	193	563	109	2,668
Irrevocable facilities	38,082	16,552	5,251	24,686	5,456		90,027
	62,818	23,234	8,534	26,430	9,252	109	130,377

Notes to the consolidated annual accounts of ING Group continued

Contingent liabilities and commitments

2009	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Banking operations							
Contingent liabilities in respect of							
– discounted bills		1					1
– guarantees	14,492	403	1,017	2,359	3,274		21,545
– irrevocable letters of credit	5,413	4,460	1,190	757	532		12,352
– other	112	36	42	12			202
	20,017	4,900	2,249	3,128	3,806		34,100
Insurance operations							
Commitments	1,218	8	83	292	2	43	1,646
Guarantees					955		955
	1,218	8	83	292	957	43	2,601
Irrevocable facilities	36,284	17,539	8,351	20,130	3,531		85,835
	57,519	22,447	10,683	23,550	8,294	43	122,536

Guarantees relate both to credit and non-credit substitute guarantees. Credit substitute guarantees are guarantees given by ING Group 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 Group has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes which apply in different countries.

Irrevocable letters of credit mainly secure payments to third parties for a customer's foreign and domestic trade transactions in order to finance a shipment of goods. ING Group's credit risk in these transactions is limited since these transactions are collateralised by the commodity shipped and are of a short duration.

Other contingent liabilities include acceptances of bills and are of a short-term nature. Other contingent liabilities also include contingent liabilities resulting from the normal operations of the Real Estate business including obligations under development and construction contracts. None of the items included in Other contingent liabilities are individually significant.

Irrevocable facilities mainly constitute unused portions of irrevocable credit facilities granted to corporate clients. Many of these facilities are for a fixed duration and bear interest at a floating rate. ING Group's credit risk and interest rate risk in these transactions is limited. The unused portion of irrevocable credit facilities is secured by customers' assets or counter-guarantees by the central governments and exempted bodies under the regulatory requirements. Irrevocable facilities also include commitments made to purchase securities to be issued by governments and private issuers.

Future rental commitments for operating lease contracts

2011	**199**
2012	**186**
2013	**159**
2014	**135**
2015	**129**
Years after 2015	**280**

28 SPECIAL PURPOSE ENTITIES AND SECURITISATION

Securitisation

ING Group as originator

ING Group enters into synthetic securitisation programmes in order to reduce credit risk on certain assets. In synthetic securitisations, ING Group enters into a credit default swap with securitisation Special Purpose Entities (SPEs), in relation to which ING Group purchases credit protection in respect of residential mortgage loans and loans to small and medium-sized enterprises. The SPEs have in turn hedged their exposure with investors through the issue of credit linked notes or credit linked commercial paper. As a result of these transactions, ING Group has transferred a substantial part of the credit risk related to these loan portfolios to third-party investors. In general, the third-party investors in securities issued by the SPE have recourse only to the assets of the SPE and not to ING Group.

After securitisation of these assets ING Group continues to recognise them on its balance sheet under Loans and advances to customers. These transactions are therefore not off-balance sheet arrangements.

Notes to the consolidated annual accounts of ING Group continued

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

ING Group as sponsor of multi-seller conduit
In the normal course of business, ING Group structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to an SPE. The SPE issues asset-backed commercial paper to the market to fund the purchases. ING Group, in its role as administrative agent, facilitates these transactions by providing structuring, accounting, funding and operations services.

ING Group supports the commercial paper programmes by providing the SPE with short-term standby liquidity facilities. These liquidity facilities are intended primarily to cover temporarily disruptions in the commercial paper market. Once drawn these facilities bear normal credit risk. A number of programmes are supported by granting structured liquidity facilities to the SPE, in which ING Group covers at least some of the credit risk incorporated in these programmes itself (in addition to normal liquidity facilities), and might suffer credit losses as a consequence. Furthermore, under a Programme Wide Credit Enhancement ING Group guarantees to a limited amount all remaining losses incorporated in the SPE to the commercial paper investors. All facilities, which vary in risk profile, are granted to the SPE subject to normal ING Group credit and liquidity risk analysis procedures. The fees received for services provided and for facilities are charged subject to market conditions. The SPE is included in the consolidation of ING Group. These transactions are therefore not off-balance sheet arrangements.

The normal non-structured standby liquidity facilities and the structured facilities are reported under irrevocable facilities.

Collateralised debt obligations (CDO)-transactions
Within ING Group, SPEs are used for CDO transactions. In a typical CDO transaction an SPE is used to issue structured, rated securities which are backed (or collateralised) by a pool of transferable debt securities. Besides investing in CDOs ING Group often has different roles in these transactions:

- the arranger of the transaction; ING Group structures the SPE, acquires the assets for the SPE and sells the CDOs to investors;
- collateral manager of the assets in the SPE; ING Group manages the assets based on strict conditions of the SPEs charter.

ING Group receives market-rate fees for structuring, asset managing and distributing CDO-securities to investors. The total amount of these fees is not significant.

ING Group as investor
As part of its investment activities, ING Group invests in securitisations by purchasing notes or by selling credit protection in the market using credit default swaps from securitisation SPEs. For certain own asset securitisation programmes ING Group acts as a market maker and holds limited positions in this capacity.

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

Investment funds
ING Group as fund manager and investor
ING Group sets up investment funds for which it acts as a fund manager and sole investor at the inception of the fund. Subsequently, ING Group will seek third-party investors to invest in the fund, thereby reducing the interest of ING Group. In general, ING Group will maintain a small percentage of interest in these funds. These funds are included in the consolidated financial statements of the Group if and when control exists, taking into account both ING Group's financial interests for own risk and its role as investment manager.

ING Group as fund manager
ING Group acts as fund manager for several funds. Fees related to these management activities are charged on an at arm's-length basis. In general, as a fund manager ING Group will hold these funds in a fiduciary capacity. These funds are therefore generally not included in the consolidated financial statements of ING Group.

Notes to the consolidated annual accounts of ING Group continued

29 PRINCIPAL SUBSIDIARIES

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

Companies treated as part of the banking operations	
ING Bank N.V.	The Netherlands
Bank Mendes Gans N.V.	The Netherlands
ING Lease Holding B.V.	The Netherlands
ING Corporate Investments B.V.	The Netherlands
ING Vastgoed Management Holding B.V.	The Netherlands
ING Commercial Finance B.V.	The Netherlands
Westland Utrecht Bank N.V.	The Netherlands
ING België N.V.	Belgium
ING Bank Slaski S.A.	Poland
ING Bank Deutschland A.G.	Germany
ING Financial Holdings Corporation	United States of America
ING Middenbank Curaçao N.V.	Netherlands Antilles
ING Vysya Bank Ltd.	India
ING Direct N.V.	Canada, Germany, Spain, Australia, France, United States of America, Italy, United Kingdom
ING Bank A.S.	Turkey

Companies treated as part of the insurance operations	
ING Verzekeringen N.V.	The Netherlands
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 Powszechne Towarzystwo Emerytaine S.A.	Poland
ING Asigurari de Viata S.A.	Romania
ING Greek Life Insurance Company S.A.	Greece
ING Nationale-Nederlanden Magyarorszagi Biztosito Rt.	Hungary
Nationale-Nederlanden Vida, Compañia de Seguros y Reaseguros S.A.	Spain
Nationale-Nederlanden Generales, Compañia de Seguros y Reaseguros S.A.	Spain
ING America Insurance Holdings, Inc.	United States of America
ING International Insurance Holdings, Inc.	United States of America
ING Life Insurance and Annuity Company	United States of America
ING North America Insurance Corporation	United States of America
Lion Connecticut Holdings Inc.	United States of America
ReliaStar Life Insurance Company	United States of America
ReliaStar Life Insurance Company of New York	United States of America
Security Life of Denver Insurance Company	United States of America
ING USA Annuity and Life Insurance Company	United States of America
ING Investment Management Co	United States of America
Security Life of Denver International Limited	Cayman Islands
ING 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

Notes to the consolidated annual accounts of ING Group continued

30 COMPANIES ACQUIRED AND COMPANIES DISPOSED

Acquisitions effective in 2010

There were no significant acquisitions in 2010.

Most significant companies disposed in 2010

	Asia Private Banking business [3]	Swiss Private Banking business [3]	ING Summit Industrial Fund LP	Total
General				
Primary line of business	Bank	Bank	Bank	
Sales proceeds				
Cash proceeds [1]	985	345	333	1,663
Sales proceeds	985	345	333	1,663
Assets				
Cash assets	4	179		183
Investments	41	236		277
Loans and advances to customers	2,390	816	6	3,212
Amounts due from banks	1,171	1,177	39	2,387
Financial assets at fair value through profit and loss	397	8		405
Real estate investments			1,620	1,620
Miscellaneous other assets	20	46	57	123
Liabilities				
Amounts due to banks	180	755	952	1,887
Customer deposits and other funds on deposit	3,098	1,382		4,480
Miscellaneous other liabilities	92	53	52	197
Net assets	653	272	718	1,643
% disposed	100%	100%	50% [4]	
Net assets disposed	653	272	359	1,248
Gain/loss on disposal [2]	332	73	–26	379

[1] Cash outflow/inflow on group companies in the cash flow statement includes cash outflows/inflows on individually immaterial disposals in addition to the cash 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 unrealised reserves.
[3] As per 31 December 2009 recognised as a disposal group held for sale.
[4] After disposal of the 50% stake ING has no remaining stake in Summit.

Disposals effective in 2010

In October 2009 ING reached an agreement to sell its Asian Private Banking business for a consideration of USD 1,463 million (EUR 985 million). The Asia franchise offers private banking services in 11 markets, including Hong Kong, the Philippines and Singapore. The transaction generated a net profit for ING of EUR 332 million. The sale was completed in the first half of 2010. The Asian Private Banking business was previously included in the segment Retail Asia.

In October 2009 ING reached an agreement to sell its Swiss Private Banking business to Julius Baer for a consideration of EUR 345 million (CHF 520 million) in cash. The transaction generated a net profit for ING of EUR 73 million. The sale was completed in January 2010. The Swiss Private Banking business was previously included in the segment Retail CE.

In August 2010 ING announced that it has agreed to sell its 50% stake in ING Summit Industrial Fund LP ('Summit'), a Canadian light industrial property portfolio to a joint venture between KingSett Capital and Alberta Investment Management Corporation (AIMCo). The sale was completed in November 2010. The transaction value for 100% of Summit is CAD 2.0 billion (EUR 1.4 billion) and includes assumed debt. In addition to its direct investment in Summit, ING has an indirect participation through its 7.8% unit holding of ING Industrial Fund (IIF), an ING-managed listed property fund in Australia which owns the remaining 50% in Summit. As part of the transaction, IIF has agreed to simultaneously sell its stake in Summit to KingSett/AIMCo. Consequently, ING's indirect participation in Summit will end as well. Separately, ING sold ING Real Estate Canada, the manager of Summit, to KingSett/AIMCo for an undisclosed amount. The transaction had no material impact on ING Group's 2010 results and capital ratios. The transaction resulted in a net loss of EUR 26 million in 2010. Summit was previously included in the segment ING Real Estate.

Notes to the consolidated annual accounts of ING Group continued

Furthermore 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.

Acquisitions and disposals announced and occurring or expected to occur in 2011
ING announced in February 2011 that it has reached agreement with CB Richard Ellis Group, Inc., to sell ING REIM Europe, ING REIM Asia and Clarion Real Estate Securities (CRES), ING REIM's US-based manager of listed real estate securities, as well as part of ING's equity interests in funds managed by these businesses. The proceeds for these REIM businesses and the equity interests amount to approximately USD 1.0 billion. ING REIM Europe, ING REIM Asia and CRES combined have EUR 44.7 billion in assets under management as of 31 December 2010. In a separate transaction, ING has agreed to sell the private market real estate investment manager of its US operations, Clarion Partners, to Clarion Partners management in partnership with Lightyear Capital LLC for USD 100 million. Clarion Partners has EUR 16.5 billion in assets under management as of 31 December 2010. The Real Estate Investment Management business in Australia (ING REIMA), with EUR 4.8 billion in assets under management as of 31 December 2010, is not included in these transactions. Within the context of the previously announced evaluation, ING finalised the review of the strategic options and implementation has commenced. As a result ING will undertake a phased withdrawal from its Australian real estate investment management activities in a timely and controlled manner. In the transaction with CB Richard Ellis, ING Insurance has agreed to continue its asset management mandate with CB Richard Ellis as the new manager of the funds. ING Bank will continue to have an equity interest in some REIM funds in Europe, Asia, the US and Australia. The equity stakes held by the Bank will be monetised over time as it continues to steadily reduce its exposure to real estate. Combined, the transactions are expected to result in an after-tax gain on disposal of approximately EUR 500 million at current exchange rates. The final terms are subject to potential adjustments at closing, customary for this kind of transaction. ING Real Estate Development and ING Real Estate Finance are not impacted by the transactions and will continue to be part of ING Bank. Both transactions are expected to close in the second half of 2011 and are subject to approvals by certain stakeholders including various regulators.

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 is subject to regulatory approval.

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

2009
Goodwill recognised in 2009 amounted to EUR 39 million as disclosed in Note 9 'Intangible assets'. This includes EUR 26 million in relation to the consolidation of 3W Holding B.V as disclosed below. There were no significant acquisitions in 2009.

In August 2009 ING obtained control of its 50% owned joint venture 3W Holding B.V., a real estate development company. ING obtained a majority representation in the Supervisory Board of 3W Holding B.V. and entered into an option agreement that allows ING to acquire the remaining 50%. As a result of obtaining control, 3W Holding B.V. is fully included in the consolidation as of September 2009. Net assets upon consolidation amounted to EUR –21 million. The estimated consideration payable for obtaining the remaining 50% under the option agreement is approximately EUR 5 million. Therefore, goodwill of EUR 26 million is recognised. This goodwill is mainly attributable to operational synergies arising from obtaining control of the professional network of 3W and the future business potential in the southern Netherlands where 3W is active.

Notes to the consolidated annual accounts of ING Group continued

	3W Holding B.V.
General	
Primary line of business	Bank
Date of full consolidation	1 September 2009
Purchase consideration payable	5
Assets	
Miscellaneous other assets	51
Liabilities	
Customer deposits and other funds on deposit	21
Miscellaneous other liabilities	51
Net assets	–21
Goodwill recognised	26
Profit since date of full consolidation	–16
Income if fully consolidated as of start of year	–5
Profit if fully consolidated as of start of year	–19

Most significant companies disposed in 2009

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

[1] Cash outflow/inflow on group companies in the cash flow statement includes cash outflows/inflows on individually immaterial disposals in addition to the cash flows presented.
[2] The gain/loss on disposal comprises the sales proceed, the net assets disposed, the expenses directly related to the disposal and the realisation of 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.

Notes to the consolidated annual accounts of ING Group continued

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 agreement 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 US.

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

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

Notes to the consolidated annual accounts of ING Group continued

Most significant companies acquired in 2008

	Interhyp AG	Universal Lease Iberia	Chile Pension business of Santander	CitiStreet	Oyak Emeklilik	Total
General						
Primary line of business	Bank	Bank	Insurance	Insurance	Insurance	
Date of acquisition	1 August 2008	1 October 2008	16 January 2008	1 July 2008	1 December 2008	
Percentage of voting shares acquired	99%	100%	100%	100%	100%	
Purchase price						
Purchase price	418		397	578	110	1,503
Costs directly attributable to the acquisition			4	5		9
Cash purchase price	418		401	583	110	1,512
Cash in company acquired				45	35	80
Cash outflow on acquisition [(2)]	418		401	538	75	1,432
Assets						
Cash assets				45	35	80
Investments			8			8
Loans and advances to customers			6			6
Amounts due from banks	43					43
Financial assets at fair value through profit and loss			78			78
Intangible assets			31	73		104
Miscellaneous other assets	20	235	2	24	8	289
Liabilities						
Insurance and investment contracts			7			7
Customer deposits and other funds on deposit		224				224
Miscellaneous other liabilities	16	20	6	26	2	70
Net assets	47	–9	112	116	41	307
Minority interests						
Net assets acquired	47	–9	112	116	41	307
Goodwill recognised [(1)]	371	9	285	462	69	1,196
Profit since date of acquisition	–7		3	–7		–11
Income if acquisition effected at start of year	61	42	17	275	12	407
Profit if acquisition effected at start of year	–20	–1	1	8		–12

(1) Goodwill recognised in 2008 on immaterial acquisitions and real estate portfolios was EUR 133 million, resulting in total Goodwill recognised in 2008 of EUR 1,329 million as disclosed in Note 9 'Intangible assets'.
(2) 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.

Acquisitions effective in 2008
In December 2008, ING 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.

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

In July 2008, ING 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.

In January 2008, ING 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.

Notes to the consolidated annual accounts of ING Group continued

Most significant companies disposed in 2008	NRG	Mexican non-life business	Total
General			
Primary line of business	Insurance	Insurance	
Sales proceeds			
Sales proceeds	272	950	1,222
Cash proceeds	272	950	1,222
Cash in company disposed	12	26	38
Cash inflow on disposal [(1)]	260	924	1,184
Assets			
Cash assets	12	26	38
Investments	461	1,146	1,607
Loans and advances to customers	137	65	202
Financial assets at fair value through profit and loss		41	41
Miscellaneous other assets	26	1,261	1,287
Liabilities			
Insurance and investment contracts	210	1,497	1,707
Miscellaneous other liabilities	10	274	284
Net assets	416	768	1,184
% disposed	100%	100%	
Net assets disposed	416	768	1,184
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 unrealised reserves.

Disposals effective in 2008

In December 2007, ING 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 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 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.

ING 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 had 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 Group continued

31 LEGAL PROCEEDINGS

ING Group companies are involved in litigation and arbitration proceedings in the Netherlands and in a number of foreign jurisdictions, including the United States, involving claims by and against them which arise in the ordinary course of their businesses, including in connection with their activities as insurers, lenders, employers, investors and taxpayers. In certain of such proceedings, very large or indeterminate amounts are sought, including punitive and other damages. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, the Company's management is of the opinion that neither it nor any of its subsidiaries is aware of any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have in the recent past had a significant effect on the financial position or profitability of the Company.

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

Proceedings in which ING is involved, include complaints and lawsuits concerning the performance of certain interest sensitive products that were sold by a former subsidiary of ING in Mexico. Proceedings also include lawsuits that have been filed by former employees of an Argentinean subsidiary, whose employment was terminated as a result the Republic of Argentina's nationalisation 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. Further, purported class litigation has been filed in the United States District Court for the Southern District of New York alleging violations of the federal securities laws with respect to disclosures made in connection with the 2007 and 2008 offerings of ING's Perpetual Hybrid Capital Securities. The Court has determined that the claims relating to the 2007 offerings were without merit and has dismissed them. The challenged disclosures that survived the Court's ruling relate solely to the June 2008 offering, and primarily to ING Group's investments in certain residential mortgage-backed securities. Additional 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 2011 the Association of Stockholders (Vereniging van Effectenbezitters, 'VEB') has issued a writ alleging that investors were misled by the prospectus that was issued with respect to the September 2007 rights issue of Fortis N.V. (now: Ageas N.V.) against Ageas N.V., the underwriters of such rights issue, including ING Bank, and former directors of Fortis N.V. According to the VEB the prospectus shows substantive incorrect and misleading information. The VEB states that the impact and the risks of the subprime crisis for Fortis and Fortis' liquidity position have been reflected incorrectly in the prospectus. The VEB requests a declaratory decision stating that the summoned parties have acted wrongfully and are therefore responsible for the damages suffered by the investors in Fortis. The amount of damages of EUR 18 billion has not been substantiated yet. ING will defend itself against this claim; at this time ING is not able to assess the future outcome.

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

Notes to the consolidated annual accounts of ING Group continued

32 JOINT VENTURES

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

Most significant joint ventures

2010	Interest held (%)	Assets	Liabilities	Income	Expenses
Postkantoren B.V.	50	91	100	30	28
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		2,155	1,973	680	674

[1] Accounted for as joint venture because of joint control.
[2] Previously ING Capital Life Insurance Company Ltd.

Most significant joint ventures

2009	Interest held (%)	Assets	Liabilities	Income	Expenses
Postkantoren B.V.	50	147	152	143	141
KB Life Insurance Company [1]	49	748	702	281	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		1,473	1,397	593	599

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

33 RELATED PARTIES

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

Transactions with joint ventures and associates

	Joint ventures		Associates	
	2010	2009	2010	2009
Receivables	114	432	1,283	648
Liabilities	41	187	38	6
Income received	6	103	127	115
Expenses paid		136	11	

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

	ING Bank N.V.		ING Verzekeringen N.V.	
	2010	2009	2010	2009
Receivables	9,411	9,154	2,095	3,412
Liabilities	736	793		7
Income received	825	725	184	299
Expenses paid	194	237		

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

Transactions with key management personnel (Executive Board and Supervisory Board) and post-employment benefit plans are transactions with related parties. These transactions are disclosed in more detail in the remuneration report in the annual report. For the post-employment benefit plans see Note 21 'Other liabilities'.

In 2009 as a result of the change in strategy of ING Groep N.V. the Executive Board of ING Groep N.V. was reduced from eight to three members. The effective date of this change was 1 June 2009. At the same time the Executive Board of ING Bank N.V. and ING Verzekeringen N.V. were transformed into Management Boards for ING Bank N.V. and ING Verzekeringen N.V. The former Executive Board members of ING Groep N.V. became Management Board members of ING Bank N.V or ING Verzekeringen N.V. Furthermore, the three members of the Executive Board of ING Groep N.V. are also member of both Management Boards. The Management Board members of ING Bank and ING Insurance are also considered to be key management of ING Group.

Notes to the consolidated annual accounts of ING Group continued

Key management personnel compensation (Executive Board and Management Boards)

2010 amounts in thousands of euros	Executive Board of ING Groep N.V.	Management Boards of ING Bank N.V. and ING Verzekeringen N.V. [1]	Total
Base salary and cash bonus	**4,121**	**5,910**	**10,031**
Pension costs	**292**	**1,263**	**1,555**
Termination benefit		**980**	**980**
Fair market value of bonus in shares	**1,268**	**1,376**	**2,644**
Total compensation	**5,681**	**9,529**	**15,210**

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

Key management personnel compensation (Executive Board and Management Boards)

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

[1] Comprising eight members from 1 January 2009 to 31 May 2009 and 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.

Key management personnel compensation (Supervisory Board)

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

Loans and advances to key management personnel

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

The total number of stock options on ING Groep N.V. shares held by the Executive Board members of ING Group N.V. amounted to 164,689 as at 31 December 2010 (2009: 164,689) and total number of stock options on ING Groep N.V. shares held by Management Board members of ING Bank N.V. and ING Verzekeringen N.V. amounted to 2,676,675 as at 31 December 2010 (2009: 2,718,765). As at 31 December 2010, members of the Executive Board held 118,723 ING Groep N.V. shares (2009: 60,883) and members of the Management Boards of ING Bank N.V. and ING Verzekeringen N.V. held 284,995 ING Groep N.V. shares (2009: 266,239). As at 31 December 2010, members of the Supervisory Board held 167,407 ING Groep N.V. shares (2009: 137,407).

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 Group 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 both ING Direct US and ING Insurance US, with a par value of approximately EUR 30 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 22.4 billion at the transaction date. The amortised cost (after prior impairments) at the transaction date was also approximately EUR 22.4 billion. The transaction resulted in a loss in the first quarter of 2009 of EUR 109 million after tax (the difference between the sales proceeds and the amortised cost). The fair value under IFRS-EU at the date of the transaction was EUR 15.2 billion.

In order to obtain approval from the European Commission on ING Group's Restructuring Plan (see below), ING agreed to make additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission to the Dutch State corresponding to an adjustment of the fees for the Illiquid Assets Back-up Facility. In total, these additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission amounted to a net present value of EUR 1.3 billion pre-tax, which was recognised as a one-off charge 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 of EUR 21.1 billion (EUR 22.4 billion -/- adjustment of EUR 1.3 billion) and the fair value under IFRS-EU of EUR 15.2 billion 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 4.6 billion (after tax).

The valuation method of the 20% Alt-A securities in the IFRS-EU balance sheet is not impacted by the IABF. The methodology used to determine the fair value for these assets in the balance sheet under IFRS-EU is disclosed in Note 34 '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 13.1 billion. The net amount of other unamortised components of the total sales proceeds, as explained above, amounts to EUR 0.7 billion payable.

Non-voting equity securities (Core Tier 1 securities)

On 12 November 2008, ING Groep N.V. issued one billion non-voting equity securities to the Dutch State at EUR 10 per non-voting equity security, resulting in an increase of ING Group's core Tier 1 capital of EUR 10 billion. The nominal value of each security is EUR 0.24. The non-voting equity securities do not form part of ING Group's share capital; accordingly they do not carry voting rights in the General Meeting of Shareholders.

These non-voting equity securities are deeply subordinated and rank pari-passu with ordinary shares in a winding up of ING Group.

On these non-voting equity securities a coupon is payable of the higher of:

- EUR 0.85 per security, payable annually in arrears, with a first coupon of EUR 0.425 per security paid on 12 May 2009; and
- 110% of the dividend paid on each ordinary share over 2009 (payable in 2010);
- 120% of the dividend paid on each ordinary share over 2010 (payable in 2011);
- 125% of the dividend paid on each ordinary share over 2011 onwards (payable in 2012 onwards).

Since ING Groep N.V. had already paid an interim dividend of EUR 0.74 in August 2008, ING recognised a coupon payable of EUR 425 million to the Dutch State as of 31 December 2008. This coupon was paid on 12 May 2009.

Further coupons are to be paid on 12 May of each year (the coupon date) in cash if dividend on ordinary shares is paid in cash or to be paid in scrip securities in the event of a scrip dividend on ordinary shares. Coupons are only due and payable, on a non-cumulative basis and if a dividend is paid on ordinary shares over the financial year preceding the coupon date, either on an interim or a final dividend basis, provided that ING Groep N.V.'s capital adequacy position is and remains satisfactory both before and immediately after payment in the opinion of the Dutch Central Bank.

Notes to the consolidated annual accounts of ING Group continued

ING Groep N.V. has the right to repurchase all or some of the non-voting equity securities at EUR 15 per security at any time, together with the pro-rata coupon accrued to such date. ING Groep N.V. and the Dutch State have agreed in October 2009 that up to EUR 5 billion of the EUR 10 billion non-voting equity securities could be repurchased at any time until 31 January 2010 at the original issue price of EUR 10 per non-voting equity security, plus a repurchase premium and accrued interest.

ING Groep N.V. also has the right to convert all or some of the non-voting equity securities into ordinary shares on the basis of one core Tier 1 security for 1.335 ordinary shares or bearer depositary receipts from three years after the issue date onwards, subject to certain conditions. The Dutch State in that case has the right to demand a redemption payment of EUR 10 per non-voting equity security, together with the pro-rata coupon, if due, accrued to such date.

Both repurchase and conversion of the securities must be approved by the Dutch Central Bank.

Repayment non-voting equity shares
In December 2009, ING repurchased the first half of the non-voting equity securities (core Tier 1 securities) of EUR 5 billion plus a total premium of EUR 605 million. In March 2011, ING announced that, at the next coupon reset date on 13 May 2011, ING intends to exercise its option for early repurchase of EUR 2 billion of the remaining non-voting equity securities (core Tier 1 securities). The total payment in May 2011 will amount to EUR 3 billion and includes a 50% repurchase premium. ING will fund this repurchase from retained earnings. Provided that the strong capital generation continues, ING intends to repurchase the remaining EUR 3 billion non-voting equity securities (core Tier 1 securities) ultimately by May 2012 from retained earnings. The final decision on repurchase of these non-voting equity securities (core Tier 1 securities) will be made before the envisaged repayment date and will be conditional upon there having been no material changes regarding ING's capital requirements and/or ING's outlook on external market circumstances.

In order to finance the repayment, in December 2009, of the non-voting equity securities and the associated expenses as well as to mitigate the capital impact of the additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission, ING launched a capital increase with preferential subscription rights for holders of (depositary receipts for) ordinary shares of up to EUR 7.5 billion. The rights issue, as disclosed in Note 13 'Shareholders' equity (parent)/non-voting equity securities' was authorised by the Extraordinary General Meeting of Shareholders on 25 November 2009. Proceeds of the issue in excess of the above amounts were used to strengthen ING's capital position.

European Commission Restructuring Plan
In 2009, ING Groep N.V. submitted a Restructuring Plan to the European Commission as part of the process to receive approval for the government support measures. The Restructuring Plan has formally been approved by the European Commission. The main elements of the Restructuring Plan as announced on 26 October 2009 are as follows:
- ING will eliminate double leverage and significantly reduce its balance sheet;
- ING will divest all Insurance and Investment Management activities;
- ING needs to divest ING Direct USA by the end of 2013;
- ING will create a new company in the Dutch retail market composed of Interadvies (including Westland Utrecht and the mortgage activities of Nationale-Nederlanden) and the existing consumer lending portfolio of ING Retail in the Netherlands. This business, once separated, will be divested;
- ING will not be a price leader in any EU country for certain retail and SME banking products and will refrain from the acquisition of financial institutions or other businesses that would delay the repayment of the non-voting equity securities. These restrictions will apply for the shorter period of three years or until the non-voting equity securities have been repaid in full to the Dutch State;
- ING 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 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 of EUR 1.3 billion in the fourth quarter of 2009;
- ING 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.

Notes to the consolidated annual accounts of ING Group continued

Credit Guarantee Scheme
As part of the measures adopted to protect the financial sector, the Dutch State introduced a EUR 200 billion credit guarantee scheme for the issuance of medium term debt instruments by banks (the Credit Guarantee Scheme). ING Bank N.V. issued government guaranteed debt instruments under this Credit Guarantee Scheme ('Government Guaranteed Bonds') as part of its regular medium-term funding operations. The relevant Rules of the Credit Guarantee Scheme promulgate the rules applicable to any issues under the Credit Guarantee Scheme and include information such as scope, denomination, tenor and fees payable by the banks. ING Group pays a fee of 84 basis points over the issued bonds to the Dutch State to participate in the Credit Guarantee Scheme. Reference is made to Note 15 'Debt securities in issue'.

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

In the framework of the transactions with the Dutch State disclosed in this note, certain arrangements with respect to corporate governance and executive remuneration were agreed with the Dutch State which will remain in place as long as the Dutch State owns at least 250 million non-voting equity securities, 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. Certain decisions of the Supervisory Board require approval of the State Supervisory Board members;
- ING Group must develop a sustainable remuneration policy for the Executive Board and Senior Management that is aligned to new international standards and submit this to its General Meeting for adoption. This remuneration policy shall include incentive schemes which are linked to long-term value creation, thereby taking account of risk and restricting the potential for 'rewards for failure'. This new remuneration policy must, amongst others, include objectives relating to corporate and social responsibility;
- members of the Executive Board may not receive any performance-related payment – either in cash, options, shares or bearer depositary receipts – for the years 2008 and 2009 until the adoption of the new remuneration policy in 2010;
- severance payments to Executive Board members are limited to a maximum of one year's fixed salary, in line with the Tabaksblat Code;
- ING has undertaken to support the growth of 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 requires approval of the State Nominees.

34 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES
The following table presents the estimated fair values of ING Group'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 Group.

Notes to the consolidated annual accounts of ING Group continued

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2010	2009	**2010**	2009
Financial assets				
Cash and balances with central banks	**13,072**	15,390	**13,072**	15,390
Amounts due from banks	**51,651**	43,506	**51,828**	43,397
Financial assets at fair value through profit and loss				
– trading assets	**125,675**	111,444	**125,675**	111,444
– investments for risk of policyholders	**120,481**	104,597	**120,481**	104,597
– non-trading derivatives	**11,722**	11,632	**11,722**	11,632
– designated as at fair value through profit and loss	**6,016**	5,517	**6,016**	5,517
Investments				
– available-for-sale	**222,547**	197,703	**222,547**	197,703
– held-to-maturity	**11,854**	14,809	**11,693**	14,409
Loans and advances to customers	**614,548**	578,488	**613,204**	578,946
Other assets (1)	**26,906**	28,764	**26,906**	28,764
	1,204,472	1,111,850	**1,203,144**	1,111,799
Financial liabilities				
Subordinated loans	**9,215**	7,478	**10,645**	10,099
Debt securities in issue	**136,586**	118,950	**135,604**	119,981
Other borrowed funds	**21,822**	22,261	**22,291**	23,151
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
Amounts due to banks	**73,227**	84,968	**72,852**	84,235
Customer deposits and other funds on deposit	**508,755**	466,822	**511,362**	469,508
Financial liabilities at fair value through profit and loss				
– trading liabilities	**108,050**	98,245	**108,050**	98,245
– non-trading derivatives	**17,782**	20,070	**17,782**	20,070
– designated as at fair value through profit and loss	**12,707**	11,474	**12,707**	11,474
Other liabilities (2)	**29,671**	33,946	**29,671**	33,946
	929,790	875,516	**932,939**	882,011

(1) Other assets do not include (deferred) tax assets, property held for sale, pension assets and deferred charges.
(2) Other liabilities do not include (deferred) tax liabilities, pension liabilities, insurance provisions, prepayments received under property under development, share-based payment plans, 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 Group to estimate the fair value of the financial instruments:

Financial assets

Cash and balances with central banks

The carrying amount of cash approximates its fair value.

Amounts due from banks

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

Notes to the consolidated annual accounts of ING Group continued

Financial assets at fair value through profit and loss and Investments

Derivatives

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

Equity securities

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

Debt securities

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

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

In order to determine which independent price in the range of prices obtained best represents fair value under IAS 39, ING 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 Group.

Loans and receivables

Reference is made to Loans and advances to customers below.

Notes to the consolidated annual accounts of ING Group continued

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 for calculations purposes. The carrying values of variable rate policy loans approximate their fair value.

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

Financial liabilities
Subordinated loans
The fair value of the subordinated loans is estimated using discounted cash flows based on interest rates 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.

Amounts due to banks
The fair values of payables to banks are generally based on quoted market prices or, if not available, on estimates based on discounting future cash flows using available market interest rates and credit spreads for payables to banks with similar characteristics.

Customer deposits and other funds on deposit
The carrying values of customer deposits and other funds on deposit with no stated maturity approximate their fair values. The fair values of deposits with stated maturities have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities.

Financial liabilities at fair value through profit and loss
The fair values of securities in the trading portfolio and other liabilities at fair value through profit and loss are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated based on internal discounted cash flow valuation techniques using interest rates and credit spreads that apply to similar instruments. Reference is made to Financial assets at fair value through profit and loss above.

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

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

Fair value hierarchy
ING Group 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.

Notes to the consolidated annual accounts of ING Group continued

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

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

Methods applied in determining fair values of financial assets and liabilities

2010	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	**49,644**	**73,899**	**2,132**	**125,675**
Investments for risk of policyholders	**115,102**	**5,243**	**136**	**120,481**
Non-trading derivatives	**90**	**10,997**	**635**	**11,722**
Financial assets designated as at fair value through profit and loss	**1,143**	**3,027**	**1,846**	**6,016**
Available-for-sale investments	**113,994**	**102,449**	**6,104**	**222,547**
	279,973	**195,615**	**10,853**	**486,441**
Liabilities				
Trading liabilities	**33,293**	**73,316**	**1,441**	**108,050**
Non-trading derivatives	**878**	**15,028**	**1,876**	**17,782**
Financial liabilities designated as at fair value through profit and loss	**1,834**	**7,648**	**3,225**	**12,707**
Investment contracts (for contracts carried at fair value)	**2,879**	**3,088**	**17**	**5,984**
	38,884	**99,080**	**6,559**	**144,523**

Methods applied in determining fair values of financial assets and liabilities

2009	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	40,043	70,035	1,366	111,444
Investments for risk of policyholders	100,541	4,002	54	104,597
Non-trading derivatives	283	10,808	541	11,632
Financial assets designated as at fair value through profit and loss	832	2,855	1,830	5,517
Available-for-sale investments	113,913	76,547	7,243	197,703
	255,612	164,247	11,034	430,893
Liabilities				
Trading liabilities	27,518	69,870	857	98,245
Non-trading derivatives	444	18,265	1,361	20,070
Financial liabilities designated as at fair value through profit and loss	4,460	4,425	2,589	11,474
Investment contracts (for contracts carried at fair value)	3,040	2,327	39	5,406
	35,462	94,887	4,846	135,195

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 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.

Notes to the consolidated annual accounts of ING Group continued

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

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

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

The change to the 2009 comparatives resulted in assets in Level 3 of the fair value hierarchy increasing from 2.1% to 2.6% of total assets measured at fair value. Liabilities in Level 3 of the fair value hierarchy increased from 1.0% to 3.6% of total liabilities measured at fair value.

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

Notes to the consolidated annual accounts of ING Group continued

Changes in Level 3 Assets

2010	Trading assets	Investment for risk of policyholders	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	1,366	54	541	1,830	7,243	11,034
Amounts recognised in profit and loss during the year	193	–5	–275	3	–232	–316
Revaluation recognised in equity during the year					1,047	1,047
Purchase of assets	1,394	134	554	608	1,364	4,054
Sale of assets	–899	–143	–340	–637	–720	–2,739
Maturity/settlement	–275		–2	–96	–775	–1,148
Transfers into Level 3	474	86	143	21	1,156	1,880
Transfers out of Level 3	–150			–4	–3,355	–3,509
Exchange rate differences	29	10	14	121	376	550
Closing balance	2,132	136	635	1,846	6,104	10,853

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

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

There were no significant transfers between Level 1 and 2.

Changes in Level 3 Assets

2009	Trading assets	Investment for risk of policyholders	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	1,212	303	3	1,873	27,361	30,752
Amounts recognised in profit and loss during the year	17	2	–133	–90	–1,525	–1,729
Revaluation recognised in equity during the year					7,378	7,378
Purchase of assets	928	65	333	977	1,009	3,312
Sale of assets	–191	–113	94	–569	–22,211	–22,990
Maturity/settlement	–41	–68	–4	–171	–3,103	–3,387
Reclassifications	–43			–67	–5,994	–6,104
Transfers into Level 3		8	243	123	7,095	7,469
Transfers out of Level 3	–516	–123		–76	–3,387	–4,102
Exchange rate differences		–20	5	–78	698	605
Changes in the composition of the group				–92	–78	–170
Closing balance	1,366	54	541	1,830	7,243	11,034

Main changes in fair value hierarchy (2009 compared to 2008)
As a result of changes in portfolios and/or markets during 2009, the following main changes in the fair value hierarchy occurred:

- *Decrease in Level 1 and Level 2 – reclassifications from Available-for-sale investments to Loans and advances and Amounts due from banks:*
  The reclassification in the first quarter from Available-for-sale investments to Loans and advances (EUR 17.2 billion) and Amounts due from banks (EUR 5.6 billion) resulted in a reduction in Level 2 of approximately EUR 22.8 billion. Furthermore, 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 and Amounts due from banks these are no longer recorded at fair value and therefore no longer subject to disclosure in the fair value hierarchy;
- *Decrease in Level 3 – derecognition of asset backed securities in the US:*
  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 15.2 billion. This decrease includes the sale proceeds of EUR 22.4 billion and revaluation recognised in equity of EUR 7.2 billion;

Notes to the consolidated annual accounts of ING Group continued

- *Decrease in Level 3 – reclassification of asset backed securities in the US and certain private equities to Level 2:* During 2009, the pricing transparency and the level of trading activity in the secondary markets for asset backed securities in the United States increased and the price of the securities as provided by the external pricing services converged . Accordingly, in the fourth quarter of 2009, investments in asset backed securities in the United States of approximately EUR 2.8 billion were transferred from Level 3 to Level 2. These assets were transferred into Level 3 during 2008, when the market became inactive and the dispersion between prices for the same security from different prices sources increased significantly;
- *Other:* Amounts in each of the levels are impacted by changes in the amount and composition of the relevant balance sheet items during the year.

Changes in Level 3 Liabilities

2010	**Trading liabilities**	**Non-trading derivatives**	**Financial liabilities designated as at fair value through profit and loss**	**Investment contracts (for contracts carried at fair value)**	**Total**
Opening balance	**857**	**1,361**	**2,589**	**39**	**4,846**
Amounts recognised in profit and loss during the year	**119**		**85**	**–4**	**200**
Revaluation recognised in equity during the year				**9**	**9**
Issue of liabilities	**1,679**	**490**	**2,241**	**10**	**4,420**
Early repayment of liabilities	**–876**	**–247**	**–863**	**–55**	**–2,041**
Maturity/settlement	**–326**	**–1**	**–561**		**–888**
Transfers into Level 3	**165**	**282**		**11**	**458**
Transfers out of Level 3	**–176**	**–67**	**–266**		**–509**
Exchange rate differences	**–1**	**58**		**7**	**64**
Closing balance	**1,441**	**1,876**	**3,225**	**17**	**6,559**

Changes in Level 3 Liabilities

2009	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
Opening balance	357	25	64	99	545
Amounts recognised in profit and loss during the year	–64	–87	124	2	–25
Issue of liabilities	859	1,015	2,793	22	4,689
Early repayment of liabilities	–110	–26	–155	–72	–363
Maturity/settlement	–173		–121		–294
Transfers into Level 3	30	417	174	8	629
Transfers out of Level 3	–42		–290	–10	–342
Exchange rate differences		18		–10	8
Changes in the composition of the group		–1			–1
Closing balance	857	1,361	2,589	39	4,846

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

2010	**Held at balance sheet date**	**Derecognised during the year**	**Total**
Assets			
Trading assets	**157**	**36**	**193**
Investments for risk of policyholders		**–5**	**–5**
Non-trading derivatives	**–248**	**–27**	**–275**
Financial assets designated as at fair value through profit and loss	**29**	**–26**	**3**
Available-for-sale investments	**–264**	**32**	**–232**
	–326	**10**	**–316**
Liabilities			
Trading liabilities	**119**		**119**
Non-trading derivatives	**–2**	**2**	
Financial liabilities designated as at fair value through profit and loss	**85**		**85**
Investment contracts (for contracts carried at fair value)	**1**	**–5**	**–4**
	203	**–3**	**200**

Notes to the consolidated annual accounts of ING Group continued

Amounts recognised in profit and loss during the year (Level 3)			
2009	Held at balance sheet date	Derecognised during the year	Total
Assets			
Trading assets	–55	72	17
Investments for risk of policyholders		2	2
Non-trading derivatives	–133		–133
Financial assets designated as at fair value through profit and loss	–104	14	–90
Available-for-sale investments	–1,534	9	–1,525
	–1,826	97	–1,729
Liabilities			
Trading liabilities	–64		–64
Non-trading derivatives	–154	67	–87
Financial liabilities designated as at fair value through profit and loss	124		124
Investment contracts (for contracts carried at fair value)		2	2
	–94	69	–25

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 3.4 billion at 31 December 2010 and EUR 6.4 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.

Valuation for these securities is inherently complex and subjective. Although each security in the portfolio is priced based on an external price, without modification by ING Group, and management is confident that it has selected the most appropriate price in the current market circumstances, the valuation of these portfolios would have been different had different prices been selected. The sensitivity analysis shows that the highest and the lowest available market prices do not materially impact the valuation of these assets as at 31 December 2010.

Reference is made to the 'Risk management' section with regard to the exposure of these asset backed securities as at 31 December 2010 and 31 December 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.

Notes to the consolidated annual accounts of ING Group continued

35 INTEREST RESULT BANKING OPERATIONS

Interest result banking operations			
	2010	2009	2008
Interest income on loans	**24,942**	24,983	31,174
Interest income on impaired loans	**40**	24	–24
Total interest income on loans	**24,982**	25,007	31,150
Interest income on available-for-sale securities	**3,532**	3,923	7,449
Interest income on held-to-maturity securities	**549**	612	669
Interest income on trading portfolio	**32,692**	40,844	45,510
Interest income on non-trading derivatives	**1,709**	3,936	7,076
Other interest income	**4,870**	5,528	5,157
Interest income banking operations	**68,334**	79,850	97,011
Interest expense on deposits by banks	**652**	1,266	4,856
Interest expense on customer deposits and other funds on deposit	**8,324**	10,976	19,594
Interest expense on debt securities	**2,761**	2,657	4,109
Interest expense on subordinated loans	**1,856**	1,784	1,784
Interest on trading liabilities	**32,847**	40,023	44,093
Interest on non-trading derivatives	**2,166**	4,483	7,391
Other interest expense	**6,405**	6,286	4,142
Interest expense banking operations	**55,011**	67,475	85,969
Interest result banking operations	**13,323**	12,375	11,042

Interest margin			
in percentages	**2010**	2009	2008
Interest margin	**1.44**	1.34	1.09

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

36 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 30 '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.

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

Notes to the consolidated annual accounts of ING Group continued

Effect of reinsurance on non-life premiums earned			
	2010	2009	2008
Direct gross premiums earned	**1,744**	1,746	4,889
Reinsurance assumed gross premiums earned	**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 43 'Underwriting expenditure' for disclosure on reinsurance ceded.

37 INVESTMENT INCOME

Investment income by banking and insurance operations									
		Banking operations			Insurance operations				Total
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Income from real estate investments	**128**	157	196	**71**	63	75	**199**	220	271
Dividend income	**59**	46	84	**212**	172	646	**271**	218	730
	187	203	280	**283**	235	721	**470**	438	1,001
Income from investments in debt securities				**5,651**	5,429	6,535	**5,651**	5,429	6,535
Income from loans									
– unsecured loans				**263**	223	209	**263**	223	209
– mortgage loans				**826**	856	1,044	**826**	856	1,044
– policy loans				**190**	177	200	**190**	177	200
– other				**354**	101	92	**354**	101	92
Income from investments in debt securities and loans				**7,284**	6,786	8,080	**7,284**	6,786	8,080
Realised gains/losses on disposal of debt securities	**150**	–945	40	**25**	–168	48	**175**	–1,113	88
Impairments of available-for-sale debt securities	**–146**	–1,491	–2,127	**–589**	–586	–777	**–735**	–2,077	–2,904
Reversal of impairments of available-for-sale debt securities				**10**	2		**10**	2	
Realised gains/losses and impairments of debt securities	**4**	–2,436	–2,087	**–554**	–752	–729	**–550**	–3,188	–2,816
Realised gains/losses on disposal of equity securities	**338**	24	30	**194**	404	685	**532**	428	715
Impairments of available-for-sale equity securities	**–32**	–49	–331	**–43**	–360	–1,585	**–75**	–409	–1,916
Realised gains/losses and impairments of equity securities	**306**	–25	–301	**151**	44	–900	**457**	19	–1,201
Change in fair value of real estate investments	**–50**	–588	–350	**–48**	–125	–50	**–98**	–713	–400
Investment income	**447**	–2,846	–2,458	**7,116**	6,188	7,122	**7,563**	3,342	4,664

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

38 NET RESULT ON DISPOSALS OF GROUP COMPANIES

Net result on disposals of group companies in 2010	
	2010
Asian Private Banking business	**332**
Swiss Private Banking business	**73**
ING Summit Industrial Fund LP	**–26**
Other	**–69**
	310

Other includes EUR –24 million related to the sale of certain associates. The remainder includes result on disposal of certain real estate funds and other disposals that are individually not significant.

Notes to the consolidated annual accounts of ING Group continued

Net result on disposals of group companies in 2009	
	2009
ING Australia and New Zealand	337
ING Canada	–38
Annuity and Mortgage business in Chile	–23
Other	–12
	264

Net result on disposals of group companies in 2008	
	2008
ING Salud, Chile	55
Seguros ING, Mexico	182
NRG	–15
ING Life Taiwan	–214
Other	9
	17

Reference is made to Note 30 'Companies acquired and companies disposed' for more details.

39 COMMISSION INCOME

Gross fee and commission income									
		Banking operations			Insurance operations				Total
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Funds transfer	**861**	859	888				**861**	859	888
Securities business	**695**	780	891				**695**	780	891
Insurance broking	**190**	188	175	**344**	241	87	**534**	429	262
Asset management fees	**476**	566	865	**1,495**	1,892	2,198	**1,971**	2,458	3,063
Brokerage and advisory fees	**329**	317	256	**386**	582	763	**715**	899	1,019
Other	**965**	825	850	**562**	540	531	**1,527**	1,365	1,381
	3,516	3,535	3,925	**2,787**	3,255	3,579	**6,303**	6,790	7,504

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.

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

Fee and commission expenses									
		Banking operations			Insurance operations				Total
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Funds transfer	**257**	200	185				**257**	200	185
Securities business	**125**	159	268				**125**	159	268
Insurance broking			–4	**128**	332	574	**128**	332	570
Management fees	**19**	24	169	**201**	241	217	**220**	265	386
Brokerage and advisory fees	**70**	43	5	**196**	496	573	**266**	539	578
Other	**452**	449	476	**277**	233	76	**729**	682	552
	923	875	1,099	**802**	1,302	1,440	**1,725**	2,177	2,539

Notes to the consolidated annual accounts of ING Group continued

40 VALUATION RESULTS ON NON-TRADING DERIVATIVES

Valuation results on non-trading derivatives		Banking operations			Insurance operations			Total	
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Change in fair value of derivatives relating to									
– fair value hedges	**–679**	–1,321	–5,299	**–69**	191	–193	**–748**	–1,130	–5,492
– cash-flow hedges (ineffective portion)	**2**	–2		**–9**	–8	22	**–7**	–10	22
– hedges of net investment in foreign entities (ineffective portion)					1	–6		1	–6
– other non-trading derivatives	**–720**	–237	–28	**94**	–3,722	2,412	**–626**	–3,959	2,384
Net result on non-trading derivatives	**–1,397**	–1,560	–5,327	**16**	–3,538	2,235	**–1,381**	–5,098	–3,092
Change in fair value of assets and liabilities (hedged items)	**686**	1,201	5,533	**66**	–226	164	**752**	975	5,697
Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading)	**69**	–557	127	**150**	4	–432	**219**	–553	–305
Net valuation results	**–642**	–916	333	**232**	–3,760	1,967	**–410**	–4,676	2,300

In 2009, the 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 related 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 43 'Underwriting expenditure').

The Valuation results on assets and liabilities designated at fair value through profit and loss includes fair value changes on private equity funds and issued debt securities, designated at fair value through profit and loss. In 2009, the Valuation results on assets and liabilities designated at fair value through profit and loss were mainly a result of changes in fair value of financial liabilities, designated at fair value through profit and loss, due to market circumstances; it includes fair value changes on issued debt securities, designated at fair value through profit and loss, including fair value changes attributable to changes in own credit risk as disclosed in Note 20 'Financial liabilities at fair value through profit and loss'.

41 NET TRADING INCOME

Net trading income		Banking operations			Insurance operations			Total	
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Securities trading results	**231**	331	130	**180**	155	–239	**411**	486	–109
Foreign exchange transactions results	**648**	–158	274	**–604**	167	–90	**44**	9	184
Derivatives trading results	**174**	815	–766			79	**174**	815	–687
Other	**64**	–185	–43	**–66**		–94	**–2**	–185	–137
	1,117	803	–405	**–490**	322	–344	**627**	1,125	–749

Securities trading results includes the results of making markets in instruments such as government securities, equity securities, corporate debt securities, money-market instruments, and interest rate derivatives such as swaps, options, futures and forward contracts. Foreign exchange transactions results include gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities.

The portion of trading gains and losses for the year ended 31 December 2010 relating to trading securities still held as at 31 December amounted to EUR 19 million (2009: EUR 105 million; 2008: EUR –246 million).

The majority of the risks involved in security and currency trading is economically hedged with derivatives. The securities trading results are partly offset by results on these derivatives. The result of these derivatives is included in Derivatives trading results.

Notes to the consolidated annual accounts of ING Group continued

42 OTHER INCOME

Other income

	Banking operations			Insurance operations			Total		
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Net operating lease income	**213**	175	195				**213**	175	195
Income from real estate development projects	**36**	59	124				**36**	59	124
Income post office		99	144					99	144
Other	**98**	123	28	**288**	235	153	**386**	358	181
	347	456	491	**288**	235	153	**635**	691	644

Net operating lease income comprises income of EUR 1,000 million (2009: EUR 967 million; 2008: EUR 961 million) and depreciation of EUR 787 million (2009: EUR 792 million; 2008: EUR 766 million).

43 UNDERWRITING EXPENDITURE

Underwriting expenditure

	2010	2009	2008
Gross underwriting expenditure			
– before effect of investment result for risk of policyholders	**34,506**	32,698	51,239
– effect of investment result risk of policyholders	**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 income and valuation results regarding investment result 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 at fair value through profit and loss but are recognised in Underwriting expenditure together with the equal amount of change in insurance provisions for risk of policyholders.

Notes to the consolidated annual accounts of ING Group continued

Underwriting expenditure	2010	2009	2008
Expenditure from life underwriting			
Reinsurance and retrocession premiums	**2,041**	1,867	1,802
Gross benefits	**25,687**	24,044	27,159
Reinsurance recoveries	**–1,732**	–1,708	–1,662
Change 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
Change in provision for unearned premiums	**–26**	–2	28
Change in 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 51 ‘Operating segments’.

Notes to the consolidated annual accounts of ING Group continued

ING Group 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.

44 INTANGIBLE AMORTISATION AND OTHER IMPAIRMENTS

Intangible amortisation and (reversals of) impairments

	Impairment losses			Reversals of impairments			Total		
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Property and equipment	**28**	8	19	**–5**	–12		**23**	–4	19
Property development	**400**	450	93		–7	–31	**400**	443	62
Goodwill	**540**		155				**540**		155
Software and other intangible assets	**31**	9	71				**31**	9	71
(Reversals of) other impairments	**999**	467	338	**–5**	–19	–31	**994**	448	307
Amortisation of other intangible assets							**118**	120	157
							1,112	568	464

In 2010, a goodwill impairment of EUR 540 million is recognised. Reference is made to Note 9 'Intangible assets'.

Impairments on Loans and advances to customers are presented under Addition to loan loss provision. Impairments on investments are presented under Investment income. Reference is made to the 'Risk management' section for further information on impairments.

In 2010, impairments on Property development are recognised on a large number of Real Estate development projects in The Netherlands, Spain and the US. Although the expectation is that the Real Estate markets will not further deteriorate, the unfavourable economic circumstances in all regions resulted in lower expected sales prices.

In 2009, impairments on Property development are recognised on a large number of Real Estate development projects in Europe, Australia and the US. Circumstances that have led to these impairments are unfavourable economic circumstances in all regions that have resulted into lower expected sales prices, changes in strategy of ING Real Estate Development whereby certain projects are not developed further and operational inefficiencies in a limited number of projects.

Notes to the consolidated annual accounts of ING Group continued

Staff expenses

	Banking operations			Insurance operations			Total		
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Salaries	**3,836**	3,555	3,816	**1,665**	1,521	2,069	**5,501**	5,076	5,885
Pension and other staff-related benefit costs	**199**	178	104	**118**	142	140	**317**	320	244
Social security costs	**532**	510	516	**177**	161	205	**709**	671	721
Share-based compensation arrangements	**79**	58	75	**41**	38	49	**120**	96	124
External employees	**627**	660	1,056	**125**	96	160	**752**	756	1,216
Education	**61**	57	105	**13**	8	11	**74**	65	116
Other staff costs	**220**	195	252	**78**	159	206	**298**	354	458
	5,554	5,213	5,924	**2,217**	2,125	2,840	**7,771**	7,338	8,764

Number of employees

	Netherlands			International			Total		
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Average number of employees at full time equivalent basis	**27,750**	27,912	29,626	**78,389**	82,368	95,659	**106,139**	110,280	125,285

Share-based compensation arrangements includes EUR 91 million (2009: EUR 65 million; 2008: EUR 98 million) relating to equity-settled share-based payment arrangements and EUR 29 million (2009: EUR 31 million; 2008: EUR 26 million) relating to cash-settled share-based payment arrangements.

Pension and other staff-related benefit costs

	Pension benefits			Post-employment benefits other than pensions			Other			Total		
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Current service cost	**298**	320	356	**5**	–8	–2	**–2**	–38	5	**301**	274	359
Past service cost	**–1**	20	77		–21					**–1**	–1	77
Interest cost	**795**	778	787	**8**	10	11	**5**	9	4	**808**	797	802
Expected return on assets	**–886**	–842	–886				**1**	1		**–885**	–841	–886
Amortisation of unrecognised past service cost				**–5**	–1	–1				**–5**	–1	–1
Amortisation of unrecognised actuarial (gains)/losses	**62**	106	–23	**–9**	–5		**1**	5		**54**	106	–23
Effect of curtailment or settlement	**–7**	–96	–140							**–7**	–96	–140
Other		–14	–18				**–15**	15	6	**–15**	1	–12
Defined benefit plans	**261**	272	153	**–1**	–25	8	**–10**	–8	15	**250**	239	176
Defined contribution plans										**67**	81	68
										317	320	244

Remuneration of senior management, Executive Board and Supervisory Board

Reference is made to Note 33 'Related parties'.

Stock option and share plans

ING Group has granted option rights on ING Group shares and conditional rights on depositary receipts (share awards) for ING shares to a number of senior executives (members of the Executive Board, general managers and other officers nominated by the Executive Board), and to a considerable number of employees of ING Group. The purpose of the option and share schemes, apart from promoting a lasting growth of ING Group, is to attract, retain and motivate senior executives and staff.

Notes to the consolidated annual accounts of ING Group continued

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.

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 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; 2008: 211,049) 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; 2008: 3,380,706) have been granted to senior management and other employees remaining in the service of ING Group.

Every year, the ING Group Executive Board will decide 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.

Changes in option rights outstanding [(1)]

	Options outstanding (in numbers)			Weighted average exercise price (in euros)		
	2010	2009	2008	**2010**	2009	2008
Opening balance	**122,334,486**	87,263,381	76,888,553	**17.31**	25.93	26.66
Granted	**19,434,097**	14,803,109	14,905,232	**7.35**	3.93	21.85
Exercised	**–1,070,630**	–22,757	–1,225,856	**3.03**	5.33	18.09
Forfeited	**–3,666,001**	–5,974,275	–3,304,548	**13.23**	26.30	28.87
Rights issue		28,395,811				
Expired	**–12,195,258**	–2,130,783		**20.52**	32.11	
Closing balance	**124,836,694**	122,334,486	87,263,381	**15.73**	17.31	25.93

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

As per 31 December 2010 total options outstanding consists of 105,036,931 options (2009: 103,523,988; 2008: 73,826,891) relating to equity-settled share-based payment arrangements and 19,799,763 options (2009: 18,810,498; 2008: 13,436,490) relating to cash-settled share-based payment arrangements.

Notes to the consolidated annual accounts of ING Group continued

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

Changes in option rights non-vested [1]

	Options non-vested (in numbers)			Weighted average grant date fair value (in euros)		
	2010	2009	2008	**2010**	2009	2008
Opening balance	**50,316,665**	37,867,732	38,405,158	**3.52**	6.03	5.83
Granted	**19,434,097**	14,803,109	14,905,232	**3.26**	2.52	5.28
Vested	**–15,415,108**	–11,100,675	–13,173,224	**4.70**	6.48	3.49
Forfeited	**–2,739,076**	–2,931,533	–2,269,434	**3.26**	5.67	5.64
Rights issue		11,678,032				
Closing balance	**51,596,578**	50,316,665	37,867,732	**3.08**	3.52	6.03

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

Summary of stock options outstanding and exercisable

2010 Range of exercise price in euros	Options outstanding as at 31 December 2010	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2010	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	**16,367,971**	**7.71**	**2.88**			
5.00 – 10.00	**25,482,740**	**7.45**	**7.88**	**6,379,628**	**2.18**	**9.36**
10.00 – 15.00	**9,585,723**	**2.61**	**14.37**	**9,353,997**	**2.48**	**14.37**
15.00 – 20.00	**31,328,453**	**5.21**	**17.35**	**15,434,684**	**3.54**	**17.88**
20.00 – 25.00	**22,663,374**	**3.58**	**23.60**	**22,663,374**	**3.58**	**23.60**
25.00 – 30.00	**19,408,433**	**3.58**	**25.77**	**19,408,433**	**3.58**	**25.77**
	124,836,694			**73,240,116**		

Summary of stock options outstanding and exercisable

2009 Range of exercise price in euros	Options outstanding as at 31 December 2009	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2009	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	18,394,697	3.57	2.88			
5.00 – 10.00	7,257,362	8.76	9.17	6,826,298	3.18	9.20
10.00 – 15.00	11,132,430	3.51	14.20	10,802,627	3.35	14.20
15.00 – 20.00	35,095,363	6.19	17.29	17,396,930	4.50	17.77
20.00 – 25.00	28,576,153	4.02	23.38	15,861,602	1.73	22.38
25.00 – 30.00	21,878,481	4.50	25.82	21,130,364	4.40	25.83
	122,334,486			72,017,821		

Summary of stock options outstanding and exercisable [1]

2008 Range of exercise price in euros	Options outstanding as at 31 December 2008	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2008	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	5,772,054	4.19	12.11	5,772,054	4.19	12.11
15.00 – 20.00	9,425,787	4.70	18.69	9,149,037	4.55	18.69
20.00 – 25.00	28,055,499	7.49	22.49	14,212,102	5.83	23.22
25.00 – 30.00	15,390,859	2.74	28.57	14,729,456	2.44	28.71
30.00 – 35.00	23,157,582	7.71	32.46	71,400	2.57	33.06
35.00 – 40.00	5,461,600	2.13	35.51	5,461,600	2.13	35.51
	87,263,381			49,395,649		

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

The aggregate intrinsic value of options outstanding and exercisable as at 31 December 2010 was EUR 72 million and nil, respectively.

Notes to the consolidated annual accounts of ING Group continued

As at 31 December 2010 total unrecognised compensation costs related to stock options amounted to EUR 65 million (2009: EUR 62 million; 2008: EUR 94 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). Cash received from stock option exercises for the year ended 31 December 2010 was EUR 3 million (2009: nil; 2008: EUR 22 million).

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. 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 (5 year to 9 years), the exercise price, the current share price (EUR 2.90 – EUR 26.05), the expected volatility of the certificates of ING Group shares (25% – 84%) and the expected dividends yield (0.94% to 8.99%). The source for implied volatilities used for the valuation of the stock options is ING's trading system. The implied volatilities in this system are determined by ING's traders and are based on market data implied volatilities not on historical volatilities.

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

Changes in share awards [1]

	Share awards (in numbers)			Weighted average grant date fair value (in euros)		
	2010	2009	2008	**2010**	2009	2008
Opening balance	**14,653,673**	7,792,009	7,133,714	**7.53**	22.60	27.52
Granted	**26,369,146**	6,273,467	3,591,755	**7.55**	3.29	16.74
Performance effect	**–1,507,307**	–1,085,987	–451,070	**13.92**	32.52	27.44
Vested	**–2,961,355**	–1,228,764	–1,945,092	**11.72**	32.63	27.51
Forfeited	**–1,514,051**	–498,553	–537,298	**7.13**	24.01	25.92
Rights issue		3,401,501				
Closing balance	**35,040,106**	14,653,673	7,792,009	**7.25**	7.53	22.60

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

As per 31 December 2010 the share awards consists of 28,592,210 share awards (2009: 10,810,687) relating to equity-settled share-based payment arrangements and 6,447,896 share awards (2009: 3,842,986) relating to cash-settled share-based payment arrangements.

The fair value of share awards granted is recognised as an expense under staff expenses and is allocated over the vesting period of the share awards. The fair values of share awards have been determined by using a Monte Carlo simulation based valuation model. The model takes into account the risk free interest rate, the current stock prices, expected volatilities and current divided yields of the performance peer group used to determine ING's Total Shareholder Return (TSR) ranking.

As at 31 December 2010 total unrecognised compensation costs related to share awards amounted to EUR 158 million (2009: EUR 41 million; 2008: EUR 56 million). These costs are expected to be recognised over a weighted average period of 2.1 years (2009: 1.8 years; 2008: 1.8 years).

46 OTHER INTEREST EXPENSES

Other interest expenses mainly consist of interest in connection with the insurance operations, including interest on the perpetual subordinated loans.

Other interest expenses include nil and nil dividends paid on preference shares and trust preferred securities (2009: nil and EUR 86 million; 2008: EUR 1 million and EUR 94 million).

Total interest income and total interest expense for items not valued at fair value through profit and loss for 2010 were EUR 41,217 million (2009: EUR 41,856 million; 2008: EUR 52,505 million) and EUR 19,206 million (2009: EUR 22,253 million; 2008: EUR 33,507 million) respectively. Net interest income of EUR 19,815 million is presented in the following lines in the profit and loss account.

Total net interest income

	2010	2009	2008
Interest result bank **35**	**13,323**	12,375	11,042
Investment income – insurance **37**	**7,284**	6,786	8,080
Other interest expenses	**–792**	–716	–978
	19,815	18,445	18,144

Notes to the consolidated annual accounts of ING Group continued

47 OTHER OPERATING EXPENSES

Other operating expenses									
		Banking operations			Insurance operations				Total
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Depreciation of property and equipment	**382**	365	353	**78**	84	95	**460**	449	448
Amortisation of software	**312**	282	103	**46**	60	70	**358**	342	173
Computer costs	**693**	637	733	**278**	270	297	**971**	907	1,030
Office expenses	**659**	679	687	**341**	476	599	**1,000**	1,155	1,286
Travel and accommodation expenses	**102**	99	163	**67**	66	101	**169**	165	264
Advertising and public relations	**591**	539	833	**108**	90	204	**699**	629	1,037
External advisory fees	**364**	401	459	**351**	289	373	**715**	690	832
Postal charges	**87**	111	130				**87**	111	130
Addition/(releases) of provision for reorganisations and relocations	**109**	339	136	**99**	258	8	**208**	597	144
Other	**796**	1,003	627	**756**	663	836	**1,552**	1,666	1,463
	4,095	4,455	4,224	**2,124**	2,256	2,583	**6,219**	6,711	6,807

Other operating expenses include lease and sublease payments in respect of operating leases of EUR 200 million (2009: EUR 169 million; 2008: EUR 172 million) in which ING Group is the lessee. In 2009 Other operating expenses also includes the expenses related to the industry-wide deposit guarantee scheme in the Netherlands due to the bankruptcy of DSB Bank and premiums for deposit guarantee schemes in other countries.

For Addition/(releases) of provision for reorganisations and relocations reference is made to the disclosure on the reorganisation provision in Note 21 ‘Other liabilities’.

No individual operating lease has terms and conditions that materially affect the amount, timing and certainty of the consolidated cash flows of the Group.

The External advisory fees include fees for audit services and non-audit services provided by the Group’s auditors.

Fees of Group’s auditors			
	2010	2009	2008
Audit fees	**36**	35	46
Audit related fees	**9**	6	3
Tax fees	**2**	2	3
All other fees	**1**	2	7
Total	**48**	45	59

Fees as disclosed above relate to the network of the Group’s auditors.

Notes to the consolidated annual accounts of ING Group continued

48 TAXATION
Profit and loss account

Taxation by type

	Netherlands			International			Total		
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Current taxation	**168**	159	–296	**842**	598	830	**1,010**	757	534
Deferred taxation	**48**	–1,051	–197	**94**	–178	–1,058	**142**	–1,229	–1,255
	216	–892	–493	**936**	420	–228	**1,152**	–472	–721

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

	2010	2009	2008
Result before tax	**4,477**	–1,525	–1,487
Weighted average statutory tax rate	**25.1%**	36.3%	49.9%
Weighted average statutory tax amount	**1,124**	–554	–742
Associates exemption	**–447**	–135	69
Other income not subject to tax	**–125**	–227	–210
Expenses not deductible for tax purposes	**102**	47	106
Impact on deferred tax from change in tax rates	**8**		–25
Deferred tax benefit from previously unrecognised amounts		–32	
Write down/reversal of deferred tax assets	**544**	546	360
Adjustment to prior periods	**–54**	–117	–279
Effective tax amount	**1,152**	–472	–721
Effective tax rate	**25.7%**	30.9%	48.5%

The weighted average statutory tax rate decreased significantly in 2010 compared to 2009. This is caused by the fact that in 2010 profits were realised in a significant part of the tax jurisdictions that incurred losses in 2009.

The weighted average statutory tax rate decreased in 2009 compared to 2008 mainly caused by the fact that a smaller part of the losses was incurred in high tax jurisdictions than in 2008.

The effective tax rate in 2010 equals almost the weighted average statutory tax. This is caused by an off-setting effect of the write-down of deferred tax assets (mainly in the United States) against the tax exempt income from associates.

The effective tax rate in 2009 was lower than the weighted average statutory tax rate, resulting in a lower tax benefit for the pre-tax loss. This is caused by the fact that a write-down of the carrying value of deferred tax assets and non-deductible expenses exceeded tax exempt income and releases from tax provisions.

The effective tax rate in 2008 was slightly lower than the weighted average statutory tax. Main reasons for this are tax exempt income and releases of tax provisions, partly offset by non deductible expenses and a reduction of the deferred tax assets.

Adjustment to prior periods in 2010 relates mainly to a tax settlement.

Comprehensive income

Income tax related to components of other comprehensive income

	2010	2009	2008
Unrealised revaluations	**–1,216**	–4,712	6,647
Realised gains/losses transferred to profit and loss (reclassifications from equity to profit and loss)	**8**	–494	–1,423
Changes in cash flow hedge reserve	**–194**	203	–137
Transfer to insurance liabilities/DAC	**719**	1,017	–1,129
Exchange rate differences	**8**	13	–2
Total income tax related to components of other comprehensive income	**–675**	–3,973	3,956

Notes to the consolidated annual accounts of ING Group continued

49 EARNINGS PER ORDINARY SHARE

Earnings per ordinary share	Amount (in millions of euros)			Weighted average number of ordinary shares outstanding during the period (in millions)			Per ordinary share (in euros)		
	2010	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Net result	**3,220**	–935	–729	**3,781.5**	2,102.9	2,042.7			
Attribution to non-voting equity securities [(1)]	**–441**	–605							
Impact of rights issue [(2)]					583.1	617.5			
Basic earnings	**2,779**	–1,540	–729	**3,781.5**	2,686.0	2,660.2	**0.73**	–0.57	–0.27
Effect of dilutive securities:									
Stock option and share plans				**6.6**	5.7	1.0			
				6.6	5.7	1.0			
Diluted earnings	**2,779**	–1,540	–729	**3,788.1**	2,691.7	2,661.2	**0.73**	–0.57	–0.27

(1) As a net profit is reported in 2010 an attribution to non-voting equity securities is included. This attribution represents the amount that would be payable to the holders of the non-voting equity securities if and when the entire net profit of 2010 would be distributed as dividend. This amount is only included for the purpose of determining earnings per share under IFRS-EU and does not represent a payment (neither actual nor proposed) to the holders of the non-voting equity securities. The 2009 amount of EUR 605 million includes the coupon (EUR 259 million) and repayment premium (EUR 346 million) on the repayment of EUR 5 billion non-voting equity securities. The 2008 coupon of EUR 425 million paid on the non-voting securities did not impact basic earnings.

(2) The rights issue, which was finalised on 15 December 2009 has an effect on the basic earnings per share and the diluted earnings per share, as defined in IFRS-EU. All weighted average number of shares outstanding before the rights issue are restated with an adjustment factor of approximately 1.3 that reflects the fact that the exercise price of the rights issue was less than the fair value of the shares. The effect of dilutive securities is adjusted as well.

Diluted earnings per share data are calculated as if the stock options and warrants outstanding at year-end had been exercised at the beginning of the period. It is also assumed that ING Group uses the cash received from exercised stock options and warrants or non-voting equity securities converted to buy its own shares against the average market price in the financial year. The net increase in the number of shares resulting from exercising stock options and share plans or converting non-voting equity securities is added to the average number of shares used for the calculation of diluted earnings per share. The potential conversion of the non-voting equity securities has an anti-dilutive effect on the earnings per share calculation in 2010, 2009 and 2008 (the diluted earnings per share becoming higher or less negative than the basic earnings per share). Therefore, the potential conversion is not taken into account when determining the weighted average number of shares for the calculation of diluted earnings per share for these years.

50 DIVIDEND PER ORDINARY SHARE

Dividend per ordinary share	**2010** [(1)]	2009	2008
Per ordinary share (in euros)	**0.00**	0.00	0.74
Total amount of dividend declared (in millions of euros)	**0**	0	1,500

(1) The Executive Board, with the approval of the Supervisory Board, has proposed, subject to the ratification by the General Meeting of Shareholders, not to pay a cash dividend for the year 2010.

In 2009 a coupon to the Dutch State of EUR 259 million was paid as part of the repayment of EUR 5 billion non-voting equity securities.

In 2008 coupon was payable to the Dutch State per non-voting equity security of EUR 0.425, provided that ING Group's capital adequacy position was and remained satisfactory both before and after payment in the opinion of the Dutch central bank. The full amount of EUR 425 million was recognised as a liability as at 31 December 2008. The amount was paid on 12 May 2009.

Notes to the consolidated annual accounts of ING Group continued

51 OPERATING SEGMENTS

ING Group'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 Group identifies the following operating segments:

Operating segments of ING Group

Banking	Insurance
Retail Netherlands	Insurance Benelux
Retail Belgium	Insurance Central & Rest of Europe (CRE)
ING Direct	Insurance United States (US) *
Retail Central Europe (CE)	Insurance US Closed Block VA
Retail Asia	Insurance Latin America
Commercial Banking (excluding Real Estate)	Insurance Asia/Pacific
ING Real Estate	ING Investment Management (IM)
Corporate Line Banking	Corporate Line Insurance

* Excluding US Closed Block VA

In 2009 ING Group identified the following operating segments: Retail Banking, ING Direct, Commercial Banking, 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 Group 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 Executive Board of ING Group, the Management Board Banking and the Management Board Insurance set the performance targets and approve and monitor 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 Executive Board, the Management Board Banking and the Management Board Insurance.

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

ING Group 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 Executive and Management Board. Underlying result is defined as result under IFRS-EU 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 to 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 Group continued

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

Specification of the main sources of income of each of the segments

Segment	Main source of income
Retail Netherlands	Income from retail and private banking activities. The main products offered are current and savings accounts, mortgages and other consumer lending in the Netherlands.
Retail Belgium	Income from retail and private banking activities in Belgium. The main products offered are similar to those in the Netherlands.
Retail CE	Income from retail and private banking activities in Central Europe. The main products offered are similar to those in the Netherlands.
Retail Asia	Income from retail banking activities in Asia. The main products offered are similar to those in the Netherlands.
ING Direct	Income from direct retail banking activities. The main products offered are savings accounts and mortgages.
Commercial Banking (excluding Real Estate)	Income from wholesale banking activities. A full range of products is offered from cash management to corporate finance.
ING Real Estate	Income from real estate activities.
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 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 Banking	Corporate Line Banking is a reflection of capital management activities and certain expenses that are not allocated to the banking businesses. ING Group applies a system of capital charging for its banking operations in order to create a comparable basis for the results of business units globally, irrespective of the business units' book equity and the currency they operate in.
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.

Notes to the consolidated annual accounts of ING Group continued

Operating segments Banking

2010	Retail Netherlands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commercial Banking	ING Real Estate	Corporate Line Banking	Total Banking segments	Eliminations	Total Banking
Underlying income											
– Net interest result	3,795	1,603	3,774	670	169	3,153	439	–153	13,450		13,450
– Commission income	507	347	151	278	55	937	367	–13	2,629		2,629
– Total investment and other income	31	104	–144	29	62	858	56	222	1,218		1,218
Total underlying income	4,333	2,054	3,781	977	286	4,948	862	56	17,297		17,297
Underlying expenditure											
– Operating expenses	2,337	1,349	1,857	760	180	2,172	437	100	9,192		9,192
– Additions to loan loss provision	561	160	446	61	26	395	102		1,751		1,751
– Other impairments *	39		29	1		3	386	35	493		493
Total underlying expenses	2,937	1,509	2,332	822	206	2,570	925	135	11,436		11,436
Underlying result before taxation	1,396	545	1,449	155	80	2,378	–63	–79	5,861		5,861
Taxation	367	91	463	31	15	497	47	–44	1,467		1,467
Minority interests		–6	1	20	22	28	7		72		72
Underlying net result	1,029	460	985	104	43	1,853	–117	–35	4,322		4,322

* Analysed as a part of operating expenses.

Operating segments Insurance

2010	Insurance Benelux	Insurance CRE	Insurance US *	Insurance US Closed Block VA	Insurance Latin America	Insurance Asia/Pacific	ING IM	Corporate Line Insurance	Total Insurance segments	Eliminations	Total Insurance
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	2,951	348	3,017	–607	317	911	25	1,200	8,162	–580	7,582
Total underlying income	10,174	2,610	14,565	250	876	7,429	912	1,230	38,046	–580	37,466
Underlying expenditure											
– Underwriting expenditure	8,305	2,082	13,074	1,950	245	6,369	3	737	32,765		32,765
– Operating expenses	942	271	1,107	90	222	541	731	118	4,022		4,022
– Other interest expenses	152		76	3	67	3	5	1,402	1,708	–580	1,128
– Other impairments		4						66	70		70
Total underlying expenses	9,399	2,357	14,257	2,043	534	6,913	739	2,323	38,565	–580	37,985
Underlying result before taxation	775	253	308	–1,793	342	516	173	–1,093	–519		–519
Taxation	130	63	–155	–185	54	135	62	–219	–115		–115
Minority interests	15	10			7	1	1	–9	25		25
Underlying net result	630	180	463	–1,608	281	380	110	–865	–429		–429

* 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 Insurance 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 Group continued

Operating segments Total					
2010	**Total Banking**	**Total Insurance**	**Total Segments**	**Eliminations**	**Total**
Underlying income					
– Gross premium income		27,947	27,947		27,947
– Net interest result – banking operations	13,450		13,450	–93	13,357
– Commission income	2,629	1,937	4,566		4,566
– Total investment and other income	1,218	7,582	8,800	–243	8,557
Total underlying income	17,297	37,466	54,763	–336	54,427
Underlying expenditure					
– Underwriting expenditure		32,765	32,765		32,765
– Operating expenses	9,192	4,022	13,214		13,214
– Other interest expenses		1,128	1,128	–336	792
– Additions to loan loss provision	1,751		1,751		1,751
– Other impairments	493	70	563		563
Total underlying expenses	11,436	37,985	49,421	–336	49,085
Underlying result before taxation	5,861	–519	5,342		5,342
Taxation	1,467	–115	1,352		1,352
Minority interests	72	25	97		97
Underlying net result	4,322	–429	3,893		3,893

Reconciliation between IFRS-EU and Underlying income, expenses and net result			
2010	**Income**	**Expenses**	**Net result**
Underlying	54,427	49,085	3,893
Divestments	459	41	394
Special items	1	1,284	–1,067
IFRS-EU	54,887	50,410	3,220

Divestments in 2010 mainly relate to the sale of the three U.S. independent retail broker-dealer units, the sale of the Private Banking businesses in Asia and Switzerland and to the sale of ING's 50% stake in Summit Industrial Fund LP.

Special items in 2010 includes mainly restructuring expenses for the combining of the Dutch retail activities, the Belgium retail transformation program, the cost related to the separation of Banking and Insurance and the expenses related to the goodwill impairment in the United States of EUR 513 million (after tax) in 2010. Reference is made to Note 9 'Intangible assets'.

Impairments and reversals of impairments on investments per operating segment		
2010	**Impairments**	**Reversals of impairments**
ING Direct	107	
Commercial Banking (excluding Real Estate)	70	
Insurance Benelux	53	
Insurance CRE	18	
Insurance US *	553	
Insurance Asia/Pacific	8	–2
ING IM		–8
Corporate Line Banking	1	
	810	–10

* Excluding US Closed Block VA

The impairments on investments are presented within Investment income.

Notes to the consolidated annual accounts of ING Group continued

Operating segments Banking

2009	Retail Nether-lands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commer-cial Banking	ING Real Estate	Corporate Line Banking	Total Banking segments	Elimi-nations	Total Banking
Underlying income											
– Net interest result	3,279	1,614	3,136	675	110	3,420	429	–156	12,507		12,507
– Commission income	535	342	167	261	43	834	362	–6	2,538		2,538
– Total investment and other income	68	106	–1,541	–75	43	703	–651	–215	–1,562		–1,562
Total underlying income	3,882	2,062	1,762	861	196	4,957	140	–377	13,483		13,483
Underlying expenditure											
– Operating expenses	2,472	1,291	1,652	660	132	1,878	433	250	8,768		8,768
– Additions to loan loss provision	529	200	765	116	39	971	239		2,859		2,859
– Other impairments *	–2	–7	12			1	456	35	495		495
Total underlying expenses	2,999	1,484	2,429	776	171	2,850	1,128	285	12,122		12,122
Underlying result before taxation	883	578	–667	85	25	2,107	–988	–662	1,361		1,361
Taxation	233	79	–253	29	5	378	–193	–183	95		95
Minority interests		2	1	5	10	29	25		72		72
Underlying net result	650	497	–415	51	10	1,700	–820	–479	1,194		1,194

* Analysed as a part of operating expenses.

Operating segments Insurance

2009	Insurance Benelux	Insurance CRE	Insurance US *	Insurance US Closed Block VA	Insurance Latin America	Insurance Asia/ Pacific	ING IM	Corporate Line Insurance	Total Insurance segments	Elimi-nations	Total Insurance
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	762	–16	1,747		1,747
– Total investment and other income	2,045	354	2,615	–1,809	300	701	–25	179	4,360	–1,158	3,202
Total underlying income	9,836	2,528	14,314	705	811	7,145	737	201	36,277	–1,158	35,119
Underlying expenditure											
– Underwriting expenditure	8,222	1,930	12,879	1,216	261	6,235	3	–320	30,426		30,426
– Operating expenses	1,029	271	966	138	175	516	556	124	3,775		3,775
– Other interest expenses	295	37	113	5	102	10	9	1,637	2,208	–1,158	1,050
– Other impairments						1		69	70		70
Total underlying expenses	9,546	2,238	13,958	1,359	538	6,762	568	1,510	36,479	–1,158	35,321
Underlying result before taxation	290	290	356	–654	273	383	169	–1,309	–202		–202
Taxation	58	56	138	–79	53	112	59	–402	–5		–5
Minority interests	15	12			6	1	1	–12	23		23
Underlying net result	217	222	218	–575	214	270	109	–895	–220		–220

* Excluding US Closed Block VA.

Notes to the consolidated annual accounts of ING Group continued

Operating segments Total					
2009	Total Banking	Total Insurance	Total Segments	Eliminations	Total
Underlying income					
– Gross premium income		30,170	30,170		30,170
– Net interest result – banking operations	12,507		12,507	–165	12,342
– Commission income	2,538	1,747	4,285		4,285
– Total investment and other income	–1,562	3,202	1,640	–171	1,469
Total underlying income	13,483	35,119	48,602	–336	48,266
Underlying expenditure					
– Underwriting expenditure		30,426	30,426		30,426
– Operating expenses	8,768	3,775	12,543		12,543
– Other interest expenses		1,050	1,050	–336	714
– Additions to loan loss provision	2,859		2,859		2,859
– Other impairments	495	70	565		565
Total underlying expenses	12,122	35,321	47,443	–336	47,107
Underlying result before taxation	1,361	–202	1,159		1,159
Taxation	95	–5	90		90
Minority interests	72	23	95		95
Underlying net result	1,194	–220	974		974

Reconciliation between IFRS-EU and Underlying income, expenses and net result			
2009	Income	Expenses	Net result
Underlying	48,266	47,107	974
Divestments	766	1,130	–150
Special items	–1,267	1,053	–1,759
IFRS-EU	47,765	49,290	–935

Divestments in 2009 mainly include 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 US independent retail broker-dealer units (three quarters of ING Advisors Network) and ING Australia Pty Limited. Divestments in 2009 also relates to the operational result from the in 2010 divested units Private Banking business Asia and Switzerland and Summit.

Special items in 2009 reflects mainly the net impact of transaction result on the Illiquid Asset Back-up Facility, including the additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission of EUR 1.3 billion (EUR 930 million after tax), and restructuring costs.

Impairments and reversals of impairments on investments per operating segment		
2009	Impairments	Reversals of impairments
ING Direct	1,394	
Commercial Banking (excluding Real Estate)	129	
Insurance Benelux	360	
Insurance CRE	36	
Insurance US *	527	
Insurance Asia/Pacific	15	–2
ING IM	3	
Corporate Line Banking	17	
Corporate Line Insurance	6	
	2,487	–2

* Excluding US Closed Block VA

The impairments on investments are presented within Investment income.

Notes to the consolidated annual accounts of ING Group continued

Operating segments Banking

2008	Retail Netherlands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commercial Banking	ING Real Estate	Corporate Line Banking	Total Banking segments	Eliminations	Total Banking
Underlying income											
– Net interest result	3,564	1,262	2,517	589	90	3,008	260	–228	11,062		11,062
– Commission income	633	404	150	279	43	742	428	–4	2,675		2,675
– Total investment and other income	139	54	–1,790	2	62	–91	–60	–422	–2,106		–2,106
Total underlying income	4,336	1,720	877	870	195	3,659	628	–654	11,631		11,631
Underlying expenditure											
– Operating expenses	2,830	1,382	1,705	796	144	2,230	558	41	9,686		9,686
– Additions to loan loss provision	251	26	283	65	13	516	81		1,235		1,235
– Other impairments *	–3	6	14			3	65	32	117		117
Total underlying expenses	3,078	1,414	2,002	861	157	2,749	704	73	11,038		11,038
Underlying result before taxation	1,258	306	–1,125	9	38	910	–76	–727	593		593
Taxation	264	64	–394	2	2	205	–16	–358	–231		–231
Minority interests			2	21	15	15	–5		48		48
Underlying net result	994	242	–733	–14	21	690	–55	–369	776		776

* Analysed as a part of operating expenses.

Operating segments Insurance

2008	Insurance Benelux	Insurance CRE	Insurance US *	Insurance US Closed Block VA	Insurance Latin America	Insurance Asia/Pacific	ING IM	Corporate Line Insurance	Total Insurance segments	Eliminations	Total Insurance
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	850	–23	1,800		1,800
– Total investment and other income	3,161	307	1,798	755	200	364	–6	2,967	9,546	–1,252	8,294
Total underlying income	10,957	2,942	13,655	7,971	757	8,976	844	2,988	49,090	–1,252	47,838
Underlying expenditure											
– Underwriting expenditure	9,141	2,400	13,357	8,318	376	8,314	4	1,716	43,626		43,626
– Operating expenses	1,255	332	967	184	211	602	633	34	4,218		4,218
– Other interest expenses	469	23	201	–1	18	62	26	1,723	2,521	–1,252	1,269
– Other impairments			–2				2	81	81		81
Total underlying expenses	10,865	2,755	14,523	8,501	605	8,978	665	3,554	50,446	–1,252	49,194
Underlying result before taxation	92	187	–868	–530	152	–2	179	–566	–1,356		–1,356
Taxation	79	46	–81	–204	3	6	49	–259	–361		–361
Minority interests	–18	12			5	14	1	–7	7		7
Underlying net result	31	129	–787	–326	144	–22	129	–300	–1,002		–1,002

* Excluding US Closed Block VA

Notes to the consolidated annual accounts of ING Group continued

Operating segments Total					
2008	Total Banking	Total Insurance	Total Segments	Eliminations	Total
Underlying income					
– Gross premium income		37,744	37,744		37,744
– Net interest result – banking operations	11,062		11,062	90	11,152
– Commission income	2,675	1,800	4,475		4,475
– Total investment and other income	–2,106	8,294	6,188	–382	5,806
Total underlying income	11,631	47,838	59,469	–292	59,177
Underlying expenditure					
– Underwriting expenditure		43,626	43,626		43,626
– Operating expenses	9,686	4,218	13,904		13,904
– Other interest expenses		1,269	1,269	–292	977
– Additions to loan loss provision	1,235		1,235		1,235
– Other impairments	117	81	198		198
Total underlying expenses	11,038	49,194	60,232	–292	59,940
Underlying result before taxation	593	–1,356	–763		–763
Taxation	–231	–361	–592		–592
Minority interests	48	7	55		55
Underlying net result	776	–1,002	–226		–226

Reconciliation between IFRS-EU and Underlying income, expenses and net result			
2008	Income	Expenses	Net result
Underlying	59,177	59,940	–226
Divestments	7,114	7,444	–176
Special items		394	–327
IFRS-EU	66,291	67,778	–729

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

Special items in 2008 relate to the nationalisation of the annuity business in Argentina, the combining of ING Bank and Postbank and the unwinding of Postkantoren.

Impairments and reversals of impairments on investments per operating segment	
2008	Impairments
Retail Belgium	4
ING Direct	1,891
Commercial Banking (excluding Real Estate)	267
Insurance Benelux	898
Insurance CRE	31
Insurance US *	966
Insurance Asia/Pacific	432
ING IM	17
Corporate Line Banking	296
Corporate Line Insurance	18
	4,820

* Excluding US Closed Block VA

In 2008 no reversals of impairments on investments were recognised.

The impairments on investments are presented within Investment income.

Notes to the consolidated annual accounts of ING Group continued

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

2010	Retail Netherlands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commercial Banking	ING Real Estate	Corporate Line Banking	Total Banking
Interest income	7,916	3,093	10,059	1,544	452	43,121	1,145	2,357	69,687
Interest expense	1,524	1,015	6,310	817	261	42,509	263	3,572	56,271
	6,392	2,078	3,749	727	191	612	882	–1,215	13,416

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

2010	Insurance Benelux	Insurance CRE	Insurance US *	Insurance US Closed Block VA	Insurance Latin America	Insurance Asia/ Pacific	ING IM	Corporate Line Insurance	Total Insurance
Interest income	2,138	359	3,422	28	160	808	12	357	7,284
Interest expense	26	–2	55	5	68	3	4	633	792
	2,112	361	3,367	23	92	805	8	–276	6,492

* Excluding US Closed Block VA

Total interest income (external) and interest expenses (external)

2010	Total Banking	Total Insurance	Eliminations	Total
Interest income	69,687	7,284		76,971
Interest expense	56,271	792	93	57,156
	13,416	6,492	–93	19,815

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

2009	Retail Netherlands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commercial Banking	ING Real Estate	Corporate Line Banking	Total Banking
Interest income	8,039	3,020	10,532	1,603	399	54,143	1,259	2,151	81,146
Interest expense	2,200	1,541	7,451	950	246	52,531	178	3,510	68,607
	5,839	1,479	3,081	653	153	1,612	1,081	–1,359	12,539

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

2009	Insurance Benelux	Insurance CRE	Insurance US *	Insurance US Closed Block VA	Insurance Latin America	Insurance Asia/ Pacific	ING IM	Corporate Line Insurance	Total Insurance
Interest income	2,073	368	3,326	2	250	655	5	105	6,784
Interest expense	43	–3	206	5	68	5	7	385	716
	2,030	371	3,120	–3	182	650	–2	–280	6,068

* Excluding US Closed Block VA

Total interest income (external) and interest expenses (external)

2009	Total Banking	Total Insurance	Eliminations	Total
Interest income	81,146	6,784		87,930
Interest expense	68,607	716	165	69,488
	12,539	6,068	–165	18,442

Notes to the consolidated annual accounts of ING Group continued

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

2008	Retail Nether-lands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commer-cial Banking	ING Real Estate	Corporate Line Banking	Total Banking
Interest income	8,405	4,260	13,292	1,915	469	66,406	2,134	1,320	98,201
Interest expense	2,942	3,393	10,501	1,512	332	65,095	374	2,970	87,119
	5,463	867	2,791	403	137	1,311	1,760	–1,650	11,082

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

2008	Insurance Benelux	Insurance CRE	Insurance US *	Insurance US Closed Block VA	Insurance Latin America	Insurance Asia/ Pacific	ING IM	Corporate Line Insurance	Total Insurance
Interest income	2,358	376	2,980	759	573	910	4	121	8,081
Interest expense	72	3	260	–1	70	3	17	554	978
	2,286	373	2,720	760	503	907	–13	–433	7,103

* Excluding US Closed Block VA

Total interest income (external) and interest expenses (external)

2008	Total Banking	Total Insurance	Elimi-nations	Total
Interest income	98,201	8,081		106,282
Interest expense	87,119	978	40	88,137
	11,082	7,103	–40	18,145

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

Total assets and Total liabilities by segment

	2010		2009		2008	
	Total assets	**Total liabilities**	Total assets	Total liabilities	Total assets	Total liabilities
Insurance Benelux	**92,614**	**83,472**	85,131	78,413	83,527	77,033
Insurance CRE	**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	**47,356**	**24,294**	37,946	20,383	45,133	31,918
Total Insurance segments	**373,232**	**317,302**	325,135	287,188	350,723	318,410
Eliminations Insurance segments	**–47,374**	**–12,511**	–34,840	–12,835	–38,633	–18,721
Total Insurance operations	**325,858**	**304,791**	290,295	274,353	312,090	299,689
Total Banking operations	**955,923**	**908,740**	901,354	861,476	1,050,389	1,021,793
Eliminations	**–34,671**	**–13,705**	–28,006	–11,964	–30,816	–18,747
Total ING Group	**1,247,110**	**1,199,826**	1,163,643	1,123,865	1,331,663	1,302,735

* Excluding US Closed Block VA

Further balance sheet related information for the banking operations is provided by segment in the section ‘Risk Management’.

Notes to the consolidated annual accounts of ING Group continued

52 INFORMATION ON GEOGRAPHICAL AREAS

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

Geographical areas

2010	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Other	Eliminations	Total
Total income	**17,178**	**4,352**	**7,854**	**17,472**	**1,143**	**9,706**	**428**		**–3,246**	**54,887**
Total assets	**644,257**	**161,781**	**326,179**	**340,925**	**20,763**	**103,560**	**44,160**	**153**	**–394,668**	**1,247,110**

Geographical areas

2009	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Other	Eliminations	Total
Total income	14,880	4,573	7,676	15,143	1,194	8,571	865		–5,137	47,765
Total assets	580,272	156,059	317,994	295,615	17,698	82,987	35,365	134	–322,481	1,163,643

Geographical areas

2008	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Other	Eliminations	Total
Total income	16,817	4,042	7,889	24,511	2,497	14,120	733		–4,318	66,291
Total assets	805,247	173,064	429,369	294,003	26,821	110,609	37,211	108	–544,769	1,331,663

53 NET CASH FLOW FROM INVESTING ACTIVITIES

Information on the impact of companies acquired or disposed of is presented in Note 30 'Companies acquired and companies disposed'.

54 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

Interest and dividend received and paid

	2010	2009	2008
Interest received	**78,335**	89,229	103,534
Interest paid	**–57,435**	–69,274	–84,061
	20,900	19,955	19,473
Dividend received	**500**	344	937
Dividend paid		–1,030	–3,207

55 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

	2010	2009	2008
Treasury bills and other eligible bills	**4,441**	3,182	7,009
Amounts due from/to banks	**3,227**	2,387	2,217
Cash and balances with central banks	**13,072**	15,390	22,045
Cash and cash equivalents at end of year	**20,740**	20,959	31,271

Interest and dividend received and paid

	2010	2009	2008
Treasury bills and other eligible bills included in trading assets	**1,697**	2,284	2,770
Treasury bills and other eligible bills included in available-for-sale investments	**2,744**	898	4,239
	4,441	3,182	7,009

Notes to the consolidated annual accounts of ING Group continued

Amounts due to/from banks

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

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

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

Risk management

amounts in millions of euros, unless stated otherwise

EXECUTIVE SUMMARY / RISK MANAGEMENT IN 2010

Taking measured risks is part of ING Group's business. As a financial services company active in banking, investments, life insurance and retirement services, ING Group is naturally exposed to a variety of risks. To ensure measured risk-taking, ING Group 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 Group on risk-related issues. The main financial risks ING Group 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 Group is exposed to non-financial risks, e.g. operational and compliance risks. The way ING Group manages these risks on a day-to-day basis is described in this risk management section.

As a result of the decision to manage ING Bank and ING Insurance separately, in preparation of the two IPOs for ING Insurance, ING has implemented two distinct risk appetite frameworks for both Bank and Insurance. The common concept however is that risk appetite is expressed as the tolerance to allow key capital ratios to deviate from their target levels under adverse scenarios. These frameworks are discussed in more detail in the specific sections of this risk management section.

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

A second commonality between ING Bank and ING Insurance is that both need to prepare for significant changes in the regulatory requirements. ING Bank needs to prepare for the implementation of Basel III (which is the Basel II reform packages on risk and liquidity), while 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). Additionally, both in Bank and Insurance, 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)	Revaluations through equity (pre-tax)	Write-downs through P&L (pre-tax)	Other changes	Balance Sheet value [1]	Revaluations through equity (pre-tax)
US Subprime RMBS	1,647	–227	584	–380	15	1,428	–811
US Alt-A RMBS	2,847	237	476	–76	–517	2,964	–239
CDO/CLOs	1,530	–9	118	–1	–379	1,792	–127
CMBS	7,330	–512	1,322	–84	–1,619	7,711	–1,834
Total pressurised ABS	13,354	–511	2,500	–541	–2,500	13,895	–3,011
Pressurised Government and Financial Institution bonds for both Greece and Ireland [2]	1,633	–564	–439		–1,700	3,772	–125

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

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

Risk management continued

Executive summary / Risk management in 2010

Changes in the ABS portfolio

The total ABS portfolio remained relatively stable, changing slightly from EUR 58.4 billion at year-end 2009 to EUR 58.5 billion per end of year 2010. The value of the ING Bank ABS portfolio decreased approximately 1.1 billion during 2010, while the value of the ING Insurance portfolio increased by EUR 1.2 billion, leading to the stable value for ING Group. 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.

ING maintained its policy to restrict reinvestment of maturing debt securities as much as possible and any reinvestments were mainly in government 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 still took impairments on the ABS portfolio. These impairments mainly relate to the ING Insurance part of the ABS portfolio, as EUR 481 million of the total EUR 541 million in impairments are for the ING Insurance portfolio. The credit quality of the ING ABS portfolio did not materially change, with 88% of the portfolio rated A or better at year-end 2010 (88% in 2009).

Of the exposure on pressurised ABS EUR 10.1 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 34 'Fair value of financial assets and liabilities'.

Fair value hierarchy of pressurised ABS bonds

2010	**Level 1**	**Level 2**	**Level 3**	**Total**
US Subprime RMBS		**17**	**1,629**	**1,646**
US Alt-A RMBS		**2,210**	**638**	**2,848**
CDO/CLOs	**9**	**64**	**558**	**631**
CMBS	**1**	**4,941**	**9**	**4,951**
Total pressurised ABS	**10**	**7,232**	**2,834**	**10,076**

Fair value hierarchy of pressurised ABS bonds

2009	Level 1	Level 2	Level 3	Total
US Subprime RMBS		16	1,412	1,428
US Alt-A RMBS		2,308	656	2,964
CDO/CLOs	7	392	323	722
CMBS	123	5,074	18	5,215
Total pressurised ABS	130	7,790	2,409	10,329

Changes in the bond portfolio (excluding ABS)

The ING bond portfolio increased EUR 18.7 billion from EUR 217.7 billion at year-end 2009 to EUR 236.4 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 Bank, the bonds portfolio includes Government and Financial Institutions unsecured bonds exposures in Greece and Ireland classified as available-for-sale of EUR 570 million (fair value), with a related negative revaluation reserve in equity of EUR –285 million. Furthermore it includes, for ING Bank, similar exposures classified as loans and advances of EUR 358 million (amortised cost).

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 in the fair value hierarchy levels 1 and 2.

ONGOING CHANGES IN THE REGULATORY ENVIRONMENT

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

Risk management continued

ING Group

To accomplish this, regulations focus primarily at the following issues:
- More stringently aligning risk taking with the capital position of the financial institutions (revised Basel II for Banks). The revised Basel II proposal narrows the definition of core Tier 1 and Tier 1 capital, and introduces a new definition for a leverage ratio that should become part of Pillar 1 of the Basel framework. The Basel Committee has also issued a proposal for new liquidity requirements. Apart from the above mentioned proposals, another aim is to reduce 'pro-cyclicality', to avoid that banks would be required to increase their capital in bad times when it is most scarce. Lastly, there is the proposal to introduce additional capital requirements for counterparty credit risk. Collectively these proposals are referred to as Basel III. These were issued by the Basel Committee in December 2010, and the deadlines for implementation of specific item are set for the timeframe 2013 to 2018.
- Separate from but in line with the Basel III proposal, on a country level local regulators are becoming more stringent on the maximum credit risk bank subsidiaries and branches are allowed to run on their parents. In the absence of a supranational harmonization this leads to so-called trapped pools of liquidity, i.e. excess liquidity in a country that can not merely be transferred (unsecured) to a central treasury in another country.
- 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.

ING GROUP RISK GOVERNANCE

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

The mission of ING Group'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 Group'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 Group 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 Boards for ING Bank and ING Insurance (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.

Group Risk Management Function

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

Chief Risk Officer

The Chief Risk Officer (CRO), who is an Executive 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 group 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 management continued

ING Group

Group Risk Organisation
The organisation chart below illustrates the functional reporting lines within the ING Group 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 Bank and ING Insurance;
- Corporate Market Risk Management (CMRM) is responsible for market and liquidity risk management of ING Bank;
- 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 Bank and 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 Group level. The Corporate Risk General Managers and the CRO are responsible for the harmonisation and standardisation of risk management practices.

In addition two staff departments report to the CRO:
- Risk Integration and Analytics, which is responsible for inter-risk aggregation processes and for providing group-wide risk information to the CRO and Executive 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.

Group Risk Committees
The Group risk committees described below are also part of the second line of defence. They act within the overall risk policy and delegated authorities granted by the Executive Board and have an advisory role to the CRO. To ensure a close link between the business lines and the risk management function, the business line heads and the respective 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 Group 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 Group Credit Committee – Policy (GCCP): Discusses and approves policies, methodologies and procedures related to credit, country and reputation risks within ING Group. The GCCP meets on a monthly basis.
- ING Group Credit Committee – Transaction Approval (GCCTA): Discusses and approves transactions which entail taking credit risk (including issuer investment risk). The GCCTA meets twice a week.
- ING Group Investment Committee (GIC): Discusses and approves investment proposals for ING Real Estate. The GIC meets on a monthly basis.
- Asset and Liability Committee ING Bank (ALCO Bank): Discusses and approves on a monthly basis the overall risk profile of all ING Bank's market risks that occur in its Commercial Banking, and Retail & Direct Banking activities. ALCO Bank defines the policy regarding funding, liquidity, interest rate mismatch and solvency for ING Bank.
- 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, Business risk in Banking, inter-risk diversification and consistency across risk types and businesses. The committee meets at least twice a year.

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

In addition, the Finance and Risk Committee (F&RC) is a platform for the CRO and the CFO, along with their respective direct reports, to discuss and decide on issues that relate to both the finance and risk domains. Given the decision to manage ING Bank and ING Insurance separately, there is a separate F&RC Bank and a separate F&RC Insurance. To cover specific Group issues there is also a F&RC Group meeting, which meets at least on a quarterly basis.

Risk management continued

ING Group

ING Group 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.

Given the operational split of ING Bank and ING insurance, which became effective as of 1 January 2011, the risk organisation made preparations to reflect this new structure as of 1 January 2011. This change was most significant for departments providing risk management for both ING Bank and ING Insurance. In the new structure all risk departments have a small team for ING Group, and separate teams for ING Bank and ING Insurance.

Board level risk oversight

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

- The Executive Board is responsible for managing risks associated with the ING Group activities. Its responsibilities include ensuring that internal risk management and control systems are effective and that ING Group complies with relevant legislation and regulations. The Executive Board reports on these issues and discusses the internal risk management and control systems with the Supervisory Board. On a quarterly basis, the Executive Board reports on the Group'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 Executive 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 Group'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. It reports in the Supervisory Board on the main risk issues in the group.

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

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

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

Group 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 Group 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.

ING GROUP RISK PROFILE

ING Group uses an integrated risk management approach for both its banking activities and for its Insurance activities, and no longer uses an integrated risk management approach for ING Group. This change from a group-wide integrated risk management approach to a separate ING Bank and a separate ING Insurance approach was driven by the operational separation of ING Bank and ING Insurance. As a result the ING Group risk dashboard showing the metrics Earnings at Risk and Capital at Risk will no longer be provided. At the ING Bank and ING Insurance level new risk frameworks were introduced and implemented in 2010.

The Executive Board uses the risk appetite frameworks to monitor and manage the actual risk profile in relation to the Bank and Insurance risk appetite, which are derived from the Group risk appetite in line with the Group target AA rating. It enables the Executive Board to identify possible risk concentrations and to support strategic decision making. The risk appetite levels are reported to the Executive Board on a quarterly basis and are subsequently presented to the Risk Committee.

Risk management continued

ING Group

ING Group's risk appetite is defined by the Executive Board as part of the strategic planning process. As a next step, strict boundaries are established with regard to acceptable risk types and levels for ING Bank and ING Insurance. In 2010 the revised risk appetite frameworks were implemented, after approval by the Executive Board. As a result the Group risk appetite level is replaced by separate Bank and Insurance risk appetite frameworks, which closely align the risk appetite setting with capital management targets.

The overall ING Group risk appetite is translated (through the bank and insurance risk appetite frameworks) into specific limits which are cascaded down into the organisation, e.g.
- Credit risk limits for bank and insurance business;
- ALM/Value at Risk limits for bank operations;
- Mortality and concentration limits for insurance operations.

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

Risk types
ING measures the following main types of risks that are associated with its business activities:
- Credit risk: the risk of potential loss due to default by ING's debtors (including bond issuers) or trading counterparties;
- Market risk: the risk of potential loss due to adverse movements in market variables. Market risks include interest rate, equity, real estate, implied volatility, credit spread, and foreign exchange risks;
- Liquidity risk: the risk that ING or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions;
- 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.

Risk measures related to accounting are based on IFRS-EU where relevant, as IFRS-EU is the primary accounting basis, which is also the basis for statutory and regulatory reporting and risk management.

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

Several stress tests are produced both scheduled and ad hoc, both in the form of sensitivity or scenario analysis, either for a specific risk type or for ING Bank or 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)) and the Committee for European Banking Supervision (CEBS; which per 1 January 2011 became the European Banking Authority (EBA)), several ad hoc tests have been conducted.

ING participated in the stress test conducted by the CEBS, which included a baseline scenario, adverse scenario and an additional sovereign shock for 2010 and 2011. This stress test demonstrated ING Bank's resilience in adverse scenarios. The strong underlying commercial performance resulting from ING Bank's franchises helps to offset the impact of higher loan loss provisions, additional impairments across the securities portfolios and increased risk-weighted assets.

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

Risk management continued

ING Bank

ING BANK FINANCIAL RISKS

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

ING BANK RISK PROFILE

Risk appetite

For financial risks, ING expresses its risk appetite as the tolerance to allow key capital ratios to deviate from their target levels. Therefore the risk appetite is closely aligned to Capital Management activities and policies. ING has expressed tolerances for its risk weighted solvency metrics (core Tier 1 ratio), for non-risk weighted solvency metrics (leverage ratio) and for more value based metrics (economic capital). The metrics that are presented in the following sections relate to each of these metrics and present earnings sensitivity, economic and regulatory capital.

Due to the way the risk departments are organised, these metrics are presented at a higher aggregation level (business line combinations) than the identified segments in Note 51 'Operating Segments':
- Retail Banking Benelux contains Retail Netherlands, Retail Belgium (including Retail Luxemburg);
- Retail Banking Direct & International contains Retail Central Europe, Retail Asia and ING Direct;
- Commercial Banking corresponds to Commercial Banking and ING Real Estate;
- Bank Corporate Line coincides with Corporate Line.

ING Bank Economic Capital and Regulatory Capital

Main risk management tools for ING Bank are Economic Capital and Regulatory Capital. Both of these Capital metrics are used to determine the amount of capital that a transaction or business unit requires to support the economic risks it faces. The main difference in these metrics is the point of view, where Regulatory Capital is driven by methodologies prescribed by regulators and Economic Capital is driven by internally developed models (all of which are approved by the Dutch Central Bank).

Economic capital is a non accounting measure which is inherently subject to dynamic changes and updates as a result of ING Bank's portfolio mix and general market developments. ING Bank has been and will continue recalibrating the underlying assumptions to its economic capital models, which may have a material impact on the economic capital values going forward.

The tables below provide ING Bank's Economic Capital and Regulatory Capital by risk type and business line combination.

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

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

Economic Capital (Bank diversified only) by business line combination

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

* Corporate Line includes funding activities at ING Bank level, internal transactions between business units and the Corporate Line, and is managed by Capital Management.

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

Risk management continued

ING Bank

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

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

The above risk metrics and risk appetite framework do not cover liquidity risk: the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities, at reasonable cost and in a timely manner, when they come due. ING Bank has a separate liquidity management framework in place to manage this risk, which is described in the Liquidity Risk section of ING Bank.

ING BANK – CREDIT RISKS

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

ING Group's credit policy is to maintain an internationally diversified loan and bond portfolio, while avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of top-down concentration limits for countries, individual borrowers and borrower groups. The aim within the banking sector is to expand relationship-banking activities, while maintaining stringent internal risk/return guidelines and controls.

Credit analysis is risk/reward-oriented in that the level of credit analysis is a function of the risk amount, tenor, structure (e.g. covers received) of the facility, and the risks entered into. For credit risk management purposes, financial obligations are classified into lending, investments, pre-settlement, money market and settlement. ING Bank applies a Risk Adjusted Return on Capital framework (RAROC) which measures the performance of different activities and links to shareholder value creation. The use of RAROC increases focus on risks versus rewards in the decision making process, and consequently stimulates the use of scarce capital in the most efficient way. More sophisticated RAROC-based tools are used internally to ensure a proper balance of risk and reward within the portfolio and concentration parameters. ING's credit analysts make use of publicly available information in combination with in-house analysis based on information provided by the customer, peer group comparisons, industry comparisons and other quantitative techniques.

Risk categories for credit risk

Lending risk

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

Investment risk

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

Money market risk

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

Risk management continued

ING Bank

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

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

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

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

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

Risk management continued

ING Bank

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.

ING Bank Credit Risk Profile

ING Bank's credit exposure is mainly related to traditional lending to individuals and businesses followed by investments in bonds and other securitised assets. Loans to individuals are mainly mortgage loans secured by residential property. Loans (including guarantees issued) to businesses are often collateralised, but can be unsecured based on internal analysis of the borrowers' creditworthiness. Bonds in the investment portfolio are generally unsecured. Securitised assets such as Mortgage Backed Securities and Asset Backed Securities are secured by the pro rata portion of the underlying diversified pool of assets (commercial or residential mortgages, car loans and/or other assets) held by the security's issuer. The last major credit risk source involves pre-settlement exposures which arise from trading activities, including derivatives, repurchase transactions and securities lending/borrowing and foreign exchange transactions.

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

Credit quality: ING Bank portfolio, outstandings

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

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

Risk classes

Risk classes are defined based upon the quality of the exposures in terms of creditworthiness, varying from investment grade to problem grade expressed in S&P equivalents.

Risk management continued

ING Bank

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

		Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International [2]		Total ING Bank	
		2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
1	(AAA)	**3.0%**	3.7%		0.2%	**14.4%**	18.3%	**6.3%**	7.8%
2–4	(AA)	**14.3%**	18.7%	**4.0%**	3.7%	**12.1%**	16.0%	**10.6%**	13.4%
5–7	(A)	**24.0%**	21.4%	**5.3%**	5.2%	**18.8%**	17.1%	**16.8%**	15.2%
8–10	(BBB)	**22.9%**	20.7%	**42.0%**	38.4%	**28.9%**	25.1%	**30.4%**	27.4%
11–13	(BB)	**22.8%**	22.0%	**37.7%**	41.0%	**15.5%**	13.5%	**24.4%**	24.5%
14–16	(B)	**8.8%**	8.5%	**6.2%**	6.4%	**7.2%**	6.9%	**7.5%**	7.3%
17–22	(CCC & Problem Grade)	**4.2%**	5.0%	**4.8%**	5.1%	**3.1%**	3.1%	**4.0%**	4.4%
		100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

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

Risk classes ING Bank portfolio per credit risk type, as % of total outstandings [1]

		Lending		Investment		Money Market		Pre-settlement		Total ING Bank	
		2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
1	(AAA)	**0.8%**	0.8%	**30.8%**	36.9%	**1.2%**	1.2%	**3.5%**	5.9%	**6.3%**	7.8%
2–4	(AA)	**6.0%**	7.0%	**25.0%**	29.4%	**22.0%**	45.6%	**18.2%**	26.1%	**10.6%**	13.4%
5–7	(A)	**9.5%**	9.1%	**27.1%**	23.1%	**62.3%**	40.9%	**50.8%**	46.7%	**16.8%**	15.2%
8–10	(BBB)	**36.9%**	35.0%	**12.5%**	6.5%	**6.8%**	7.2%	**17.2%**	11.0%	**30.4%**	27.4%
11–13	(BB)	**32.0%**	32.7%	**2.0%**	1.8%	**7.4%**	4.7%	**7.3%**	7.3%	**24.4%**	24.5%
14–16	(B)	**9.9%**	9.9%	**0.6%**	0.6%	**0.1%**	0.2%	**1.8%**	1.8%	**7.5%**	7.3%
17–22	(CCC & Problem Grade)	**4.9%**	5.5%	**2.0%**	1.7%	**0.2%**	0.2%	**1.2%**	1.2%	**4.0%**	4.4%
		100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

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

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

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

	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International		Total ING Bank	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Private Individuals	**0.1%**	0.2%	**74.8%**	74.4%	**51.6%**	48.1%	**40.0%**	38.2%
Commercial Banks	**17.9%**	19.5%	**0.3%**	0.5%	**13.2%**	13.7%	**11.2%**	12.0%
Non-Bank Financial Institutions	**13.3%**	13.0%	**1.2%**	1.8%	**16.8%**	18.8%	**11.1%**	11.8%
Central Governments	**11.7%**	12.3%	**1.0%**	0.9%	**8.0%**	8.8%	**7.3%**	7.8%
Real Estate	**13.6%**	13.8%	**4.5%**	4.3%	**0.9%**	0.8%	**6.4%**	6.6%
Natural Resources	**10.3%**	8.7%	**0.4%**	0.4%	**0.4%**	0.3%	**3.9%**	3.4%
Transportation & Logistics	**5.7%**	5.6%	**1.4%**	1.5%	**0.2%**	0.1%	**2.5%**	2.5%
Services	**3.3%**	3.2%	**3.3%**	3.2%	**0.3%**	0.3%	**2.2%**	2.2%
Lower Public Administration	**0.5%**	0.5%	**1.3%**	1.2%	**4.3%**	3.4%	**2.1%**	1.7%
Other	**23.6%**	23.2%	**11.8%**	11.8%	**4.3%**	5.7%	**13.3%**	13.8%
	100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

(1) Based on the total amount of credit risk in the respective column using ING's internal credit risk measurement methodologies.
(2) Economic sectors below 2% are not shown separately but grouped in Other.

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

Risk management continued

ING Bank

ING Bank Lending portfolio

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

	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International		Total ING Bank	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Netherlands	**20.7%**	20.2%	**74.8%**	75.4%	**4.8%**	6.1%	**31.2%**	32.1%
Belgium	**7.7%**	9.8%	**23.2%**	21.4%	**0.2%**	0.3%	**9.6%**	9.9%
Rest of Europe	**45.2%**	44.6%	**1.3%**	1.7%	**53.3%**	56.3%	**35.0%**	35.6%
Americas	**14.8%**	15.5%	**0.2%**	0.6%	**26.4%**	24.3%	**14.6%**	14.1%
Asia/Pacific	**11.2%**	9.5%	**0.1%**	0.5%	**15.3%**	13.0%	**9.4%**	8.0%
Rest of World	**0.4%**	0.4%	**0.4%**	0.4%			**0.2%**	0.3%
Total	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

[1] Geographic areas are based on the country of residence of the obligor.

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

In line with ING's de-risking strategy, the portfolio developments in most countries mirrored the developments in the portfolio as a whole. The depreciated Euro versus the Australian and the US dollar had an upward effect of the exposure to the Americas and Asia/Pacific and therewith also to the Retail Banking Direct and International and Commercial Banking portfolios.

Problem loans

Renegotiated Loans

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

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

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

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

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

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

Risk management continued

ING Bank

Past-due obligations

ING continually measures its portfolio in terms of payment arrears. Particularly the retail portfolios are closely monitored on a monthly basis to determine if there are any significant changes in the level of arrears. Generally, an obligation is considered 'past-due' if a payment of interest or principal is more than one day late. In practice, the first 5–7 days after an obligation becomes past due are considered to be operational in nature for the retail loans and small businesses. After this period, letters are sent to the obligor reminding the obligor of its (past due) payment obligations. If the arrear still exists after 90 days, the obligation is transferred to one of the 'problem loan' units. In order to reduce the number of arrears, ING banking units encourage their obligors to set up automatic debits from their (current) accounts to ensure timely payments.

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

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

(1) Based on lending (consumer loans and residential mortgages only).
(2) The amount of past due but not impaired financial assets in respect of non-lending activities was not material.

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

ING tracks past due but not impaired loans most closely for the consumer loan and residential mortgage portfolios. Generally, all loans with past due financial obligations of more than 90 days are automatically reclassified as impaired. For the wholesale lending portfolios and securities obligations, there are generally reasons for declaring a loan impaired prior to being 90 days past due. These include, but are not limited to, ING's assessment of the customer's perceived inability to meet its financial obligations, or the customer filing for bankruptcy or bankruptcy protection. In some cases, a material breach of financial covenants will also trigger a reclassification of a loan to the impaired category.

Impaired loans and provisions

The credit portfolio is under constant review. A formal analysis takes place quarterly to determine the provisions for possible bad debts, using a bottom-up approach. Conclusions are discussed by the ING Provisioning Committee (IPC), which advises the Executive Board on specific provisioning levels. ING Bank identifies as impaired loans those loans for which it is probable, based on current information and events that the principal and interest amounts contractually due will not be collected in accordance with the contractual terms of the loan agreements.

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

Impaired Loans: ING Bank portfolio, outstandings by economic sector

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

ING holds specific and collective provisions of EUR 2,697 million and EUR 1,404 million, respectively (2009: EUR 2,115 million and EUR 1,246 million respectively), representing the difference between the amortised cost of the portfolio and the estimated recoverable amount discounted at the effective rate of interest. In addition, there is EUR 1,051 million in provisions against the performing portfolio and EUR 43 million of Net Present Value forgone for re-modified loans.

Risk management continued

ING Bank

Provisions: ING Bank portfolio

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

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

ING BANK – MARKET RISKS

Market risk is the risk that movements in market variables, such as interest rates, equity prices, foreign exchange rates and real estate prices, negatively impact the bank's earnings, market value or liquidity position. Market risk either arises through positions in trading books or through the banking book positions. The trading positions are held for the purpose of benefiting from short-term price movements, while the banking book positions are intended to be held in the long term (or until maturity) or for the purpose of hedging other banking book positions.

Within ING Bank, market risk (including liquidity risk) falls under the supervision of the ALCO function with ALCO Bank as the highest approval authority. ALCO Bank determines the overall risk appetite for market risk. The ALCO function is regionally organised with the exception of ING Direct, which has a separate ALCO. The business lines Retail Banking and Commercial Banking are represented within the respective regional and local ALCO's. The ALCO structure within ING Bank facilitates top-down risk management, limit setting and the monitoring and control of market risk. This ensures a correct implementation of the ING Bank risk appetite.

The Corporate Market Risk Management department (CMRM) is the designated independent department that is responsible for the design and execution of the bank's market risk management functions in support of the ALCO function. The CMRM structure recognises that risk taking and risk management to a large extent occurs at the regional/local level. Bottom-up reporting allows each management level to fully assess the market risk relevant at the respective levels.

CMRM is responsible for determining adequate policies and procedures for managing market risk and for monitoring the compliance with these guidelines. An important element of the market risk management function is the assessment of market risk in new products and businesses. Furthermore CMRM maintains an adequate limit framework in line with ING Bank's risk appetite. The businesses are responsible for adhering to the limits that ultimately are approved by ALCO Bank. Limit breaches are reported to senior management on a timely basis and the business is required to take the appropriate actions to reduce the risk position.

Market risk in trading books

Organisation

Within the trading portfolios, positions are maintained in the professional financial markets for the purpose of benefiting from short term price movements. Market risk arises in the trading portfolios through the exposure to various market risk factors, including interest rates, equity prices and foreign exchange rates.

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

With respect to the trading portfolios, CMRM focuses on the management of market risks of Commercial Banking (mainly Financial Markets) as this is the only business line where significant trading activities take place. Trading activities include facilitation of client business, market making and proprietary position taking in cash and derivatives markets. CMRM is responsible for the development and implementation of trading risk policies and risk measurement methodologies, the reporting and monitoring of risk exposures against approved trading limits and the validation of pricing models. CMRM also reviews trading mandates and limits, and performs the gatekeeper role in the product review process. The management of trading market risk is performed at various organisational levels, from CMRM overall down to specific business areas and trading offices.

Risk management continued

ING Bank

Measurement
CMRM uses the Value at Risk (VaR) methodology as its primary risk measure. The VaR for market risk quantifies, with a one-sided confidence level of 99%, the maximum overnight loss that could occur due to changes in risk factors (e.g. interest rates, foreign exchange rates, equity prices, credit spreads, implied volatilities) if positions remain unchanged for a time period of one day. The impact of historical market movements on today's portfolio is estimated, based on equally weighted observed market movements of the previous year. ING uses VaR with a 1-day horizon for internal risk measurement, control and backtesting, and VaR with a 10-day horizon for determining regulatory capital. ING's VaR model has been approved by De Nederlandsche Bank (DNB: the Dutch Central Bank) to be used for the regulatory capital calculation of its most important trading activities.

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

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

Limitations
VaR as a risk measure has some limitations. VaR uses historical data to forecast future price behaviour. Future price behaviour could differ substantially from past behaviour. Moreover, the use of a one-day holding period (or ten days for regulatory calculations) assumes that all positions in the portfolio can be liquidated or hedged in one day. In periods of illiquidity or market events, this assumption may not hold true. Also, the use of 99% confidence level means that VaR does not take into account any losses that occur beyond this confidence level.

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

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

Stress testing
Stress tests are used for the monitoring of market risks under extreme market conditions. Since VaR in general does not produce an estimate of the potential losses that can occur as a result of extreme market movements, ING uses structured stress tests for monitoring the market risk under these extreme conditions. Stress scenarios are based on historical as well as hypothetical extreme events. The result of the stress testing is an event risk number, which is an estimate of the profit and loss account effect caused by a potential event and its world-wide impact for ING Commercial Banking. The event risk number for the ING Commercial Banking trading activity is generated on a weekly basis. Like VaR, event risk is limited by ALCO Bank. ING's event risk policy basically consists of defined stress parameters per country and per market (fixed income, equity, foreign exchange, credit and related derivative markets). The scenarios and stress parameters are evaluated against extreme actual market movements. If and when necessary, ING evaluates specific stress scenarios, as an addition to its structural stress tests. These specific scenarios relate to current concerns, like political instability in certain regions, terrorist attacks or extreme movements, e.g. in credit spreads.

Other trading controls
VaR and event risk limits are the most important limits to control the trading portfolios. Furthermore, ING uses a variety of other limits to supplement VaR and event risk. Position and sensitivity limits are used to prevent large concentrations in specific issuers, sectors or countries. In addition to this, other risk limits are set with respect to the activities in exotic derivatives trading. The market risk of these products is controlled by product specific limits and constraints.

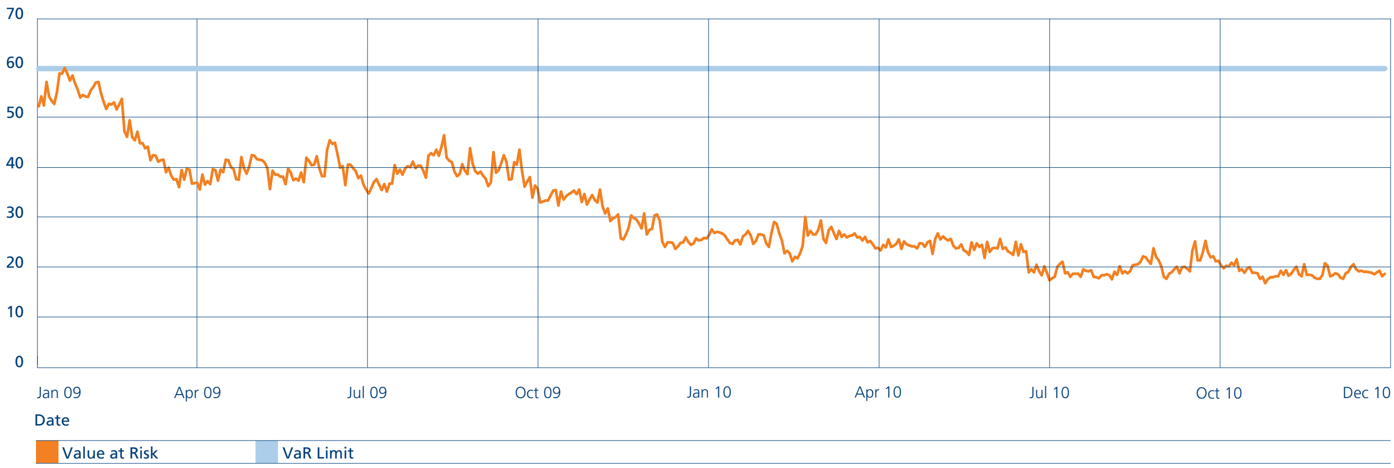
Risk management continued

ING Bank

Development of market risks

The following chart shows the development of the overnight VaR under a 99% confidence interval and a 1-day horizon. The overnight VaR is presented for the ING Commercial Banking trading portfolio for 2009 and 2010. Several banking books are governed by the trading risk process and are therefore excluded from the non-trading risk table and included in the below trading risk graph and table.

CONSOLIDATED TRADING VAR ING COMMERCIAL BANKING 2009–2010
in EUR millions



During 2010 the overnight VaR for the ING Commercial Banking trading portfolio ranged from EUR 17 million to EUR 30 million. No limit excess was observed in 2010.

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

Consolidated VaR trading books: ING Commercial Bank								
		Minimum		Maximum		Average		Year end
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Interest rate/Credit spread	**18**	20	**29**	54	**22**	33	**20**	24
Equity	**1**	4	**9**	11	**4**	7	**3**	5
Foreign exchange	**1**	1	**9**	11	**2**	5	**4**	3
Diversification [1]					**–6**	–6	**–8**	–5
Total VaR	**17**	24	**30**	60	**22**	39	**19**	27

[1] The total VaR for the columns Minimum and Maximum can not be calculated by taking the sum of the individual components since the observations for both the individual markets as well as total VaR may occur on different dates.
Note: the above categories are consistent with those used for internal risk management purposes and do not relate to financial statement captions.

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

REGULATORY CAPITAL

According to the Dutch regulation, regulatory capital for trading portfolios can be calculated using the standardised approach (CAD1) or an internal model approach (CAD2). In 1998, ING received approval from the DNB to use an internal Value-at-Risk (VAR) model to determine the regulatory capital for the market risk in most trading books of ING Bank. Market risk capital of CAD2 trading books is calculated according to the internal VaR model, where diversification is taken into account. On the other hand, market risk capital of CAD1 books is calculated using standardised fixed risk weights.

Risk management continued

ING Bank

Regulatory capital requirements

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

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

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

VaR Values for Internal Model Approach Portfolios

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

[1] The total VaR for the columns Minimum and Maximum can not be calculated by taking the sum of the individual components since the observations for both the individual markets as well as total VaR may occur on different dates.
Note: the above categories are consistent with those used for internal risk management purposes and do not relate to financial statement captions

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

Sensitivities

The following tables show the largest trading foreign exchange positions and interest rate and credit spread sensitivities. The credit spread sensitivities are furthermore split in different risk classes and sectors.

Most important foreign exchange positions (year-end 2010)

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

Risk management continued

ING Bank

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

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

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

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

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

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

Market risk in banking books

Organisation

ING makes a distinction between trading and banking (non-trading) books. Positions in trading books can change swiftly, whereas positions in banking books are intended to be held until maturity, or at least for the long term. Books that contain positions to hedge exposures resulting from commercial activities are also classified as banking books.

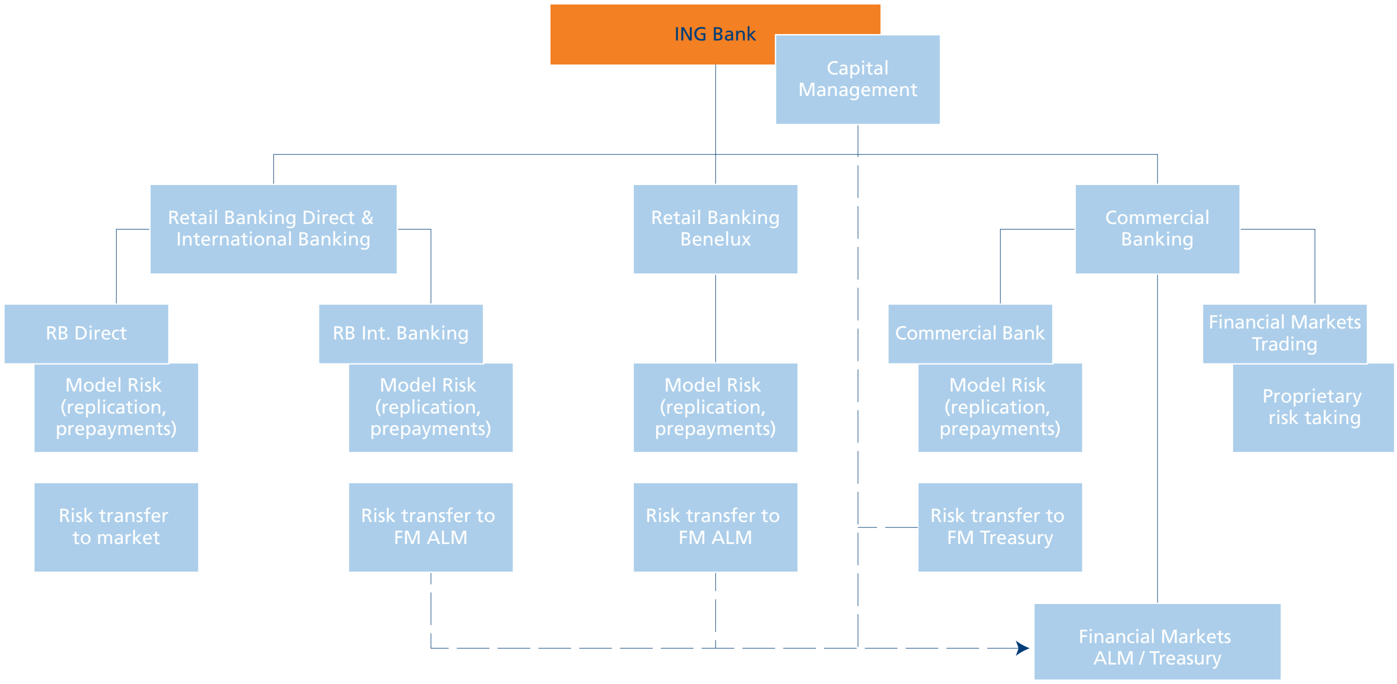
Interest rate risk in banking books

Interest rate risk in the banking books is defined as the potential negative impact that moving interest rates have on earnings or market value. The management of interest rate risk follows the Asset & Liability Management (ALM) framework as approved by ALCO Bank. Main goal of this framework is to transfer interest rate risks out of commercial books in order to manage it centrally. This allows for a clear demarcation between commercial business results and results on unhedged interest rate positions.

Risk management continued

ING Bank

ING distinguishes three types of activities: investment of own capital (by Capital Management), commercial business (ING Direct, Retail Banking and Commercial Bank) and the strategic interest rate position (Financial Markets ALM). The scheme below presents the ALM framework:



Below, the three activities are described in more detail.

Capital Management is responsible for managing the investment of own funds (core capital). Capital is invested longer term, targeting to maximize return, while keeping it stable at the same time.

Commercial activities lead to interest rate risk, as repricing tenors of assets differ from those of liabilities. Linear interest rate risk is transferred out of the commercial business into the risk center (FM ALM), leaving convexity risk and model risk with the commercial business. The convexity risk is a result of hedging products that contain embedded options, like mortgages, by using linear hedge instruments. Model risk reflects the potential imperfect modelling of client behaviour. The risk transfer process takes place on a monthly basis, but more often if deemed necessary, for instance in volatile markets.

In the risk transfer process, client behavioural characteristics play an important role. The behaviour in relation to mortgages, loans, savings and demand deposits is modelled by CMRM, following extensive research. Models and parameters are back-tested regularly and updated when deemed necessary. In the modelling of savings and current accounts different elements play a role: pricing strategies, outstanding and expected volumes and the level and shape of the yield curve. The analyses result in an investment rule for the various portfolios. With respect to mortgages and loans, prepayment behaviour and the interest sensitivity of the embedded offered rate options are modelled.

In line with other commercial businesses, ING Direct transfers interest rate risk out of their commercial books to a large extent. The difference being that the risks are transferred directly to the external market, instead of to the risk center (FM ALM).

Within ING Commercial Banking, FM ALM contains the strategic interest rate position. The main objective is to maximise the economic value of the book and to generate adequate and stable yearly earnings within the risk appetite boundaries set by ALCO Bank.

In the following sections, the interest rate risks in the banking books are presented. ING uses risk measures based on both an earnings and a value perspective. Earnings Sensitivity (ES) is used to provide the earnings perspective and the Net Present Value (NPV)-at-Risk and Basis Point Value (BPV) figures provide the value perspective. Several small banking books are governed by the trading risk process and are therefore excluded from the following banking book risk tables. These are included in the trading risk graph and table in the section 'Market Risk in Trading Books'.

Risk management continued

ING Bank

Earnings Sensitivity (ES)
ES measures the impact of changing interest rates on (pre tax) IFRS earnings. The ES figures in the table below reflect an instantaneous shock up of 1% and a time horizon of one year. Management interventions are not incorporated in these calculations; balance sheet dynamics (e.g. new business) where significant.

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

Earnings Sensitivity banking books (1% instantaneous upward shock to interest rates)		
	2010	2009
By currency		
Euro	**–237**	–262
US dollar	**–114**	–193
Pound sterling	**–15**	–26
Other	**50**	46
Total	**–316**	–435

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

Net Present Value (NPV) at Risk
NPV-at-Risk measures the impact of changing interest rates on value. As a full valuation approach is applied, the risk figures include convexity risk that results from embedded optionalities like mortgage prepayment options. Like for ES calculations, an instantaneous shock up of 1% is applied.

The full value impact cannot be directly linked to the balance sheet or profit and loss account, as fair value movements in banking books are generally not reported through the profit and loss account or through equity. The largest part, namely the value mutations of the amortised cost balances, is neither recognised in the balance sheet nor directly in the profit and loss account. The value mutations are expected to materialise over time in the profit and loss account, if interest rates develop according to forward rates throughout the remaining maturity of the portfolio.

The NPV at Risk is dominated by the interest rate sensitive long term investments of own funds. The value of these investments is impacted significantly if interest rates move up by 1%. Convexity risk in retail portfolios as well as the strategic interest position in FM ALM also contribute significantly to the overall NPV at Risk.

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

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

Basis Point Value (BPV)
BPV measures the impact of a 1 basis point increase in interest rates on value. To a large extent the BPV and NPV at Risk reflect the same risk – the difference being that BPV does not reflect convexity risk, given the small shift in interest rates.

In line with NPV at Risk, the bank's overall BPV position is dominated by the long term investment of capital, as the present value of this position is significantly impacted if interest rates move up by 1 basis point. Convexity risk plays a less important role, given that BPV only reflects small movements in interest rates.

Risk management continued

ING Bank

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

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

Foreign exchange (FX) risk in banking books

FX exposures in banking books result from commercial banking business (business units doing business in other currencies than their base currency), foreign currency investments in subsidiaries (including realised net profit and loss) and strategic equity stakes in foreign currencies. The policy regarding these exposures is briefly explained below.

Commercial banking business

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

FX Translation result

ING's strategy is to protect the target core Tier 1 ratio against FX rate fluctuations, whilst limiting the volatility in the profit and loss account. Compared to 2009 the strategy has changed in 2010 from protection of the target Tier 1 ratio to protection of the target core Tier 1 ratio instead. The strategy is achieved by deliberately taking foreign currency positions equal to certain target positions, such that the target core Tier 1 capital and risk-weighted assets are equally sensitive in relative terms to changing FX rates.
The following table presents the currency exposures in the banking books for the most important currencies:

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

The US dollar Net Exposure increased significantly in 2010 due to the changed hedging strategy. The significantly decreased Net exposure in the category 'Other currency' is mainly caused by changed share prices of strategic equity stakes. For example, the share price of the bank's equity stake in Bank of Beijing decreased over 30%, decreasing the Chinese renmimbi exposure.

In order to measure the remaining sensitivity of the target core Tier 1 ratio against FX rate fluctuations, the core Tier 1 ratio at Risk (cTaR) measure is used. It measures the drop in the core Tier 1 ratio from the target when stressing a certain FX rate. The stress scenarios for the FX rates that are used for calculating the cTaR, are presented in the last two columns. Only the scenarios are presented that negatively impact the target core Tier 1 ratio: depending on whether the actual foreign currency position is above or below the target position, the worst case scenario is either negative or positive. A positive stress scenario means that the foreign currency appreciates against the Euro. For the Pound sterling this means that at the end of 2010 the target core Tier 1 ratio would only decrease by 0.02% in absolute terms (e.g. from 9.02% to 9.00%) if the Pound Sterling appreciates by 15%. Backtesting shows that the strategy was effective in 2010; the core Tier 1 ratio was hardly affected by changing FX rates.

Risk management continued

ING Bank

Core Tier 1 ratio sensitivity ING Bank	cTaR		Stress Scenario	
	2010	2009	**2010**	2009
By currency				
US dollar		0.11%	**15%**	15%
Pound sterling	**0.02%**	0.02%	**15%**	15%
Polish zloty	**0.01%**	0.01%	**–15%**	–15%
Australian dollar	**0.01%**	0.02%	**–20%**	–20%
Turkish lira		0.01%	**25%**	–25%

Equity price risk in banking books
Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments whose value reacts similarly to a particular security, a defined basket of securities, or a securities index. ING Bank maintains a strategic portfolio with substantial equity exposure in its banking books. This equity exposure mainly consists of the investments in associates of EUR 1,494 million (2009: EUR 1,396 million) and equity securities held in the Available-for-Sale (AFS) portfolio of EUR 2,741 million (2009: EUR 3,682 million). The value of equity securities held in the AFS portfolio is directly linked to equity security prices with increases/decreases being recognised (except in the case of impairment) in the revaluation reserve. During the year ended 31 December 2010 the revaluation reserve relating to equity securities held in the Available-for-Sale portfolio fluctuated between a month-end low amount of EUR 1,723 million (2009: EUR 1,198 million) and a high amount of EUR 2,370 million (2009: EUR 2,536 million). Investments in associates are measured in accordance with the equity method of accounting and the balance sheet value is therefore not directly linked to equity security prices.

Equities Unrealised Gains and Losses in the AFS portfolio	**2010**	2009
Gross unrealised gains	**1,728**	2,570
Gross unrealised losses	**–1**	–12
Total	**1,727**	2,558

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

Real Estate price risk in banking books
Real estate price risk arises from the possibility that real estate prices fluctuate. This affects both the value of real estate assets and earnings related to real estate activities. The crisis in the financial markets could lead to a further slowdown of the world economy in general. These global economic factors could have future negative consequences for the value of and earnings related to real estate assets.

ING Bank has three different categories of real estate exposure on its banking books. First, ING Bank owns buildings it occupies. Second, ING Bank has a Real Estate Development company for which results are dependent on the overall real estate market. The general policy is to mitigate this risk by pre-sale agreements where possible. Third, ING Bank has co-invested seed capital and bridge capital to support the launch of various real estate funds. A decrease in real estate prices will cause the value of this seed and bridge capital to decrease and will lower the level of third party assets under management, which in turn will reduce the fee income from this activity.

For the third category mentioned above, real estate price shocks will have a direct impact on reported net profit and loss. ING Bank's real estate exposure (i.e. including leverage and committed purchases) is EUR 5.2 billion of which EUR 2.0 billion is recorded as fair value through P&L. The remaining EUR 3.1 billion is booked at cost or is revalued through equity (with impairments going through P&L).

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

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

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

Risk management continued

ING Bank

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

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

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

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

ING BANK – LIQUIDITY RISK

Definition

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

Governance

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

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

The main objective of ING's liquidity risk framework is to ascertain – by means of proper risk appetite limits – that sufficient liquidity is maintained in order to ensure safe and sound operations under a variety of circumstances.

For this purpose liquidity risk is measured, managed and controlled from three different angles, namely a structural, a tactical and a contingency point of view.

Liquidity Risk Management

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

Structural liquidity risk

Structural liquidity risk is the risk that the structural, long term balance sheet cannot be financed timely or at a reasonable cost. For the purpose of managing structural liquidity risk, a specific advisory committee to ALCO Bank has been established.

This committee which consists of key representatives from Corporate Market Risk Management, Capital Management and Financial Markets focuses on all liquidity risk aspects from a going concern perspective. The main objective of the committee is to maintain a sound liquidity profile through:

- Maintaining a well diversified mix of funding sources in terms of instrument types (e.g. unsecured deposits, commercial paper, long term bonds or repurchase agreements), fund providers (e.g. professional money market players, wholesale and retail clients), geographic markets and currencies;
- Actively managing access to the capital markets by regularly issuing public debt in all material markets and the maintenance of investor relations;
- Holding a broad portfolio of eligible assets that can be utilised to obtain secured funding, e.g. from the repo market or (E)CB; in this respect the total eligible collateral position amounts to EUR 156.6 billion (nominal);
- Management of liquidity gaps, taking into account the asset mix and both the secured and unsecured funding opportunities of ING Bank;
- Maintaining a funds transfer pricing policy in which ING Bank's cost of liquidity is adequately reflected both under a going concern and a contingency perspective.

Risk management continued

ING Bank

With respect to funding sources, ING Bank aims to fund its own originated assets (loans) by an equal amount of own originated liabilities (deposits), meaning a loan-to-deposit ratio of approximately 1. Ultimo 2010 the LtD ratio (excluding securities at amortised costs and IABF receivable) equals 1.05. In the table below the actual funding mix is displayed.

ING Bank Funding Mix

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

The funding mix remained well diversified and according to targets set. Deposits accounted for 65% of the total funding mix.

Tactical liquidity risk
Liquidity risk which is resulting from short term cash and collateral positions is managed in the risk framework from a tactical liquidity risk perspective. The day-to-day management of the overall short term liquidity risk of ING Bank is delegated to Financial Markets Amsterdam, while regional and local Financial Markets departments manage liquidity in their respective regions and locations. Within Financial Markets, the focus is on the daily and intraday cash and collateral positions and the policy is to manage and sufficiently spread day-to-day funding requirements.

Contingency liquidity risk
Contingency liquidity risk specifically relates to the organisation and planning for liquidity management in time of stress. Within ING, for contingency purposes, a specific crisis team – consisting of key Board Members, representatives from Corporate Departments (e.g. Risk and Capital Management) and Treasuries – is responsible for liquidity management in times of crisis. Throughout the organisation adequate and up-to-date contingency funding plans are in place to enable senior management to act effectively and efficiently in times of crisis.

Contingency funding plans address both temporary and long-term liquidity disruptions, triggered by either a general market event or an ING specific event.

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

Risk management continued

ING Insurance

ING INSURANCE 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 Group 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 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 similar to that used within ING Bank. This is used 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.

Risk management continued

ING Insurance

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 Group's accounting policy for reserve adequacy as set out in the Accounting policies for the consolidated annual accounts of ING Group 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 Insurance 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 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.

ING INSURANCE RISK PROFILE

The risk appetite of ING Insurance is derived from the ING Group risk appetite 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 only applicable for the EurAsia and LatAm insurance business as 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.

Risk management continued

ING Insurance

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.

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 group 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 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	**10,362**	6,954

[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 (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.

Risk management continued

ING Insurance

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.

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 excluding 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 proportionally 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]	**3,614**	1,626
Total insurance operations EurAsia and LatAm	**10,362**	6,954

(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 and 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

ING Insurance

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) (2)]	
	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. The Group Insurance ALCO determines the aggregate limit and ensures that the Group 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 swaps 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	**–468**	–427

Risk management continued

ING Insurance

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. The tables below present figures before diversification between risks and business units. Interest rates are shocked 30% upwards and downwards relative to the ten year swaps rate. 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. Implied volatilities for swaptions are shocked by 30%. More details on the stress scenarios can be found in the Model Disclosure section.

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

ING Insurance

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 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)

	2010	2009		2010	2009
Continent			**Sector**		
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)

	2010	2009		2010	2009
Continent			**Sector**		
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

Risk management continued

ING Insurance

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.

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 Group has established actuarial and underwriting risk tolerance levels in specific areas of its insurance operations as described below. For non-life insurance, risk tolerance levels are set by line of business for catastrophic events (e.g. natural perils such as storms, earthquakes and floods) and for individual risks.

For the main non-life units (in the Benelux) 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 Group'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.

Risk management continued

ING Insurance

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).

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

The credit risks in the general accounts portfolio within ING Insurance are subject to the same principles, policies, definitions and measurement as those of the banking operations. The credit risks are measured and monitored by Corporate Credit Risk Management (CCRM) as well as local credit risk managers within the various locations where credit risk is taken within ING Insurance and ING Investment Management. 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.

Risk management continued

ING Insurance

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

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

		Insurance 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.

Risk management continued

ING Group – non-financial risks

ING GROUP – 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.

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 Boards Banking and Insurance 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 Operational Risk Management (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 Group, ING Bank and ING Insurance. The General Manager Corporate ORM also establishes and approves the policies and minimum standards, and assists and supports the Executive 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 Boards Banking and Insurance 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 Boards Banking and Insurance 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. On a group level the Operational & Residual Risk Committee approves the operational risk capital model.

Risk management continued

ING Group – non-financial risks

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. Two Executive IT Risk Steering Committees, one for Banking and one for Insurance, steer and monitor ING's IT Risk Management process and results. In 2011 these Committees will be integrated into the respective ORC's.

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

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

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

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

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

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

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

Capital calculation

The Operational Risk Capital model of ING is based on a Loss Distribution Approach (LDA). The Loss Distribution is based on both external and internal loss data exceeding EUR 1 million. The model is adjusted for the scorecard results, taking into account the specific quality of control in a business line and the occurrence of large incidents ('bonus/malus'). This provides an incentive to local (operational risk) management to better manage operational risk. The Bank Operational Risk Regulatory Capital is based on the Advanced Measurement Approach (AMA) decreased from EUR 3,309 million in 2009 to EUR 2,872 million in 2010 due to the extension and improvement of business environment factors and the update of the external operational loss data in the capital model as approved by the Operational & Residual Risk Committee of ING. ING started in 2010 a program to further enhance its AMA framework in 2011 and align with peer/industry practices as they develop.

Main developments in 2010

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

Risk management continued

ING Group – non-financial risks

- **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.

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 Executive 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 Executive 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).

Risk management continued

ING Group – non-financial risks

2. Advisory
Compliance Officers proactively advise their CEO, Management, local boards and committees, the next higher level Compliance Officer, and employees on Compliance Risk, responsibilities, obligations and concerns.

3. Scorecard
The Compliance Risk Management function works with the Operational Risk Management Scorecard process to evaluate how well the Compliance Risk Management Framework is embedded in each business. Scoring is based on the ability of the business unit to demonstrate that the required policies and procedures are implemented. The scoring indicates the level of control within the business units and the result is integrated with the Operational Risk Management results into ING's Dutch Central Bank approved regulatory capital model.

Extra-territorial regulations
Financial institutions continue to be closely scrutinized by regulatory authorities, governmental bodies, shareholders, rating agencies, customers and others to ensure they comply with the relevant laws, regulations, standards and expectations. Bank and insurance regulators and other supervisory authorities in Europe, the US and elsewhere continue to oversee the activities of financial institutions to ensure that they operate with integrity and conduct business in an efficient, orderly and transparent manner. ING seeks to meet the standards and expectations of regulatory authorities and other interested parties through a number of initiatives and activities, including scrutinizing account holder information, payment processing and other transactions to support compliance with regulations governing money laundering, economic and trade sanctions, bribery and other corrupt practices. The failure or 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 group 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.

Regulatory measures and law enforcement agencies investigations
ING Bank N.V. has continued discussions with its Dutch bank regulator De Nederlandsche Bank (DNB) related to transactions involving persons in countries subject to sanctions by the EU, the US and other authorities and its earlier review of transactions involving sanctioned parties. In connection with that review and related discussions ING Bank has undertaken to complete the global implementation of enhanced compliance and risk management procedures, and to monitor the implementation of such procedures on an ongoing basis, as instructed by DNB.

ING Bank remains in discussions with authorities in the US and in other jurisdictions concerning these matters, including ING Bank's compliance with Office of Foreign Asset Control requirements. ING Bank has received requests for information from US Government agencies including the US Department of Justice and the New York County District Attorney's Office. ING Bank is cooperating fully with the ongoing investigations. It is currently not feasible for ING Bank to determine how the ongoing investigations may be resolved or the timing of any such resolution, nor to estimate reliably the possible amount of any resulting fines and/or penalties, if any, which could be significant.

Main developments in 2010
- **Regulator relationships** – Group Compliance Risk Management continued to invest in pro-active relationships with regulators in the jurisdictions where ING operates, striving for an open approach and cooperation in identifying and mitigating compliance risks for ING.
- **Promoting Integrity Programme** – Group Compliance Risk Management, together with Group Human Resources and Corporate Communications & Affairs, created and launched the Promoting Integrity Programme (PIP), a global employee education programme focusing on ING's values (including the ING Business Principles) and the role they play in the business and workplace. A short e-learning course was developed and was followed by manager-led dialogue sessions, where employees discussed what integrity means for them and how the Business Principles can be applied in their daily work.
- **Building Customer Trust** – As part of ING's commitment to building customer trust, Group Compliance Risk Management and the business worked closely together to consider how both products and services could be enhanced to improve the customer experience.
- **Further embedding of Financial Economic Crime & Extra-Territorial Laws** – ING continued its strong commitment to preventing any involvement in criminal activity. Existing activities were further strengthened by increased monitoring and internal audits as well as awareness and training programmes and an internal annual sign-off process for senior management concerning implementation of policies and procedures relating to Financial Economic Crime and business with ultra high risk countries.

Risk management continued

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

This model disclosure section explains the models applied in deriving the disclosed metrics. The methodologies used to determine Economic Capital for ING Bank and ING Insurance are described, as are the methodologies for sensitivities for ING Insurance. The risk models for the Economic Capital calculations are reviewed on a periodic basis and validated by the internal Model Validation department. The ING Bank Economic Capital calculation is also used as part of the Basel II Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) that is performed regularly by the Dutch Central Bank.

ECONOMIC CAPITAL (ING BANK)

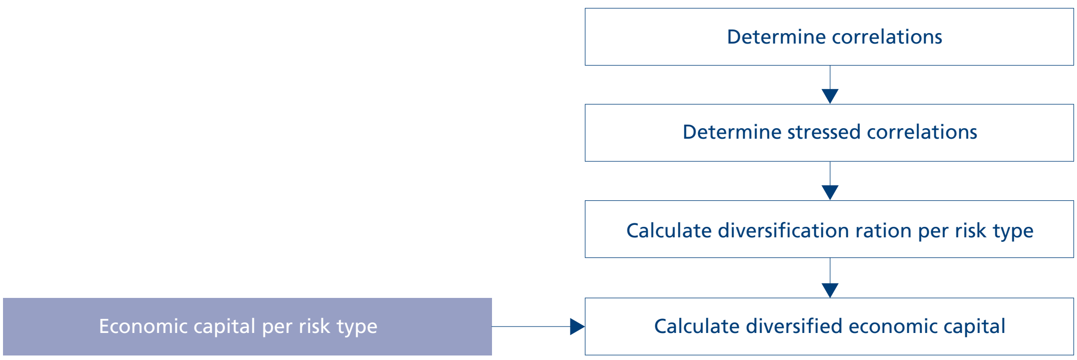
Economic Capital is defined as the amount of capital that a transaction or business unit requires in order to support the economic risks it originates. In general Economic Capital is measured as the unexpected loss above the expected loss at a given confidence level. This Economic Capital definition is in line with the net market value (or surplus) definition. The process of Economic Capital modelling enables ING Bank to allocate Economic Capital to the business units and support risk-adjusted performance measurement (RAROC).

The following fundamental principles and definitions have been established for the model:
- ING Bank uses a one-sided confidence level of 99.95% – consistent with ING's target debt rating (AA) – and a one-year time horizon to calculate Economic Capital;
- It is assumed that all currently known measurable sources of risk are included;
- The best estimate risk assumptions are as objective as possible and based on proper analysis of statistical data. There is one set of best-estimate assumptions for each risk type to be used at ING Bank;
- The Economic Capital calculation is based on fair value principles. Where complete and efficient markets exist, fair value is equal to market value;
- The Economic Capital calculations reflect known embedded options and the influence of client behaviour in banking products;
- The Economic Capital calculations are on a pre-tax basis and do not consider the effect of regulatory accounting and solvency requirements on capital levels;
- The framework does not include any franchise value of the business, discretionary management intervention or future business volumes and margins.

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

Aggregation model

The main processes executed in the ING Bank Economic Capital aggregation model are depicted in the flowchart below. The white boxes show the processes performed by the model while the shaded box indicates inputs from other corporate risk departments.



Risk management continued

Model disclosures

Correlation factors between risk types used for diversification are based on best estimate assumptions supported by statistical analysis of historical data, ING risk expert judgement, external benchmark studies and common logic. As a foundation correlations are applied based on a 90% confidence level, i.e. they correspond to the correlations observed in the 10% largest downward movements (a ‘1 in 10’ event). As shown in the flow-chart, the correlation factors are stressed upwards where necessary to account for potential measurement inaccuracy in extreme events due to limited historic data observations. Expert opinion is used for aggregating business and operational risk.

The Economic Capital for ING Bank involves the aggregation of the underlying Economic Capital of five risk types, namely credit, transfer, market, operational and business risks (latter two also referred to as other risks). These risk types are aggregated to provide a total diversified ING Bank Economic Capital by applying the variance-covariance approach with a 5 x 5 inter-risk correlation matrix.

For allocation of Economic Capital to units and products, diversification factors are calculated for each risk type. These factors are applied consistently throughout ING Bank. The level of diversification benefit is dependent on both the inter-risk correlations as well as the relative size of the undiversified Economic Capital exposure for each risk type.

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

CREDIT AND TRANSFER RISK (ING BANK)

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

Economic Capital for credit risk and for transfer risk are calculated using internally developed models with a 99.95% confidence level and a time horizon of one year, which represents ING’s desired credit rating. ING uses a series of credit risk models that can be grouped into three principal categories: Probability of Default (PD) models, which measure the standalone creditworthiness of individual debtors; Exposure at Default models (EAD) which estimate the size of the financial obligation at the moment of default in the future; and Loss Given Default Models (LGD), which estimate the recovery value of the underlying collateral or guarantees received (if any) and the unsecured part. Collectively, ING uses over 100 models for credit risk. The various models can be grouped into three categories: statistical, expert and hybrid.

The Economic Capital formula for credit and transfer risks relies on seven different risk drivers. In addition to the PD, EAD, and LGD models mentioned above, the formula also considers the industry and the country of the debtor as well as the remaining term of the respective underlying transactions. Lastly, the formula considers correlation of different asset class types.

The underlying formulas and models that are used for determining Economic Capital for credit and transfer risk are similar to those used for determining the level of regulatory capital that is required under Basel II (Pillar 1). Despite the fact that the same underlying formulas are used, (internal) Economic Capital and regulatory capital are not the same, due to various specific rules imposed by Basel II, such as regulatory caps and floors, and the use of the standardised approach for certain portions of ING’s portfolio. These differences are permitted under the Basel II guidelines.

The table below summarises different capital measures used for different purposes and shows the difference in key elements and purposes.

Credit Risk Capital Measurements	Methodology	Location	Confidence level	Inputs	Purpose
Regulatory Capital	Basel II Formula	Vortex Basel Engine (‘VBE’) in the Central Risk Database	99.90%	Basel II model outputs	RWA
Economic Capital	Risk Adjusted Capital (RAC) Closed Algebraic Formula	Vortex Risk Engine (‘VRE’) in the Central Risk Database	99.95%	Basel II model outputs excluding Basel II caps and floors, maturity, repayment schedules, correlation factors, migration matrix.	Pricing, Economic Capital for credit at transactional level and above

Risk management continued

Model disclosures

Economic Capital levels for credit and transfer risk are calculated regularly for most of the Commercial Bank, ING Retail Benelux, and the Retail Direct & International banking operations. On a quarterly basis, the Economic Capital for credit risk and transfer risk figures are consolidated with the corresponding Economic Capital components from other disciplines.

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.

CREDIT AND TRANSFER RISK (ING INSURANCE)
For the determination of Economic Capital for credit and transfer risk within the ING Insurance entities the methodology used is the same methodology as used for ING Bank, with the exception that the Economic Capital is reported on the 99.5% confidence level in line with the requirements for Solvency II.

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

Measurement
Economic capital for market risk is calculated using internally developed methodologies with a 99.95% confidence interval and a horizon of one year, which represents extreme events and ING's target rating. The Economic Capital for market risk for non trading portfolios is calculated for each risk type, while for trading portfolios it is calculated on a portfolio level. The calculations for Economic Capital market risk include real estate risk, foreign exchange rate risk, equity price risk, interest rate risk and model risks.

Real estate price risk includes both the market risks in both the investment portfolio and the development portfolio of ING Real Estate. The real estate price risk for the investment portfolio is calculated by stressing the underlying market variables. The stress scenarios at a portfolio level take into account all diversification effects across regions and real estate sectors. Also, the leverage of participations in the real estate investment funds is taken into account.

For the Real Estate development process, in addition to market sale price risk, the risk drivers of market rent, investor yield and construction delays are taken into account. Furthermore the risk model differs for each development phase (i.e., research, development, and construction) to appropriately reflect the risk taken in each phase. Using correlations, all risk drivers, and stages are used to calculate a possible market value loss representing the Economic Capital for market risk for the development portfolio.

For the direct market risks, the actual VaR (measured at a 99% confidence interval, a one day holding period and under the assumption of an expected value of zero) of the trading and non-trading portfolios is taken as a starting point for the Economic Capital calculations for market risk. To arrive at the Economic Capital for market risk, a simulation based model is used which includes scaling to the required confidence interval and holding period. In determining this scaling factor, several other factors are also taken into account like the occurrence of large market movements (events) and management interventions.

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

Economic Capital for market risk for the mortgage portfolios within ING Retail Banking (Benelux, Direct and International Banking) and ING Commercial Banking is calculated for embedded option risk (e.g. the prepayment option and offered rate option in mortgages). The embedded options are hedged using a delta-hedging methodology, leaving the mortgage portfolio exposed to convexity and volatility risk. The Economic Capital model for market risk is based on the estimated 99% confidence adverse interest rate change.

While aggregating the different Economic Capital market risk figures for the different portfolios, diversification benefits are taken into account as it is not expected that all extreme market movements will appear at the same moment.

The nature of market risk Economic Capital, evaluating the impact of extreme stress with a 99.95% confidence level, can sometimes be difficult to evidence in a statistical sound manner with the available historical data. The Economic Capital figures disclosed by ING Group are a best effort estimate based on available data and expert opinions.

Risk management continued

Model disclosures

OPERATIONAL RISK (ING BANK AND ING INSURANCE)

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 group policies). The scorecards are completed by all business units using self-assessment and reviewed by an expert panel who determines the final score. The set of scorecards lead to an increase or decrease of the capital of the specific unit.

'Bonus/Malus' approach (principle 5)

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

BUSINESS RISK (ING BANK)

Business Risk for ING Bank has been defined as the exposure to value loss due to fluctuations in volumes, margins and costs, as well as client behaviour risk. It is the risk inherent to strategy decisions and internal efficiency. The calculation of Business Risk Capital is done by calculation of two components,
(i) Expense risk relates to the (in)flexibility to adjust expenses, when that is needed.
(ii) Client behaviour risk relates to clients behaving differently than expected and the effect that this behaviour can have on customer deposits and mortgage pre-payments. The client behaviour risk is calculated by stressing the underlying assumptions in the models for behavioural assets and liabilities.

Each of these components is calculated separately, and combined to one business risk figure via the variance-covariance methodology.

ECONOMIC CAPITAL (ING INSURANCE)

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.

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.

Risk management continued

Model disclosures

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

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

Risk management continued

Model disclosures

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'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.

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.

Risk management continued

Model disclosures

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.

The table below 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.

Risk factor	Description shock
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. 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.
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.

Risk management continued

Model disclosures

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.

The table below provides an overview of the shock scenarios applied for Statutory Surplus sensitivities.

Risk factor	Description shock
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:

- Adjusted Equity (ING Group) – This rating agency concept is defined as shareholders' equity plus core Tier 1 securities, hybrid capital and prudential filters and certain adjustments. See 'Capital Base' disclosures in this section. This capital definition is applied in comparing available capital to core debt/financial leverage for ING Group/ING Insurance respectively;
- Insurance Group Directive (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.
- Core Tier 1 capital, Tier 1 capital and total BIS capital (ING Bank) – Tier 1 capital is defined as shareholders' equity including core Tier 1 securities plus hybrid capital less certain prudential filters and deductible items. Tier 1 and BIS capital divided by risk-weighted assets equal the Tier 1 and BIS ratio respectively. Core Tier 1 capital is equal to Tier 1 capital excluding hybrid capital;
- 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.
In March 2011, ING announced that it has informed the Dutch State of its intention to early repurchase EUR 2 billion of the non-voting equity securities (core Tier 1 securities) on 13 May 2011. The Dutch Central Bank has approved the intended repurchase. The total payment will amount to EUR 3 billion and includes a 50% repurchase premium. In order to fund the repayment, it is probable that ING Bank will pay, in 2011, a dividend out of retained earnings to ING Group for a similar amount. ING disclosed to the market that based on our capital position at that date the intended repurchase in May would reduce the core Tier 1 ratio by 90 basis points and the ratio is expected to remain above 8.5%.

POLICIES

The activities of Capital Management are executed on the basis of established policies, guidelines and procedures. The main documents that serve as guidelines for capital planning are the Capital Letter (comprising the approved targets and limits for capital), the Capital Planning Policy, the Dividend Policy and the Capital Request Policy. For the Corporate Treasury there are many policies and limits that guide the management of the balance sheets and the execution of capital market transactions.

The above capital definitions and policies have been approved by the ING Group Executive Board or delegated authorities.

Capital management continued

PROCESSES FOR MANAGING CAPITAL

In addition to measuring capital adequacy, Capital Management also ensures that sufficient capital is available through setting targets and limits relevant to the above mentioned metrics for ING Group, ING Bank and ING Insurance and ensuring adherence to the set limits and targets through planning and executing capital management transactions. The process is supplemented by stress testing and scenario analysis. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process and results in a quarterly capital update report which is presented to both the ING Group Finance and Risk Committee and the ING Group Executive and Supervisory Boards. The main objective of the assessment is to ensure that ING Group as a whole has sufficient capital relative to its risk profile both in the short and the medium term.

A key priority of Capital Management is to make sure that strong stand-alone companies are created for banking and insurance in preparation of the separation. All operating entities need to stay adequately capitalised based on local regulatory and rating agency requirements and interdependencies should be reduced to a minimum. The entities should also be able to access capital markets independently.

CAPITAL ADEQUACY ASSESSMENT

During 2010, ING Group, ING Bank and ING Insurance were adequately capitalised in relation to their risk profile and strategic objectives.

ING Group's Capital Base

	Group		Bank		Insurance	
	2010	2009	**2010**	2009	**2010**	2009
Shareholders' equity (parent)	**41,555**	33,863	**34,452**	30,222	**20,811**	15,887
Core Tier 1 securities	**5,000**	5,000				
Group hybrid capital [(1)]	**12,039**	11,478	**8,438**	8,057	**2,094**	3,410
Group leverage [(2)]	**8,462**	6,913				
Total capitalisation	**67,057**	57,254	**42,890**	38,279	**22,905**	19,297
Adjustments to equity:						
Revaluation reserve debt securities	**–1,158**	2,481	**–19**	123		
Revaluation reserve crediting to life policyholders	**1,488**	–156				
Revaluation reserve cashflow hedge	**–847**	–372	**639**	472	**–1,567**	–926
Goodwill [(3)]	**–2,908**	–3,244	**–1,645**	–1,636	**–1,425**	–1,857
Revaluation reserves fixed income & other	**–3,425**	–1,291	**–1,025**	–1,040	**–2,992**	–2,783
Revaluation reserves excluded from Tier 1 [(4)]			**–2,212**	–3,111		
Insurance hybrid capital [(5)]					**2,094**	1,944
Minority interests			**748**	960	**111**	80
Deductions Tier 1			**–1,069**	–1,073		
Tier 1 capital for Bank			**39,332**	34,015		
Other qualifying capital [(6)]			**9,813**	10,716		
Insurance Group Directive adjustments [(7)]					**–1,213**	651
Group leverage (core debt)	**–8,462**	–6,913				
Total capital (Adjusted Equity for Group, BIS capital for Bank and IGD capital for Insurance)	**55,169**	49,050	**49,145**	44,731	**20,906**	19,189

(1) Tier 1 instruments issued by ING Group (e.g. perpetual debt securities and preference shares) at nominal value. Group hybrid Tier 1 instruments other than preference shares are provided as hybrid capital to ING Bank or ING Insurance.
(2) Investments in subsidiaries less equity (including core Tier 1 securities) of the Group holding company. This net debt position is provided as equity to ING Insurance and ING Bank.
(3) According to the regulatory definition.
(4) Includes mainly EUR –1,727 million (2009: EUR –2,536 million) in participations (e.g. Kookmin, Bank of Beijing) and other equity investments, EUR –382 million (2009: EUR –546 million) for Real estate for own use. The Dutch banking regulator requires this deduction to be made from Tier 1 capital. This deduction is added back to Tier 2 capital.
(5) Qualifying dated subordinated debt issued by ING Insurance at nominal value.
(6) Consists of EUR 10,882 million (2009: EUR 11,789 million) Tier 2 capital and no Tier 3 (2009: nil), offset by EUR 1,069 million (2009: EUR 1,073 million) of regulatory deductions.
(7) An adjustment for the Dutch Financial supervision act. A 'test-of-adequacy' has to be included in the available capital measurement. The revaluation reserve debt securities and revaluation reserve crediting to life policyholders are not reversed out of the IGD capital definition.

REGULATORY REQUIREMENTS

ING BANK

Capital adequacy and the use of regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision (The Basel Committee) and the European Union Directives, as implemented by the Dutch Central Bank (DNB) for supervisory purposes. The minimum Tier 1 ratio is 4% and the minimum total capital ratio (known as the BIS ratio) is 8% of all risk-weighted assets.

Capital management continued

BASEL II

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

Capital position of ING Bank		
	2010	2009
Shareholders' equity (parent)	**34,452**	30,222
Minority interests [1]	**748**	960
Subordinated loans qualifying as Tier 1 capital [2]	**8,438**	8,057
Goodwill and intangibles deductible from Tier 1 [1]	**–1,645**	–1,636
Deductions Tier 1	**–1,069**	–1,073
Revaluation reserve [3]	**–1,592**	–2,515
Available capital – Tier 1	**39,332**	34,015
Supplementary capital – Tier 2 [4]	**10,882**	11,789
Available Tier 3 funds		
Deductions	**–1,069**	–1,073
BIS capital	**49,145**	44,731
Risk-weighted assets	**321,103**	332,375
Core Tier 1 ratio	**9,62%**	7,81%
Tier 1 ratio	**12.25%**	10.23%
BIS ratio	**15.30%**	13.46%
Required capital based on Basel I floor [5]	**29,860**	28,709
BIS ratio based on Basel I floor [5]	**13.17%**	12.46%

(1) According to the regulatory definition.
(2) Subordinated loans qualifying as Tier 1 capital have been placed by ING Groep N.V. with ING Bank N.V.
(3) Includes revaluation debt securities, revaluation reserve cash flow hedge and revaluation reserves equity and real estate (see ING's Capital base table, footnote 3).
(4) Includes eligible lower Tier 2 loans and revaluation reserves equity and real estate revaluations removed from Tier 1 capital.
(5) Using 80% of Basel I Risk-Weighted Assets in 2010 and 2009 respectively.

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 requirement.

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**	19,189
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 management continued

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 of the holding companies, mainly ING Verzekeringen NV and ING America Insurance 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.

At the end of 2009 the AFR for ING Insurance other than the US was EUR 19.0 billion. As described in the Risk Paragraph. 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.

ING GROUP
The debt/equity ratio of ING Group as at year-end 2010 was 13.30% (2009: 12.35%).

ING Group reports to the Dutch Central Bank as required under the Dutch implementation of the financial conglomerates directive. The directive mainly covers risk concentrations in the group, intra-group transactions and an assessment of the capital adequacy of the Group.

In the following table, we show the Group's FICO ratio on the following basis:
- Insurance required capital from applying European Solvency I rules to all ING Insurance entities globally (regardless of local capital requirements);
- Bank required capital based on applying Basel II with the Basel I floor (80% in 2010 and 2009);
- Group FICO capital using an approach similar to that used for Bank BIS capital and Insurance IGD capital whereby Group leverage is deducted.

Capital management continued

Regulatory required capital ING Group	2010	2009
BIS capital	**49,145**	44,731
IGD capital	**20,906**	19,188
Group leverage (core debt)	**-8,462**	-6,913
Regulatory capital	**61,589**	57,006
Required capital banking operations	**29,860**	28,709
Required capital insurance operations	**8,374**	7,774
Total required capital	**38,234**	36,483
FICO ratio	**161%**	157%

Capital adequacy and ratios

Quantitative disclosures on capital measures and ratios		Group		Bank		Insurance
	2010	2009	**2010**	2009	**2010**	2009
Tier 1 ratio (Bank)						
Year-end actual Tier 1 ratio			**12.25%**	10.23%		
Regulatory minimum Tier 1 ratio			**4.00%**	4.00%		
Target minimum Tier 1 ratio			**10.00%**	9.00%		
BIS ratio (Bank)						
Year-end actual BIS ratio			**15.30%**	13.46%		
Regulatory minimum BIS ratio			**8.00%**	8.00%		
Target minimum BIS ratio			**10.00%**	10.50%		
Insurance Groups Directive						
Year-end actual Capital coverage ratio					**250%**	247%
Required capital					**100%**	100%
Target ratio					**150%**	150%
Debt/Equity ratio (Group)						
Debt/Equity ratio	**13.30%**	12.35%				
Target maximum Debt/Equity ratio	**15.00%**	15.00%				

In 2010, ING decided to raise the Tier 1 ratio target, as a move towards the more demanding solvency requirements of Basel III. The Tier 1 ratio is a regulatory requirement. Internally ING manages on the Core Tier 1 ratio, for which the target was raised from 7.5% to 8.0% in 2010. The actual ratios were 7.81% at the end of 2009 and 9.62% at the end of 2010. ING expects the BIS ratio to lose its meaning.

Capital management continued

Main credit ratings of ING at 31 December 2010	Standard & Poor's	Moody's	Fitch
ING Group			
– long term	**A stable**	**A1 stable**	**A stable**
ING Bank			
– short term	**A-1**	**P-1**	**F1+**
– long term	**A+ stable**	**Aa3 stable**	**A+ stable**
– financial strength		**C+**	
ING Insurance			
– short term	**A-2**	**P-2**	**F2**
– 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.

In December 2009, ING repurchased the first half of the non-voting equity securities (core Tier 1 securities) of EUR 5 billion plus a total premium of EUR 605 million. In March 2011, ING announced that, at the next coupon reset date on 13 May 2011, ING intends to exercise its option for early repurchase of EUR 2 billion of the remaining non-voting equity securities (core Tier 1 securities). The total payment in May 2011 will amount to EUR 3 billion and includes a 50% repurchase premium. ING will fund this repurchase from retained earnings. Provided that the strong capital generation continues, ING intends to repurchase the remaining EUR 3 billion non-voting equity securities (core Tier 1 securities) ultimately by May 2012 from retained earnings. The final decision on repurchase of these non-voting equity securities (core Tier 1 securities) will be made before the envisaged repayment date and will be conditional upon there having been no material changes regarding ING's capital requirements and/or ING's outlook on external market circumstances.

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, asset management and banking 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 EXECUTIVE BOARD
Jan H.M. Hommen, *CEO and chairman*
Patrick G. Flynn, *CFO*
J.V. (Koos) Timmermans, *CRO*

Parent company balance sheet of ING Group

as at 31 December before appropriation of result

amounts in millions of euros	2010	2009
Assets		
Investments in wholly owned subsidiaries 1	55,245	46,006
Other assets 2	11,965	13,124
Total assets	67,210	59,130
Equity 3		
Share capital	919	919
Share premium	16,034	16,034
Non-voting equity securities	5,000	5,000
Legal reserves [1]	5,700	1,030
Other reserves	15,682	16,815
Unappropriated result	3,220	–935
	46,555	38,863
Liabilities		
Subordinated loans 4	11,766	11,139
Other liabilities 5	8,889	9,128
Total equity and liabilities	67,210	59,130

(1) Legal reserves includes Share of associates reserve of EUR 6,639 million (2009: EUR 1,985 million) and Currency translation reserve of EUR –939 million (2009: EUR –955 million).

References relate to the notes starting on page 260. These form an integral part of the parent company annual accounts.

Parent company profit and loss account of ING Group

for the years ended 31 December

amounts in millions of euros	**2010**	2009
Result of group companies after taxation	**3,414**	167
Other results after taxation 6	**–194**	–1,102
Net result	**3,220**	–935

Parent company statement of changes in equity of ING Group

for the years ended 31 December

amounts in millions of euros	Share capital	Share premium	Non-voting equity securities	Share of associates reserve	Currency translation reserve	Other reserves [1]	Total
Balance as at 1 January 2009	495	9,182	10,000	–8,719	–951	17,327	27,334
Unrealised revaluations after taxation				12,344		–112	12,232
Realised gains/losses transferred to profit and loss				1,406			1,406
Transfer to insurance liabilities/DAC				–2,079			–2,079
Change in cash flow hedge reserve revaluations				–805			–805
Unrealised revaluations from net investment hedges				–294			–294
Exchange rate differences				208	–4		204
Total amount recognised directly in equity				10,780	–4	–112	10,664
Net result						–935	–935
				10,780	–4	–1,047	9,729
Transfer to share of associates reserve				–76		76	
Issuance costs incurred		–222					–222
Repayment of non-voting equity securities			–5,000				–5,000
Dividend and repayment premium (2)						–605	–605
Proceeds from right issue	424	7,074					7,498
Purchases/sales of treasury shares						129	129
Balance as at 31 December 2009	919	16,034	5,000	1,985	–955	15,880	38,863
Unrealised revaluations after taxation				**3,549**		**–72**	**3,477**
Realised gains/losses transferred to profit and loss				**86**			**86**
Transfer to insurance liabilities/DAC				**–1,644**			**–1,644**
Change in cash flow hedge reserve revaluations				**475**			**475**
Unrealised revaluations from net investment hedges				**–777**			**–777**
Exchange rate differences				**2,874**	**16**		**2,890**
Total amount recognised directly in equity				**4,563**	**16**	**–72**	**4,507**
Net result						**3,220**	**3,220**
				4,563	**16**	**3,148**	**7,727**
Transfer to share of associates reserve				**91**		**–91**	
Employee stock option and share plans						**–57**	**–57**
Purchases/sales of treasury shares						**22**	**22**
Balance as at 31 December 2010	**919**	**16,034**	**5,000**	**6,639**	**–939**	**18,902**	**46,555**

(1) Other reserves includes Retained earnings, Treasury shares, Other reserves and Unappropriated result.
(2) The 2009 amount of EUR 605 million includes the coupon (EUR 259 million) and repayment premium (EUR 346 million) on the repayment of EUR 5 billion non-voting equity securities.

Accounting policies for the parent company annual accounts of ING Group

BASIS OF PRESENTATION

The parent company accounts of ING Group 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 reserve of the associates are reflected in the Share of associates reserve, which forms part of Shareholders' equity. Changes in balance sheet values due to the results of these associates, accounted for in accordance with ING Group 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 Share of associates reserve in Other reserves.

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.

Notes to the parent company annual accounts of ING Group

amounts in millions of euros, unless stated otherwise

1 INVESTMENTS IN WHOLLY OWNED SUBSIDIARIES

Investments in wholly owned subsidiaries

	Balance sheet value	
	2010	2009
ING Bank N.V.	**34,451**	30,211
ING Verzekeringen N.V.	**20,785**	15,880
Other	**9**	–85
	55,245	46,006

Other includes certain intercompany eliminations between ING Bank N.V. and ING Verzekeringen N.V.

Changes in investments in wholly owned subsidiaries

	2010	2009
Opening balance	**46,006**	34,698
Revaluations	**4,535**	10,800
Result of the group companies	**3,414**	167
Capital contribution	**1,500**	700
Dividend	**–200**	–350
	55,255	46,015
Changes in ING Groep N.V. shares held by group companies	**–10**	–9
Closing balance	**55,245**	46,006

2 OTHER ASSETS

Other assets

	2010	2009
Receivables from group companies	**11,502**	12,566
Other receivables, prepayments and accruals	**463**	558
	11,965	13,124

As at 31 December 2010 an amount of EUR 11,524 million (2009: EUR 12,397 million) is expected to be settled after more than one year from the balance sheet date.

3 EQUITY

Equity

	2010	2009
Share capital	**919**	919
Share premium	**16,034**	16,034
Non-voting equity securities	**5,000**	5,000
Share of associates reserve	**6,639**	1,985
Currency translation reserve	**–939**	–955
Other reserves	**18,902**	15,880
Equity	**46,555**	38,863

The Share of associates reserve includes the following components: Reserve for non-distributable profit of associates of EUR 907 million (2009: EUR 645 million) and Revaluation reserve of associates of EUR 5,732 million (2009: EUR 1,340 million).

Share capital

	Ordinary shares (par value EUR 0.24)			
	Number x1,000		Amount	
	2010	2009	**2010**	2009
Authorised share capital	**4,500,000**	4,500,000	**1,080**	1,080
Unissued share capital	**668,439**	668,439	**161**	161
Issued share capital	**3,831,561**	3,831,561	**919**	919

Notes to the parent company annual accounts of ING Group continued

Changes in issued share capital		
	Ordinary shares (par value EUR 0.24)	
	Number x1,000	Amount
Issued share capital as at 31 December 2008	2,063,148	495
Issue of shares	1,768,413	424
Issued share capital as at 31 December 2009	3,831,561	919

No changes have occurred in the issued share capital in 2010.

Share premium

Changes in Share premium are disclosed in the Parent company statement of changes in equity of ING Group.

Changes in other reserves and unappropriated result						
2010	**Retained earnings**	**Treasury shares**	**Other reserves**	**Total Other reserves**	**Unappro-priated result**	**Total**
Opening balance	**22,814**	**–737**	**–5,262**	**16,815**	**–935**	**15,880**
Result for the year					**3,220**	**3,220**
Unrealised revaluations after taxation	**–72**			**–72**		**–72**
Changes in treasury shares		**22**		**22**		**22**
Transfer to share of associates reserve	**–91**			**–91**		**–91**
Transfer to retained earnings	**–935**			**–935**	**935**	
Employee stock option and share plans	**–57**			**–57**		**–57**
Closing balance	**21,659**	**–715**	**–5,262**	**15,682**	**3,220**	**18,902**

Changes in other reserves and unappropriated result						
2009	Retained earnings	Treasury shares	Other reserves	Total Other reserves	Unappro-priated result	Total
Opening balance	23,838	–866	–4,916	18,056	–729	17,327
Result for the year					–935	–935
Unrealised revaluations after taxation	–112			–112		–112
Changes in treasury shares		129		129		129
Dividend and repayment premium			–346	–346	–259	–605
Transfer to share of associates reserve	76			76		76
Transfer to retained earnings	–988			–988	988	
Closing balance	22,814	–737	–5,262	16,815	–935	15,880

Dividend and repayment premium includes the coupon (EUR 259 million) and repayment premium (EUR 346 million) on the repayment of EUR 5 billion non-voting equity securities.

As at 31 December 2010, the Share of associates reserve included an amount of EUR 741 million (2009: EUR 645 million) related to the former Stichting Regio Bank that cannot be freely distributed.

Notes to the parent company annual accounts of ING Group continued

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 of 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 and are not included in Share of associates reserve.

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

- Unrealised revaluations within consolidated group companies, presented in the Revaluation reserve in the consolidated accounts, are presented in the Share of associates reserve in the parent company accounts;
- Foreign currency translation on consolidated group companies, presented in the Currency translation reserve in the consolidated accounts, is presented in the Share of associates reserve in the parent company accounts;
- 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 of associates reserve in the parent company accounts.

The total amount of non-distributable reserves is EUR 7,578 million (2009: EUR 2,940 million).

See Note 13 'Shareholders' equity (parent)/non-voting equity securities' in the consolidated annual accounts for additional information, including restrictions with respect to dividend and repayment of capital.

Change in treasury shares

	Amount		Number	
	2010	2009	**2010**	2009
Opening balance	**737**	866	**47,047,225**	36,457,118
Purchased/sold	**48**	47	**6,393,739**	11,648,765
Rights issue		–64		
Share-based payments	**–23**	–27	**–2,140,863**	–1,058,658
Other	**–47**	–85		
Closing balance	**715**	737	**51,300,101**	47,047,225

4 SUBORDINATED LOANS

Subordinated loans

Interest rate	Year of issue	Due date	Notional amount in original currency	Balance sheet value 2010	Balance sheet value 2009
9.000%	2008	Perpetual	EUR 10	**10**	10
8.500%	2008	Perpetual	USD 2,000	**1,469**	1,357
8.000%	2008	Perpetual	EUR 1,500	**1,485**	1,479
7.375%	2007	Perpetual	USD 1,500	**1,111**	1,022
6.375%	2007	Perpetual	USD 1,045	**773**	713
5.140%	2006	Perpetual	GBP 600	**692**	670
5.775%	2005	Perpetual	USD 1,000	**741**	690
6.125%	2005	Perpetual	USD 700	**504**	472
4.176%	2005	Perpetual	EUR 500	**498**	498
Variable	2004	Perpetual	EUR 1,000	**994**	999
6.200%	2003	Perpetual	USD 500	**363**	337
Variable	2003	Perpetual	EUR 750	**729**	731
7.200%	2002	Perpetual	USD 1,100	**748**	656
7.050%	2002	Perpetual	USD 800	**528**	465
8.439%	2000	31 December 2030	USD 1,500	**1,121**	1,040
				11,766	11,139

Notes to the parent company annual accounts of ING Group continued

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

5 OTHER LIABILITIES

Other liabilities by type

	2010	2009
Debenture loans	6,571	6,545
Amounts owed to group companies	501	532
Other amounts owed and accrued liabilities	1,581	1,783
Derivatives from group companies	236	268
	8,889	9,128

Debenture loans

			Balance sheet value	
Interest rate	Year of issue	Due date	2010	2009
5.625%	2008	3 September 2013	1,072	1,073
4.699%	2007	1 June 2035	117	117
4.750%	2007	31 May 2017	1,890	1,864
Variable	2006	28 June 2011	749	749
Variable	2006	11 April 2016	997	997
4.125%	2006	11 April 2016	746	745
6.125%	2000	4 January 2011	1,000	1,000
			6,571	6,545

The number of debentures held by group companies as at 31 December 2010 was 131,680 with a balance sheet value of EUR 13 million (2009: 114,760 with a balance sheet value of EUR 11 million).

Amounts owed to group companies by remaining term

	2010	2009
Within 1 year	1	32
More than 1 year but less than 5 years	500	500
	501	532

The interest rate on the Amounts owed to group companies as at 31 December 2010 was 2.850% (2009: 2.850%).

Other amounts owed and accrued liabilities are payable within one year.

Derivatives from group companies by remaining term

	2010	2009
Within 1 year	25	
More than 1 year but less than 5 years		30
More than 5 years	211	238
	236	268

Notes to the parent company annual accounts of ING Group continued

6 OTHER RESULTS AFTER TAXATION

2009

In order to obtain approval from the European Commission on ING Group's Restructuring Plan, ING Group agreed in October 2009 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 (EUR 930 million after tax), which was recognised as a one-off charge in the fourth quarter of 2009 for ING Groep N.V.(parent company). Reference is made to Note 33 'Related parties' in the consolidated annual accounts.

7 OTHER

Guarantees

As at 31 December 2010, ING Group had no guarantees given on behalf of third parties (2009: nil). ING Group has issued statements of liabilities in connection with Section 403, Book 2 of the Dutch Civil Code and other guarantees for a number of group companies.

Fiscal unity

ING Groep N.V. forms a fiscal unity with several Dutch banking entities for corporation tax purposes. ING Groep N.V. and its banking subsidiaries that form part of the fiscal unity are jointly and severally liable for taxation payable by the fiscal unity.

REMUNERATION OF SENIOR MANAGEMENT, EXECUTIVE BOARD AND SUPERVISORY BOARD

The information on share-based payment plans and remuneration of the members of the Executive Board and the Supervisory Board is included in the Consolidated annual accounts (page 164 up to and including page 165).

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 EXECUTIVE BOARD

Jan H.M. Hommen, *CEO and chairman*
Patrick G. Flynn, *CFO*
J.V. (Koos) Timmermans, *CRO*

Independent auditor's report

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

REPORT ON THE ANNUAL ACCOUNTS

We have audited the accompanying annual accounts 2010 of ING Groep N.V., Amsterdam (as set out on pages 88 to 265). 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 Executive 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, and the standards of the Public Company Accounting Oversight Board (United States). 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. 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 Groep 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 Groep N.V. as at 31 December 2010 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the report of the Executive 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 Executive 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

amounts in millions of euros, except for amounts per share

PROPOSED APPROPRIATION OF RESULT

The result is appropriated pursuant to Article 37 of the Articles of Association of ING Groep N.V., the relevant stipulations of which state that the Executive Board, subject to the approval of the Supervisory Board, determines what part of the result is to be appropriated to reserves and that the remaining part of the result shall be at the disposal of the General Meeting.

For 2010, the Executive Board, with the approval of the Supervisory Board, has determined to appropriate the entire result to reserves, so that no dividend will be paid.

In 2010 no interim dividend was paid.

Proposed appropriation of result

Net result	**3,220**
Addition to reserves pursuant to Article 37 (4) of the Articles of Association	**3,220**
At the disposal of the General Meeting of Shareholders pursuant to Article 37 (5) of the Articles of Association	**0**
Dividend of EUR 0.00 per ordinary share	

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.

In December 2009, ING repurchased the first half of the non-voting equity securities (core Tier 1 securities) of EUR 5 billion plus a total premium of EUR 605 million. In March 2011, ING announced that, at the next coupon reset date on 13 May 2011, ING intends to exercise its option for early repurchase of EUR 2 billion of the remaining non-voting equity securities (core Tier 1 securities). The total payment in May 2011 will amount to EUR 3 billion and includes a 50% repurchase premium. ING will fund this repurchase from retained earnings. Provided that the strong capital generation continues, ING intends to repurchase the remaining EUR 3 billion non-voting equity securities (core Tier 1 securities) ultimately by May 2012 from retained earnings. The final decision on repurchase of these non-voting equity securities (core Tier 1 securities) will be made before the envisaged repayment date and will be conditional upon there having been no material changes regarding ING's capital requirements and/or ING's outlook on external market circumstances.

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, asset management and banking 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.

Risk factors

Any of the risks described below could have a material adverse effect on the business activities, financial condition, results of operations and prospects of ING. The market price of ING shares could decline due to any of these risks, and investors could lose all or part of their investments. Additional risks of which the Company is not presently aware could also affect the business operations of ING and have a material adverse effect on ING's business activities, financial condition, results of operations and prospects. In addition, the business of a multinational, broad-based financial services firm such as ING is inherently exposed to risks that only become apparent with the benefit of hindsight. The sequence in which the risk factors are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

RISKS RELATED TO FINANCIAL CONDITIONS, MARKET ENVIRONMENT AND GENERAL ECONOMIC TRENDS.

Because we are a financial services company conducting business on a global basis, our revenues and earnings are affected by the volatility and strength of the economic, business and capital markets environments specific to the geographic regions in which we conduct business. The ongoing turbulence and volatility of such factors have adversely affected, and may continue to adversely affect, the profitability of our insurance, banking and asset management business.

Factors such as interest rates, securities prices, credit spreads, liquidity spreads, exchange rates, consumer spending, business investment, real estate and private equity valuations, government spending, inflation, the volatility and strength of the capital markets, political events and trends, and terrorism all impact the business and economic environment and, ultimately, the amount and profitability of business we conduct in a specific geographic region. In an economic downturn characterised by higher unemployment, lower family income, lower corporate earnings, higher corporate and private debt defaults, lower business investments, and lower consumer spending, the demand for banking and insurance products is usually adversely affected and ING's reserves and provisions typically would increase, resulting in overall lower earnings. Securities prices, real estate values and private equity valuations may also be adversely impacted, and any such losses would be realised through profit and loss and shareholders' equity. Some insurance products contain minimum return or accumulation guarantees. If returns do not meet or exceed the guarantee levels we may need to set up additional reserves to fund these future guaranteed benefits. In addition, we may experience an elevated incidence of claims and lapses or surrenders of policies. Our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Similarly, a downturn in the equity markets causes a reduction in commission income we earn from managing portfolios for third parties, income generated from our own proprietary portfolios, asset-based fee income on certain insurance products, and our capital base. We also offer a number of insurance and financial products that expose us to risks associated with fluctuations in interest rates, securities prices, corporate and private default rates, the value of real estate assets, exchange rates and credit spreads. See also '– Interest rate volatility may adversely affect our profitability', '–Turbulence and volatility in the financial markets have adversely affected us, and may continue to do so', and '–Current market conditions have increased the risk of loans being impaired. We are exposed to declining property values on the collateral supporting residential and commercial real estate lending' below.

In case one or more of the factors mentioned above adversely affects the profitability of our business this might also result, among others, in the following:

- the unlocking of deferred acquisition costs impacting earnings; and/or
- reserve inadequacies which could ultimately be realised through profit and loss and shareholders' equity; and/or
- the write down of tax assets impacting net results; and/or
- impairment expenses related to goodwill and other intangible assets, impacting net results; and/or
- movements in Risk Weighted Assets for the determination of required capital.

Shareholders' equity and our net result may significantly be impacted by turmoil and volatility in the worldwide financial markets. Negative developments in financial markets and/or economies may have a material adverse impact on shareholders' equity and net result in future periods, including as a result of the potential consequences listed above. The recalibration we have conducted of our economic capital models to reflect difficult market conditions experienced over recent years may have a material impact on our economic capital for credit risk. See 'Risks Related to the Group – Turbulence and volatility in the financial markets have adversely affected us, and may continue to do so'.

Adverse capital and credit market conditions may impact our ability to access liquidity and capital, as well as the cost of credit and capital.

The capital and credit markets have been experiencing extreme volatility and disruption for more than two years. In the second half of 2008, the volatility and disruption reached unprecedented levels. In some cases, market developments have resulted in restrictions on the availability of liquidity and credit capacity for certain issuers.

We need liquidity in our day-to-day business activities to pay our operating expenses, interest on our debt and dividends on our capital stock; maintain our securities lending activities; and replace certain maturing liabilities. The principal sources of our liquidity are deposit funds, insurance premiums, annuity considerations, cash flow from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. Sources of liquidity in normal markets also include a variety of short- and long-term instruments, including repurchase agreements, commercial paper, medium-and long-term debt, junior subordinated debt securities, capital securities and stockholders' equity.

Risk factors continued

In the event current resources do not satisfy our needs, we may have to seek additional financing. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects. Similarly, our access to funds may be limited if regulatory authorities or rating agencies take negative actions against us. If our internal sources of liquidity prove to be insufficient, there is a risk that external funding sources might not be available, or available at unfavourable terms.

Disruptions, uncertainty or volatility in the capital and credit markets, such as that experienced over the past few years and in the second half of 2008 in particular, may also limit our access to capital required to operate our business. Such market conditions may in the future limit our ability to raise additional capital to support business growth, or to counter-balance the consequences of losses or increased regulatory capital requirements. This could force us to (1) delay raising capital, (2) reduce, cancel or postpone payment of dividends on our shares, (3) reduce, cancel or postpone interest payments on other securities, (4) issue capital of different types or under different terms than we would otherwise, or (5) incur a higher cost of capital than in a more stable market environment. This would have the potential to decrease both our profitability and our financial flexibility. Our results of operations, financial condition, cash flows and regulatory capital position could be materially adversely affected by disruptions in the financial markets.

In the course of 2008 and 2009, governments around the world, including the Dutch government, implemented unprecedented measures to provide assistance to financial institutions, in certain cases requiring (indirect) influence on or changes to governance and remuneration practices. In certain cases governments nationalised companies or parts thereof. The measures adopted in the Netherlands include both liquidity provision and capital reinforcement, and a Dutch Credit Guarantee Scheme. The liquidity and capital reinforcement measures expired on 10 October 2009, and the Credit Guarantee Scheme of the Netherlands expired on 31 December 2010. Our participation in these measures has resulted in certain material restrictions on us, including those agreed to with the European Commission ('EC') as part of our Restructuring Plan. See 'Risks Related to the Restructuring Plan – Our agreements with the Dutch State impose certain restrictions regarding the issuance or repurchase of our shares and the compensation of certain senior management positions', 'Risks Related to the Restructuring Plan – The implementation of the Restructuring Plan and the divestments anticipated in connection with that plan will significantly alter the size and structure of the Group and involve significant costs and uncertainties that could materially impact the Group'. The Restructuring Plan as well as any potential future transactions with the Dutch State or any other government, if any, or actions by such government regarding ING could adversely impact the position or rights of shareholders, bondholders, customers or creditors and our results, operations, solvency, liquidity and governance.

We are subject to the jurisdiction of a variety of banking and insurance regulatory bodies, some of which have proposed regulatory changes that, if implemented, would hinder our ability to manage our liquidity in a centralised manner. Furthermore, regulatory liquidity requirements in certain jurisdictions in which we operate are generally becoming more stringent, including those forming part of the 'Basel III' requirements discussed further below under '–We operate in highly regulated industries. There could be an adverse change or increase in the financial services laws and/or regulations governing our business', undermining our efforts to maintain this centralised management of our liquidity. These developments may cause trapped pools of liquidity, resulting in inefficiencies in the cost of managing our liquidity, and hinder our efforts to integrate our balance sheet, which is an essential element of our Restructuring Plan.

The default of a major market participant could disrupt the markets.
Within the financial services industry the default of any one institution could lead to defaults by other institutions. The failure of a sufficiently large and influential institution could disrupt securities markets or clearance and settlement systems in our markets. This could cause market declines or volatility. Such a failure could lead to a chain of defaults that could adversely affect us and our contract counterparties. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by us or by other institutions. This risk is sometimes referred to as 'systemic risk' and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom we interact on a daily basis. Systemic risk could have a material adverse effect on our ability to raise new funding and on our business, financial condition, results of operations, liquidity and/or prospects. In addition, such a failure could impact future product sales as a potential result of reduced confidence in the financial services industry.

Management believes that despite increased attention recently, systemic risk to the markets in which we operate continues to exist, and dislocations caused by the interdependency of financial market participants continues to be a potential source of material adverse changes to our business, results of operations and financial condition.

Because our life and non-life insurance and reinsurance businesses are subject to losses from unforeseeable and/or catastrophic events, which are inherently unpredictable, our actual claims amount may exceed our established reserves or we may experience an abrupt interruption of activities, each of which could result in lower net results and have an adverse effect on our results of operations.
In our life and non-life insurance and reinsurance businesses, we are subject to losses from natural and man-made catastrophic events. Such events include, without limitation, weather and other natural catastrophes such as hurricanes, floods, earthquakes and epidemics that may be more severe or difficult to predict as a result of increasingly variable climate conditions, as well as events such as terrorist attacks and political and social unrest.

Risk factors continued

The frequency and severity of such events, and the losses associated with them, are inherently unpredictable and cannot always be adequately reserved for. Furthermore, we are subject to actuarial and underwriting risks such as, for instance, mortality, longevity, morbidity, and adverse claims development which result from the pricing and acceptance of insurance contracts. In accordance with industry practices, modelling of natural catastrophes is performed and risk mitigation measures are taken. In case claims occur, reserves are established based on estimates using actuarial projection techniques. The process of estimating is based on information available at the time the reserves are originally established and includes updates when more information becomes available. Although we continually review the adequacy of the established claim reserves, there can be no assurances that our actual claims experience will not exceed our estimated claim reserves. If actual claim amounts exceed the estimated claim reserves, our earnings may be reduced and our net results may be adversely affected.

In addition, and as discussed further below under 'Risks Related to the Group's Business, Operations, and Regulatory Environment– Operational risks are inherent in our business', because unforeseeable and/or catastrophic events can lead to an abrupt interruption of activities, our banking and insurance operations may be subject to losses resulting from such disruptions. Losses can relate to property, financial assets, trading positions, insurance and pension benefits to employees and also to key personnel. If our business continuity plans are not able to be put into action or do not take such events into account, losses may further increase.

We operate in highly regulated industries. There could be an adverse change or increase in the financial services laws and/or regulations governing our business.
We are subject to detailed banking, insurance, asset management and other financial services laws and government regulation in each of the jurisdictions in which we conduct business. Regulatory agencies have broad administrative power over many aspects of the financial services business, which may include liquidity, capital adequacy and permitted investments, ethical issues, money laundering, privacy, record keeping, and marketing and sales practices. Banking, insurance and other financial services laws, regulations and policies currently governing us and our subsidiaries may also change at any time and in ways which have an adverse effect on our business, and it is difficult to predict the timing or form of any future regulatory or enforcement initiatives in respect thereof. Also, bank regulators and other supervisory authorities in the EU, the US and elsewhere continue to scrutinise payment processing and other transactions under regulations governing such matters as money-laundering, prohibited transactions with countries subject to sanctions, and bribery or other anti-corruption measures. Regulation is becoming increasingly more extensive and complex and regulators are focusing increased scrutiny on the industries in which we operate, often requiring additional Company resources. These regulations can serve to limit our activities, including through our net capital, customer protection and market conduct requirements, and restrictions on businesses in which we can operate or invest. If we fail to address, or appear to fail to address, appropriately any of these matters, our reputation could be harmed and we could be subject to additional legal risk, which could, in turn, increase the size and number of claims and damages asserted against us or subject us to enforcement actions, fines and penalties.

In light of current conditions in the global financial markets and the global economy, regulators have increased their focus on the regulation of the financial services industry. Most of the principal markets where we conduct our business have adopted, or are currently considering, major legislative and/or regulatory initiatives in response to the financial crisis. In particular, governmental and regulatory authorities in the Netherlands, the United Kingdom, the United States and elsewhere are implementing measures to increase regulatory control in their respective financial markets and financial services sectors, including in the areas of prudential rules, capital requirements, executive compensation, crisis and contingency management, bank levies and financial reporting, among others. For example, the EC has agreed upon a full scale revision of the solvency framework and prudential regime applicable to insurance and reinsurance companies known as 'Solvency II', which was adopted on 25 November 2009. Each member state of the EEA, including the Netherlands, is required to implement Solvency II by 1 January 2013. Significant efforts towards establishing a more cohesive and streamlined European supervisory framework, including establishing a European Systemic Risk Board and a European Insurance and Occupational Pensions Authority, may also affect the Group's operations.

In addition, the Basel Committee on Banking Supervision has announced higher global minimum capital standards for banks, introduced a new global liquidity standard and called for a new leverage ratio. The Committee's package of reforms, collectively referred to as the 'Basel III' rules, will, among other requirements, increase amount of common equity required to be held by subject banking institutions, prescribe the amount of liquid assets a subject banking institution must hold at a given moment, and limit leverage. Banks will be required to hold a 'capital conservation buffer' to withstand future periods of stress such that the total Tier 1 common equity ratio, when fully phased in on 1 January 2019, will rise to 7%. Further, Basel III calls for stricter definitions of capital that will have the effect of disqualifying many hybrid securities, potentially including those issued by the Group, from inclusion in regulatory capital, as well as the higher capital requirements for trading, derivative and securitisation activities to be introduced at the end of 2011 as part of a number of reforms to the Basel II framework. In addition, the Basel Committee and Financial Stability Board (FSB) are currently considering measures that may have the effect of requiring higher loss absorbency capacity, liquidity surcharges, exposure limits and special resolution regimes for 'systemically important financial institutions' (SIFIs) and so-called 'Global' SIFIs (G-SIFI), in addition to the Basel III requirements otherwise applicable to most financial institutions. While the full impact of the new Basel III rules, and any additional requirements for SIFIs or G-SIFIs if and as applicable to the Group, will depend on how they are implemented by national regulators, including the extent to which regulators and supervisors can set more stringent limits and additional capital requirements or surcharges, as well as on the economic and financial environment at the time of implementation and beyond, we expect these rules can have a material impact on ING's operations and financial condition and may require the Group to seek additional capital. Further, the International Accounting Standards Board ('IASB') is considering changes to several IFRS standards, which changes could also have a material impact on our reported results and financial condition.

Risk factors continued

Furthermore, in the United States, the Dodd-Frank Wall Street Reform and Consumer Protection Act ('Dodd-Frank' or the 'Dodd-Frank Act') has imposed comprehensive changes to the regulation of financial services in the United States and has implications for non-US financial institutions with a US presence, such as ING. Dodd–Frank directs existing and newly–created government agencies and bodies to promulgate regulations implementing the law, a process anticipated to occur over the next few years. We cannot predict with any certainty the requirements of the regulations ultimately adopted or how Dodd–Frank and such regulations will affect the financial markets generally, impact the Group's business, credit or financial strength ratings, results of operations, cash flows or financial condition or advise or require the Group to raise additional capital. Key risks associated with the Dodd-Frank Act that may have an impact on the Group include:

- The newly created risk regulator – the Financial Stability Oversight Council (the 'FSOC') – may designate the Group as a company whose material financial distress, or whose nature, scope, size, scale, concentration, interconnectedness or mix of activities, could pose a threat to the financial stability of the United States. In such an instance, the Group will become subject to the oversight of the Federal Reserve. If the Group becomes subject to the examination, enforcement and supervisory authority of the Federal Reserve, the Federal Reserve would have authority to impose capital requirements on the Group and its subsidiaries. The Group cannot predict what capital regulations the Federal Reserve will promulgate under these authorisations, either generally or as applicable to organisations with the Group's operations, nor can management predict how the Federal Reserve will exercise potential general supervisory authority over the Group as to its business practices or those of its subsidiaries. If designated as systemically important by the FSOC, the Group would become subject to unspecified stricter prudential standards, including stricter requirements and limitations relating to risk–based capital, leverage, liquidity and credit exposure, as well as overall risk management requirements, management interlock prohibitions and a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress. The Group may become subject to stress tests to be promulgated by the Federal Reserve in consultation with the newly created Federal Insurance Office (discussed below) to determine whether, on a consolidated basis, the Group has the capital necessary to absorb losses as a result of adverse economic conditions. We cannot predict how the stress tests will be designed or conducted or whether the results thereof will cause the Group to alter its business practices or affect the perceptions of regulators, rating agencies, customers, counterparties or investors about the Group's financial strength. The FSOC may also recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices that the Group and other insurers or other financial services companies engage in.
- Title II of Dodd–Frank provides that a financial company may be subject to a special orderly liquidation process outside the federal bankruptcy code, administered by the Federal Deposit Insurance Corporation as receiver, upon a determination that the company is in default or in danger of default and presents a systemic risk to US financial stability.
- Dodd–Frank creates a new framework for regulation of the over-the-counter (OTC) derivatives markets and certain market participants which could affect various activities of the Group and its subsidiaries.
- Dodd–Frank establishes a Federal Insurance Office ('FIO') within the Department of the Treasury to be headed by a director appointed by the Secretary of the Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office would perform various functions with respect to insurance (other than health insurance), including participating in the FSOC's decisions regarding insurers (potentially including the Group and its subsidiaries), to be designated for stricter regulation. The FIO may recommend enhanced regulations to the states. As of this writing, a director for FIO has not been named.
- Dodd–Frank establishes the Bureau of Consumer Financial Protection ('BCFP') as an independent agency within the Federal Reserve to regulate consumer financial products and services offered primarily for personal, family or household purposes. The BCFP will have significant authority to implement and enforce federal consumer financial laws, including the new protections established under Dodd–Frank, as well as the authority to identify and prohibit unfair and deceptive acts and practices. In addition, the BCFP will have broad supervisory, examination and enforcement authority over certain consumer products, such as mortgage lending. Insurance products and services are not within the BCFP's general jurisdiction, and broker–dealers and investment advisers are not subject to the BCFP's jurisdiction when acting in their registered capacity.
- Dodd–Frank also includes various securities law reforms that may affect the Group's business practices and the liabilities and/or exposures associated therewith, including a provision intended to authorise the SEC to impose on broker-dealers fiduciary duties to their customers, as applies to investment advisers under existing law, which new standard could potentially expose certain of ING's US broker-dealers to increased risk of SEC enforcement actions and liability. The SEC staff recently released a study on this issue.

In addition to the adoption of these measures, regulators and lawmakers around the world are actively reviewing the causes of the financial crisis and exploring steps to avoid similar problems in the future. In many respects, this work is being led by the Financial Stability Board ('FSB'), consisting of representatives of national financial authorities of the G20 nations. The G20 and the FSB have issued a series of papers and recommendations intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated. These proposals address such issues as financial group supervision, capital and solvency standards, systemic economic risk, corporate governance including executive compensation, and a host of related issues associated with responses to the financial crisis. The lawmakers and regulatory authorities in a number of jurisdictions in which the Group's subsidiaries conduct business have already begun introducing legislative and regulatory changes consistent with G20 and FSB recommendations, including proposals governing consolidated regulation of insurance holdings companies by the Financial Services Agency (FSA) in Japan, proposals governing executive compensation by the financial regulators in Germany (BaFIN) and the United Kingdom (FSA).

Risk factors continued

Governments in the Netherlands and abroad have also intervened over the past few years on an unprecedented scale, responding to stresses experienced in the global financial markets. Some of the measures adopted subject us and other institutions for which they were designed to additional restrictions, oversight or costs. For restrictions related to the Core Tier 1 Securities and the IABF, as further described in 'Our agreements with the Dutch State impose certain restrictions regarding the issuance or repurchase of our shares and the compensation of certain senior management positions'. As a result of having received state aid through the Dutch State Transactions, we were required to submit our Restructuring Plan to the EC in connection with obtaining final approval for the Dutch State Transactions. See 'Risks Related to the Group – The implementation of the Restructuring Plan and the divestments anticipated in connection with that plan will significantly alter the size and structure of the Group and involve significant costs and uncertainties that could materially impact the Group'.

On 1 March 2011, the European Court of Justice issued its judgment in the widely-followed Test Achats case. The Test Achats decision, in effect, provides that the use of gender as a factor in the pricing of or benefits under life and non-life insurance coverage is incompatible with the principles of equal treatment of men and women under the EU Charter. The Test Achat decision provides for a transition period, however, until 21 December 2012, after which the use of such gender-based factors will no longer be permissible. It is unclear whether this prohibition also applies to existing insurance contracts. While it is too early to assess the impacts of the Test Achats case on ING's insurance business, it is expected that the industry generally will incur potentially significant compliance-related costs as policy forms, underwriting and pricing criteria, and related systems undergo required modifications. ING is unable at this stage to quantify the extent of any such costs or other impacts on its business, and intends to follow closely the implementation of the Test Achats decision during the above-referenced transition period.

We cannot predict whether or when future legislative or regulatory actions may be taken, or what impact, if any, actions taken to date or in the future could have on our business, results of operations and financial condition.

Despite our efforts to maintain effective compliance procedures and to comply with applicable laws and regulations, there are a number of risks in areas where applicable regulations may be unclear, subject to multiple interpretation or under development or may conflict with one another, where regulators revise their previous guidance or courts overturn previous rulings, or we fail to meet applicable standards. Regulators and other authorities have the power to bring administrative or judicial proceedings against us, which could result, amongst other things, in suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action which could materially harm our results of operations and financial condition.

Turbulence and volatility in the financial markets have adversely affected us, and may continue to do so.
Our results of operations are materially impacted by conditions in the global capital markets and the economy generally. The stress experienced in the global capital markets that started in the second half of 2007 continued and substantially increased throughout 2008 and, although market conditions have improved, volatility continued in 2009, particularly the early part of the year. The crisis in the mortgage market in the United States, triggered by a serious deterioration of credit quality, led to a revaluation of credit risks. While certain conditions have improved over 2009 and 2010, these conditions have generally resulted in greater volatility, widening of credit spreads and overall shortage of liquidity and tightening of financial markets throughout the world. In addition, prices for many types of asset-backed securities ('ABS') and other structured products have significantly deteriorated. These concerns have since expanded to include a broad range of fixed income securities, including those rated investment grade, sovereign debt, the international credit and interbank money markets generally, and a wide range of financial institutions and markets, asset classes, such as public and private equity, and real estate sectors. As a result of these and other factors, sovereign governments across the globe, including in regions where the Group operates, have also experienced budgetary and other financial difficulties, which have resulted in austerity measures, downgrades in credit rating by credit agencies, planned or implemented bail-out measures and, on occasion, civil unrest. As a result, the market for fixed income instruments has experienced decreased liquidity, increased price volatility, credit downgrade events, and increased probability of default. In addition, the confluence of these and other factors has resulted in volatile foreign exchange markets. Securities that are less liquid are more difficult to value and may be hard to dispose of. International equity markets have also been experiencing heightened volatility and turmoil, with issuers, including ourselves, that have exposure to the real estate, mortgage, private equity and credit markets particularly affected. These events and market upheavals, including extreme levels of volatility, have had and may continue to have an adverse effect on our revenues and results of operations, in part because we have a large investment portfolio and extensive real estate activities around the world. In addition, the confidence of customers in financial institutions is being tested. Consumer confidence in financial institutions may, for example, decrease due to our or our competitors' failure to communicate to customers the terms of, and the benefits to customers of, complex or high-fee financial products. Reduced confidence could have an adverse effect on our revenues and results of operations, including through an increase of lapses or surrenders of policies and withdrawal of deposits. Because a significant percentage of our customer deposit base is originated via Internet banking, a loss of customer confidence may result in a rapid withdrawal of deposits over the Internet.

As a result of the ongoing and unprecedented volatility in the global financial markets in 2007 and 2008, we have incurred substantial negative revaluations on our investment portfolio, which have impacted our shareholders' equity and earnings. During 2009 and 2010, the revaluation reserve position improved substantially, positively impacting shareholders' equity. Although we believe that reserves for insurance liabilities are generally adequate at the Group, inadequacies in certain product areas have developed.

Risk factors continued

Such impacts have arisen primarily as a result of valuation issues arising in connection with our investments in real estate (both in and outside the US) and private equity, exposures to US mortgage-related structured investment products, including sub-prime and Alt-A Residential and Commercial Mortgage-Backed Securities ('RMBS' and 'CMBS', respectively), Collateralised Debt Obligations ('CDOs') and Collateralised Loan Obligations ('CLOs'), monoline insurer guarantees and other investments. In many cases, the markets for investments and instruments have been and remain highly illiquid, and issues relating to counterparty credit ratings and other factors have exacerbated pricing and valuation uncertainties. Valuation of such investments and instruments is a complex process involving the consideration of market transactions, pricing models, management judgment and other factors, and is also impacted by external factors such as underlying mortgage default rates, interest rates, rating agency actions and property valuations. We continue to monitor our exposures, however there can be no assurances that we will not experience further negative impacts to our shareholders' equity or profit and loss accounts in future periods.

Because we operate in highly competitive markets, including our home market, we may not be able to increase or maintain our market share, which may have an adverse effect on our results of operations.
There is substantial competition in the Netherlands and the other countries in which we do business for the types of insurance, commercial banking, investment banking, asset management and other products and services we provide. Customer loyalty and retention can be influenced by a number of factors, including relative service levels, the prices and attributes of products and services, and actions taken by competitors. If we are not able to match or compete with the products and services offered by our competitors, it could adversely impact our ability to maintain or further increase our market share, which would adversely affect our results of operations. Such competition is most pronounced in our more mature markets of the Netherlands, Belgium, the Rest of Western Europe, the United States, Canada and Australia. In recent years, however, competition in emerging markets, such as Latin America, Asia and Central and Eastern Europe, has also increased as large insurance and banking industry participants from more developed countries have sought to establish themselves in markets which are perceived to offer higher growth potential, and as local institutions have become more sophisticated and competitive and have sought alliances, mergers or strategic relationships with our competitors. The Netherlands and the United States are our largest markets for both our banking and insurance operations. Our main competitors in the banking sector in the Netherlands are ABN AMRO Bank/Fortis and Rabobank. Our main competitors in the insurance sector in the Netherlands are Achmea, ASR and Aegon. Our main competitors in the United States are insurance companies such as Lincoln National, Hartford, Aegon Americas, AXA, Met Life, Prudential, Nationwide and Principal Financial. Increasing competition in these or any of our other markets may significantly impact our results if we are unable to match the products and services offered by our competitors. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms or have declared bankruptcy. These developments could result in our competitors gaining greater access to capital and liquidity, expanding their ranges of products and services, or gaining geographic diversity. We may experience pricing pressures as a result of these factors in the event that some of our competitors seek to increase market share by reducing prices. In addition, under the Restructuring Plan we have agreed to certain restrictions imposed by the EC, including with respect to our price leadership in EU banking markets and our ability to make acquisitions of financial institutions and other businesses. See '– The limitations agreed with the EC on our ability to compete and to make acquisitions or call certain debt instruments could materially impact the Group'.

Because we do business with many counterparties, the inability of these counterparties to meet their financial obligations could have a material adverse effect on our results of operations.
General
Third-parties that owe us money, securities or other assets may not pay or perform under their obligations. These parties include the issuers whose securities we hold, borrowers under loans originated, customers, trading counterparties, counterparties under swaps, credit default and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries. Defaults by one or more of these parties on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure, etc., or even rumours about potential defaults by one or more of these parties or regarding the financial services industry generally, could lead to losses for us, and defaults by other institutions. In light of experiences with significant constraints on liquidity and high cost of funds in the interbank lending market, and given the high level of interdependence between financial institutions, we are and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of other financial services institutions. This is particularly relevant to our franchise as an important and large counterparty in equity, fixed-income and foreign exchange markets, including related derivatives, which exposes it to concentration risk.

We routinely execute a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, insurance companies and other institutional clients, resulting in large daily settlement amounts and significant credit exposure. As a result, we face concentration risk with respect to specific counterparties and customers. We are exposed to increased counterparty risk as a result of recent financial institution failures and weakness and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the creditworthiness of, one or more financial services institutions could therefore lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions.

With respect to secured transactions, our credit risk may be exacerbated when the collateral held by us cannot be realised, or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. We also have exposure to a number of financial institutions in the form of unsecured debt instruments, derivative transactions and equity investments. For example, we hold certain hybrid regulatory capital instruments issued by financial institutions which permit the issuer to defer coupon payments on the

Risk factors continued

occurrence of certain events or at their option. The EC has indicated that, in certain circumstances, it may require these financial institutions to defer payment. If this were to happen, we expect that such instruments may experience ratings downgrades and/or a drop in value and we may have to treat them as impaired, which could result in significant losses. There is no assurance that losses on, or impairments to the carrying value of, these assets would not materially and adversely affect our business or results of operations.

In addition, we are subject to the risk that our rights against third parties may not be enforceable in all circumstances. The deterioration or perceived deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and/or adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our income and risk weighting, leading to increased capital requirements. While in many cases we are permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. Our credit risk may also be exacerbated when the collateral we hold cannot be realised or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure that is due to us, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those currently experienced. The termination of contracts and the foreclosure on collateral may subject us to claims for the improper exercise of its rights. Bankruptcies, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity.

Any of these developments or losses could materially and adversely affect our business, financial condition, results of operations, liquidity and/or prospects.

Reinsurers

Our insurance operations have bought protection for risks that exceed certain risk tolerance levels set for both our life and non-life businesses. This protection is bought through reinsurance arrangements in order to reduce possible losses. Because in most cases we must pay the policyholders first, and then collect from the reinsurer, we are subject to credit risk with respect to each reinsurer for all such amounts. As a percentage of our (potential) reinsurance as of 31 December 2010, the greatest exposure after collateral to an individual external reinsurer was approximately 24%, approximately 40% related to four other external reinsurers and the remainder of the reinsurance exposure related to various other reinsurers. The inability or unwillingness of any one of these reinsurers to meet its financial obligations to us, or the insolvency of our reinsurers, could have a material adverse effect on our net results and our financial results.

Improving market conditions observed over the last year, may not persist and increase the risk of loans being impaired. We are exposed to declining property values on the collateral supporting residential and commercial real estate lending.

We are exposed to the risk that our borrowers may not repay their loans according to their contractual terms and that the collateral securing the payment of these loans may be insufficient. We may continue to see adverse changes in the credit quality of our borrowers and counterparties, for example as a result of their inability to refinance their indebtedness, with increasing delinquencies, defaults and insolvencies across a range of sectors. This may lead to impairment charges on loans and other assets, higher costs and additions to loan loss provisions. A significant increase in the size of our provision for loan losses could have a material adverse effect on our financial position and results of operations.

Economic and other factors could lead to further contraction in the residential mortgage and commercial lending market and to further decreases in residential and commercial property prices which could generate substantial increases in impairment losses.

Interest rate volatility may adversely affect our profitability.

Changes in prevailing interest rates may negatively affect our business including the level of net interest revenue we earn, and for our banking business the levels of deposits and the demand for loans. In a period of changing interest rates, interest expense may increase at different rates than the interest earned on assets. Accordingly, changes in interest rates could decrease net interest revenue. Changes in the interest rates may negatively affect the value of our assets and our ability to realise gains or avoid losses from the sale of those assets, all of which also ultimately affect earnings. In addition, an increase in interest rates may decrease the demand for loans.

In addition, during periods of declining interest rates, life insurance and annuity products may be relatively more attractive to consumers, resulting in increased premium payments on products with flexible premium features, and a higher percentage of insurance policies remaining in force from year-to-year, creating asset liability duration mismatches. A decrease in interest rates may also require an addition to provisions for guarantees included in life policies, as the guarantees become more valuable to policy holders. During a low interest rate period, our investment earnings may be lower because the interest earnings on our fixed income investments will likely have declined in parallel with market interest rates on our assets recorded at fair value. Declining interest rates may also affect the results of our reserve adequacy testing which may in turn result in reserve strengthening. In addition, mortgages and fixed maturity securities in our investment portfolios will be more likely to be prepaid or redeemed as borrowers seek to borrow at lower interest rates. Consequently, we may be required to reinvest the proceeds in securities bearing lower interest rates. Accordingly, during periods of declining interest rates, our profitability may suffer as the result of a decrease in the spread between interest rates charged to policyholders and returns on our investment portfolios.

Conversely, in periods of rapidly increasing interest rates, policy loans, and withdrawals and surrenders of life insurance policies and fixed annuity contracts may increase as policyholders choose to forego insurance protection and seek higher investment returns. Obtaining cash

Risk factors continued

to satisfy these obligations may require us to liquidate fixed maturity investments at a time when market prices for those assets are depressed because of increases in interest rates. This may result in realised investment losses. Regardless of whether we realise an investment loss, these cash payments would result in a decrease in total invested assets, and may decrease our net income. Premature withdrawals may also cause us to accelerate amortisation of deferred policy acquisition costs, which would also reduce our net income.

We may incur losses due to failures of banks falling under the scope of state compensation schemes.
In the Netherlands and other jurisdictions deposit guarantee schemes and similar funds ('Compensation Schemes') have been implemented from which compensation may become payable to customers of financial services firms in the event the financial service firm is unable to pay, or unlikely to pay, claims against it. In many jurisdictions in which we operate, these Compensation Schemes are funded, directly or indirectly, by financial services firms which operate and/or are licensed in the relevant jurisdiction. As a result of the increased number of bank failures, in particular since the fall of 2008, we expect that levies in the industry will continue to rise as a result of the Compensation Schemes. In particular, we are a participant in the Dutch Deposit Guarantee Scheme, which guarantees an amount of EUR 100,000 per person per bank (regardless of the number of accounts held). The costs involved with making compensation payments under the Dutch Deposit Guarantee Scheme are allocated among the participating banks by the Dutch Central Bank, De Nederlandsche Bank N.V. (the 'DNB'), based on an allocation key related to their market shares with respect to the deposits protected by the Dutch Deposit Guarantee Schemes. Given our size we may incur significant compensation payments to be made under the Dutch Deposit Guarantee Scheme, which we may be unable to recover from the bankrupt estate. The ultimate costs to the industry of payments which may become due under the Compensation Schemes, remains uncertain although they may be significant and these and the associated costs to us may have a material adverse effect on our results of operations and financial condition. Going forward the Dutch Deposit Guarantee Scheme may change from an ex-post scheme, where we contribute after the failure of a firm, to an ex-ante scheme where we pay yearly contributions to ensure the scheme holds a target level of fund regardless of whether any failures occur. The costs associated with potential future yearly contributions are today unknown, but given our size may be significant.

RISKS RELATED TO THE GROUP'S BUSINESS, OPERATIONS, AND REGULATORY ENVIRONMENT

We may be unable to manage our risks successfully through derivatives.
We employ various economic hedging strategies with the objective of mitigating the market risks that are inherent in our business and operations. These risks include currency fluctuations, changes in the fair value of our investments, the impact of interest rate, equity markets and credit spread changes and changes in mortality and longevity. We seek to control these risks by, among other things, entering into a number of derivative instruments, such as swaps, options, futures and forward contracts including from time to time macro hedges for parts of our business.

Developing an effective strategy for dealing with these risks is complex, and no strategy can completely insulate us from risks associated with those fluctuations. Our hedging strategies also rely on assumptions and projections regarding our assets, general market factors and the credit worthiness of our counterparties that may prove to be incorrect or prove to be inadequate. Accordingly, our hedging activities may not have the desired beneficial impact on our results of operations or financial condition. Poorly designed strategies or improperly executed transactions could actually increase our risks and losses. If we terminate a hedging arrangement, we may also be required to pay additional costs, such as transaction fees or breakage costs. There have been periods in the past, and it is likely that there will be periods in the future, during which we have incurred or may incur losses on transactions, perhaps significant, after taking into account our hedging strategies. Further, the nature and timing of our hedging transactions could actually increase our risk and losses. In addition, hedging strategies involve transaction costs and other costs. Our hedging strategies and the derivatives that we use and may use may not adequately mitigate or offset the risk of interest rate volatility, and our hedging transactions may result in losses.

Because we use assumptions about factors, the use of different assumptions about these factors may have an adverse impact on our results of operations.
The establishment of insurance provisions, including the impact of minimum guarantees which are contained within certain variable annuity products, the adequacy test performed on the provisions for life policies and the establishment of Deferred Acquisition Costs (DAC) and Value of Business Acquired (VOBA) are inherently uncertain processes involving assumptions about factors such as court decisions, changes in laws, social, economic and demographic trends, inflation, investment returns, policyholder behaviour (e.g., lapses, persistency, etc.) and other factors, and, in the life insurance business, assumptions concerning mortality, longevity and morbidity trends. The use of different assumptions about these factors could have a material effect on insurance provisions and underwriting expense. Changes in assumptions may lead to changes in the insurance provisions over time. Furthermore, some of these assumptions can be volatile.

Because we use assumptions to model client behaviour for the purpose of our market risk calculations, the difference between the realisation and the assumptions may have an adverse impact on the risk figures and future results.
We use assumptions in order to model client behaviour for the risk calculations in our banking and insurance books. Assumptions are used to determine insurance liabilities, the price sensitivity of savings and current accounts and to estimate the embedded optional risk in the mortgage and investment portfolios. The realisation or use of different assumptions to determine the client behaviour could have material adverse effect on the calculated risk figures and ultimately future results.

ING Insurance has a significant exposure to the take up of policy options by policyholders. The exposure is greatest for variable annuity business with guarantees deeply in-the-money, policyholder behaviour is difficult to predict and small changes in the proportion of

Risk factors continued

policyholders taking up an option can have a significant financial impact. Furthermore, assumptions about policyholder behaviour are sometimes made for new insurance business without a substantial amount of experiential data. These assumptions may prove imperfect, which can have a material impact on results.

We may incur further liabilities in respect of our defined benefit retirement plans if the value of plan assets is not sufficient to cover potential obligations, including as a result of differences between results and underlying actuarial assumptions and models.
ING Group companies operate various defined benefit retirement plans covering a significant number of our employees. The liability recognised in our consolidated balance sheet in respect of our defined benefit plans is the present value of the defined benefit obligations at the balance sheet date, less the fair value of each plan's assets, together with adjustments for unrecognised actuarial gains and losses and unrecognised past service costs. We determine our defined benefit plan obligations based on internal and external actuarial models and calculations using the projected unit credit method. Inherent in these actuarial models are assumptions including discount rates, rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs, consumer price index, and the expected return on plan assets. These assumptions are based on available market data and the historical performance of plan assets, and are updated annually. Nevertheless, the actuarial assumptions may differ significantly from 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 our present and future liabilities to and costs associated with our defined benefit retirement plans.

Our risk management policies and guidelines may prove inadequate for the risks we face.
The methods we use to manage, estimate and measure risk are partly based on historic market behaviour. The methods may, therefore, prove to be inadequate for predicting future risk exposure, which may be significantly greater than what is suggested by historic experience. For instance, these methods did not predict the losses seen in the stressed conditions in recent periods, and may also not adequately allow prediction of circumstances arising due to the government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers or other information that is publicly known or otherwise available to us. Such information may not always be correct, updated or correctly evaluated.

We are subject to a variety of regulatory risks as a result of our operations in certain countries.
In certain countries in which we operate, judiciary and dispute resolution systems may be less developed. As a result in case of a breach of contract we may have difficulties in making and enforcing claims against contractual counterparties and, if claims are made against us, we might encounter difficulties in mounting a defence against such allegations. If we become party to legal proceedings in a market with an insufficiently developed judiciary system, it could have an adverse effect on our operations and net result.

In addition, as a result of our operations in certain countries, we are subject to risks of possible nationalisation, expropriation, price controls, exchange controls and other restrictive government actions, as well as the outbreak of hostilities, in these markets. In addition, the current economic environment in certain of these countries in which we operate may increase the likelihood for regulatory initiatives to protect homeowners from foreclosures. Any such regulatory initiative could have an adverse impact on our ability to protect our economic interest in the event of defaults on residential mortgages.

Because we are continually developing new financial products, we might be faced with claims that could have an adverse effect on our operations and net result if clients' expectations are not met.
When new financial products are brought to the market, communication and marketing aims to present a balanced view of the product (however there is a focus on potential advantages for the customers). Whilst we engage in a due diligence process when we develop products, if the products do not generate the expected profit, or result in a loss, or otherwise do not meet expectations, customers may file claims against us. Such claims could have an adverse effect on our operations and net result.

Ratings are important to our business for a number of reasons. Downgrades could have an adverse impact on our operations and net results.
We have credit ratings from Standard & Poor's Ratings Service, Moody's Investor Service and Fitch Ratings. Each of the rating agencies reviews its ratings and rating methodologies on a recurring basis and may decide on a downgrade at any time. In the event of a downgrade the cost of issuing debt will increase, having an adverse effect on net results. Certain institutional investors may also be obliged to withdraw their deposits from ING following a downgrade, which could have an adverse effect on our liquidity.

Claims paying ability, at the Group or subsidiary level, and financial strength ratings are factors in establishing the competitive position of insurers. A rating downgrade could elevate lapses or surrenders of policies requiring cash payments, which might force us to sell assets at a price that may result in realised investment losses. Among others, total invested assets decreases and deferred acquisition costs might need to be accelerated, adversely impacting earnings. A downgrade may adversely impact relationships with distributors of our products and services and customers, which may affect new sales and our competitive position.

Furthermore, ING Bank's assets are risk weighted. Downgrades of these assets could result in a higher risk weighting which may result in higher capital requirements. This may impact net earnings and the return on capital, and may have an adverse impact on our competitive position. For ING's insurance businesses in a number of jurisdictions, such as the US and the EU, downgrades of assets will similarly affect the capital requirements for ING Insurance in those jurisdictions.

Risk factors continued

Our business may be negatively affected by a sustained increase in inflation.
A sustained increase in the inflation rate in our principal markets would have multiple impacts on us and may negatively affect our business, solvency position and results of operations. For example, a sustained increase in the inflation rate may result in an increase in market interest rates which may
(1) decrease the value of certain fixed income securities we hold in our investment portfolios resulting in reduced levels of unrealised capital gains available to us which could negatively impact our solvency position and net income,
(2) result in increased surrenders of certain life & savings products, particularly, those with fixed rates below market rates, and
(3) require us, as an issuer of securities, to pay higher interest rates on debt securities we issue in the financial markets from time to time to finance our operations which would increase our interest expenses and reduce our results of operations.

A significant and sustained increase in inflation has historically also been associated with decreased prices for equity securities and sluggish performance of equity markets generally. A sustained decline in equity markets may
(1) result in impairment charges to equity securities that we hold in our investment portfolios and reduced levels of unrealised capital gains available to us which would reduce our net income and negatively impact our solvency position,
(2) negatively impact performance, future sales and surrenders of our unit-linked products where underlying investments are often allocated to equity funds, and
(3) negatively impact the ability of our asset management subsidiaries to retain and attract assets under management, as well as the value of assets they do manage, which may negatively impact their results of operations.

In addition, in the context of certain property & casualty risks underwritten by our insurance subsidiaries (particularly 'long-tail' risks), a sustained increase in inflation with a resulting increase in market interest rates may result in (1) claims inflation (i.e., an increase in the amount ultimately paid to settle claims several years after the policy coverage period or event giving rise to the claim), coupled with (2) an underestimation of corresponding claims reserves at the time of establishment due to a failure to fully anticipate increased inflation and its effect on the amounts ultimately payable to policyholders, and, consequently, (3) actual claims payments significantly exceeding associated insurance reserves which would negatively impact our results of operations. In addition, a failure to accurately anticipate higher inflation and factor it into our product pricing assumptions may result in a systemic mispricing of our products resulting in underwriting losses which would negatively impact our results of operations.

Operational risks are inherent in our business.
Our businesses depend on the ability to process a large number of transactions efficiently and accurately. Losses can result from inadequate trained or skilled personnel, IT failures, inadequate or failed internal control processes and systems, regulatory breaches, human errors, employee misconduct including fraud, or from external events that interrupt normal business operations. We depend on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. The equipment and software used in our computer systems and networks may be at or near the end of their useful lives or may not be capable of processing, storing or transmitting information as expected. Certain of our computer systems and networks may also have insufficient recovery capabilities in the event of a malfunction or loss of data. In addition, such systems and networks may be vulnerable to unauthorised access, computer viruses or other malicious code and other external attacks or internal breaches that could have a security impact and jeopardise our confidential information or that of our clients or our counterparts. These events can potentially result in financial loss, harm to our reputation and hinder our operational effectiveness. We also face the risk that the design and operating effectiveness of our controls and procedures prove to be inadequate or are circumvented. Furthermore, widespread outbreaks of communicable diseases, such as the outbreak of the H1N1 influenza virus, may impact the health of our employees, increasing absenteeism, or may cause a significant increase in the utilisation of health benefits offered to our employees, either or both of which could adversely impact our business. Unforeseeable and/or catastrophic events can lead to an abrupt interruption of activities, and our operations may be subject to losses resulting from such disruptions. Losses can result from destruction or impairment of property, financial assets, trading positions, the payment of insurance and pension benefits to employees and the loss of key personnel. If our business continuity plans are not able to be implemented or do not take such events into account, losses may increase further.

We have suffered losses from operational risk in the past and there can be no assurance that we will not suffer material losses from operational risk in the future.

Reinsurance may not be available, affordable or adequate to protect us against losses. We may also decide to reduce, eliminate or decline primary insurance or reinsurance coverage.
As part of our overall risk and capacity management strategy we purchase reinsurance for certain risks underwritten by our various insurance business segments. Market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect our ability to write future business.

In addition, we determine the appropriate level of primary insurance and reinsurance coverage based on a number of factors and from time to time decide to reduce, eliminate or decline coverage based on our assessment of the costs and benefits involved. In such cases, the uninsured risk remains with us.

Risk factors continued

Our business may be negatively affected by adverse publicity, regulatory actions or litigation with respect to us, other well-known companies or the financial services industry in general.
Adverse publicity and damage to our reputation arising from our failure or perceived failure to comply with legal and regulatory requirements, financial reporting irregularities involving other large and well known companies, increasing regulatory and law enforcement scrutiny of 'know your customer' anti-money laundering, prohibited transactions with countries subject to sanctions, and bribery or other anti-corruption measures and anti-terrorist-financing procedures and their effectiveness, regulatory investigations of the mutual fund, banking and insurance industries, and litigation that arises from the failure or perceived failure by us to comply with legal, regulatory and compliance requirements, could result in adverse publicity and reputation harm, lead to increased regulatory supervision, affect our ability to attract and retain customers, maintain access to the capital markets, result in cease and desist orders, suits, enforcement actions, fines and civil and criminal penalties, other disciplinary action or have other material adverse effects on us in ways that are not predictable.

RISKS RELATED TO THE RESTRUCTURING PLAN

The implementation of the Restructuring Plan and the divestments anticipated in connection with that plan will significantly alter the size and structure of the Group and involve significant costs and uncertainties that could materially impact the Group.
In November 2008 the Dutch State purchased the Core Tier 1 Securities, and in the first quarter of 2009 we entered into the Illiquid Asset Back-up Facility (IABF) with the Dutch State. As a result of having received state aid through the Dutch State Transactions, we were required to submit a restructuring plan (the 'Restructuring Plan') to the EC in connection with obtaining final approval for the Dutch State Transactions under the EC state aid rules. On 26 October 2009, we announced our Restructuring Plan, pursuant to which we are required to divest by the end of 2013 all of our insurance business, including the investment management business, as well as ING Direct US, which operates our direct banking business in the United States, and certain portions of our retail banking business in the Netherlands. The EC's approval of the Restructuring Plan was issued on 18 November 2009. On 28 January 2010 ING lodged an appeal with the General Court of the European Union (the 'General Court') against specific elements of the EC's decision regarding the Restructuring Plan. Although we believe in the merit of our appeal lodged with the General Court of the European Union, there can be no assurance as to its success or as to any consequences resulting from its rejection. Notwithstanding this appeal, we are committed executing the Restructuring Plan as announced on 26 October 2009.

In connection with the Restructuring Plan, we have also agreed to not be a price leader in certain EU markets with respect to certain retail, private and direct banking products and to refrain from (i) acquisitions of financial institutions and (ii) acquisitions of other businesses if this would delay our repurchase of the remaining Core Tier 1 Securities. Those limitations may last until 18 November 2012 and could adversely affect our ability to maintain or grow market share in key markets as well as our results of operations. See 'Risks Related to the Group – The limitations agreed with the EC on our ability to compete and to make acquisitions or call certain debt instruments could materially impact the Group'.

There can be no assurance that we will be able to implement the Restructuring Plan successfully or complete the announced divestments on favourable terms or at all, particularly in light of both the plan's 2013 deadline and expected challenging market conditions in which other financial institutions may place similar assets for sale during the same time period and may seek to dispose of assets in the same manner. Any failure to successfully implement the Restructuring Plan may result in EC enforcement actions and may have a material adverse impact on the assets, profitability, capital adequacy and business operations of the Group. Moreover, in connection with the implementation of the Restructuring Plan, including any proposed divestments, we or potential buyers may need to obtain various approvals, including of shareholders, works councils and regulatory and competition authorities, and we and potential buyers may face difficulties in obtaining these approvals in a timely manner or at all. In addition, the implementation of the Restructuring Plan may strain relations with our employees, and specific proposals in connection with the implementation may be opposed by labour unions or works councils. Furthermore, following the announcement of the Restructuring Plan, several of our subsidiaries have been downgraded or put on credit watch by rating agencies. See 'Risks Related to the Group – Ratings are important to our business for a number of reasons. Downgrades could have an adverse impact on our operations and net results'.

Other factors that may impede our ability to implement the Restructuring Plan successfully include an inability of prospective purchasers to obtain funding due to the deterioration of the credit markets, insufficient access to equity capital markets, a general unwillingness of prospective purchasers to commit capital in the current market environment, antitrust concerns, any adverse changes in market interest rates or other borrowing costs and any declines in the value of the assets to be divested. Similarly, it may also be difficult to divest all or part of our insurance or investment management business through one or more initial public offerings. There can also be no assurance that we could obtain favourable pricing for a sale of all or part of our insurance or investment management business in the public markets or succeed in turning the relevant subsidiaries into viable standalone businesses. A divestment may also release less regulatory capital than we would otherwise expect.

Any failure to complete the divestments on favourable terms, could have a material adverse impact on our assets, profitability, capital adequacy and business operations. If we are unable to complete the announced divestments in a timely manner, we would be required to find alternative ways to reduce our leverage, and we could be subject to enforcement actions or proceedings by the EC. In particular, if we do not succeed in completing divestitures as described in the Restructuring Plan within the timelines set out therein, the EC may request the Dutch State to appoint a divestiture trustee with a mandate to complete the relevant divestiture with no minimum price.

Risk factors continued

The implementation of the divestments announced in connection with the Restructuring Plan, including the separation of the insurance and most of the investment management operations from the banking operations, will also give rise to additional costs related to the legal and financial assessment of potential transactions. The implementation may also result in increased operating and administrative costs. The process of completing the steps contemplated by the Restructuring Plan may be disruptive to our business and the businesses we are trying to sell and may cause an interruption or reduction of our business and the businesses to be sold as a result of, among other factors, the loss of key employees or customers and the diversion of management's attention from our day-to-day business as a result of the need to manage the divestment process as well as any disruptions or difficulties that arise during the course of the divestment process. We may face other difficulties in implementing the Restructuring Plan and completing the planned divestments. For instance, the divestments, individually or in the aggregate, may trigger provisions in various contractual obligations, including debt instruments, which could require us to modify, restructure or refinance the related obligations. We may not be able to effect any such restructuring or refinancing on similar terms as the current contractual obligations or at all. In addition, the announced divestments could be the subject of challenges or litigation, and a court could delay any of the divestment transactions or prohibit them from occurring on their proposed terms, or from occurring at all, which could adversely affect our ability to use the funds of the divestments to repurchase the Core Tier 1 Securities, reduce or eliminate our double leverage and strengthen our capital ratios as anticipated and eliminate the constraints on competition imposed by the EC.

The limitations agreed with the EC on our ability to compete and to make acquisitions or call certain debt instruments could materially impact the Group.
As part of our Restructuring Plan, we have undertaken with the EC to accept certain limitations on our ability to compete in certain retail, private and direct banking markets in the European Union and on our ability to acquire (i) financial institutions and (ii) businesses insofar this would delay our repurchase of the remaining Core Tier 1 Securities held by the Dutch State. These restrictions apply until the earlier of (1) 18 November 2012, and (2) the date upon which we repurchase all remaining Core Tier 1 Securities held by the Dutch State. We have also agreed to limitations on our ability to call Tier 2 capital and Tier 1 hybrid debt instruments. If the EC does not approve the calling of Tier 2 capital and Tier 1 hybrid debt instruments in the future, this may have adverse consequences for us, result in additional payments on these instruments and limit our ability to seek refinancing on more favourable terms. The limitations described above will impose significant restrictions on our banking business operations and on our ability to take advantage of market conditions and growth opportunities. Such restrictions could adversely affect our ability to maintain or grow market share in key markets, as well as our results of operations.

Upon the implementation of the Restructuring Plan, we will be less diversified and may experience competitive and other disadvantages.
Following completion of the planned divestments under the Restructuring Plan, we expect to become a significantly smaller, regional financial institution focused on retail, direct and commercial banking in the Benelux region and certain other parts of Europe, as well as selected markets outside Europe. Although we will remain focused on banking operations, we may become a smaller bank than that represented by our current banking operations. In the highly competitive Benelux market and the other markets in which we operate, our competitors may be larger, more diversified and better capitalised and have greater geographical reach than us, which could have a material adverse effect on our ability to compete, as well as on our profitability. The divested businesses may also compete with the retained businesses, on their own or as part of the purchasers' enlarged businesses. In addition, the restrictions on our ability to be a price leader and make acquisitions and on our compensation policies could further hinder our capacity to compete with competitors not burdened with such restrictions, which could have a material adverse effect on our results of operations. There can be no assurance that the implementation of the Restructuring Plan will not have a material adverse effect on the market share, business and growth opportunities and results of operations for our remaining core banking businesses.

Our Restructuring Programs may not yield intended reductions in costs, risk and leverage.
On 26 October 2009, we announced that we had reached an agreement with the EC on the Restructuring Plan. Projected cost savings and impact on our risk profile and capital associated with these initiatives are subject to a variety of risks, including:
- contemplated costs to effect these initiatives may exceed estimates;
- divestments planned in connection with the Restructuring Plan may not yield the level of net proceeds expected, as described under 'Risks Related to the Group – The implementation of the Restructuring Plan and the divestments anticipated in connection with that plan will significantly alter the size and structure of the Group and involve significant costs and uncertainties that could materially impact the Group';
- initiatives we are contemplating may require consultation with various regulators as well as employees and labor representatives, and such consultations may influence the timing, costs and extent of expected savings;
- the loss of skilled employees in connection with the initiatives; and
- projected savings may fall short of targets.

While we have begun and expect to continue to implement these strategies, there can be no assurance that we will be able to do so successfully or that we will realise the projected benefits of these and other restructuring and cost saving initiatives. If we are unable to realise these anticipated cost reductions, our business may be adversely affected. Moreover, our continued implementation of restructuring and cost saving initiatives may have a material adverse effect on our business, financial condition, results of operations and cash flows.
Our agreements with the Dutch State impose certain restrictions regarding the issuance or repurchase of our shares and the compensation of certain senior management positions.

Risk factors continued

For so long as the Dutch State holds at least 25% of the Core Tier 1 Securities, for so long as the IABF is in place, or for so long as any of the government guaranteed senior unsecured bonds issued by ING Bank N.V. under the Credit Guarantee Scheme of the Netherlands (the 'Government Guaranteed Bonds') are outstanding, we are prohibited from issuing or repurchasing any of our own shares (other than as part of regular hedging operations and the issuance of shares according to employment schemes) without the consent of the Dutch State's nominees on the Supervisory Board. In addition, under the terms of the Core Tier 1 Securities and IABF, we have agreed to institute certain restrictions on the compensation of the members of the Executive Board and senior management, including incentives or performance-based compensation. These restrictions could hinder or prevent us from attracting or retaining the most qualified management with the talent and experience to manage our business effectively. In connection with these transactions, the Dutch State was granted the right to nominate two candidates for appointment to the Supervisory Board. The Dutch State's nominees have veto rights over certain material transactions. Our agreements with the Dutch State have also led to certain restrictions imposed by the EC as part of the Restructuring Plan, including with respect to our price leadership in EU banking markets and our ability to make acquisitions of financial institutions and other businesses. See 'Risks Related to the Group – The limitations agreed with the EC on our ability to compete and to make acquisitions or call certain debt instruments could materially impact the Group'.

Whenever the overall return on the (remaining) 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.
As stated in the decision of the European Commission of 12 November 2008 (in State aid N 528/2008 – The Netherlands), the Core Tier 1 state-aid measure must be (re)notified to the European Commission by the Dutch authorities whenever the overall return on the Core Tier 1 Securities is expected to be lower than 10% p.a. Such (re)notification by the Dutch authorities is particularly required (i) when ING abstains from paying dividend on its shares for a period of two consecutive years or for three years in the five years following the date of the aforementioned decision or (ii) if after a transition period of one year following the date of the aforementioned decision, the share price over a period of two consecutive years remains on average below EUR 13. In such cases, the European Commission may require additional behavioural constraints as a condition of the compatibility of the measure.

ADDITIONAL RISKS RELATING TO OWNERSHIP OF ING SHARES

Because we are a Dutch company and because the Stichting ING Aandelen holds more than 99.9% of our ordinary shares, the rights of our shareholders may differ from the rights of shareholders in other jurisdictions or companies that do not use a similar trust structure, which could affect your rights as a shareholder.
While holders of our bearer depositary receipts are entitled to attend and speak at our General Meeting of Shareholders ('General Meeting'), voting rights are not attached to the bearer depositary receipts. The Trust holds more than 99.9% of our ordinary shares, and exercises the voting rights attached to the ordinary shares (for which bearer depositary receipts have been issued). Holders of bearer depositary receipts who attend – in person or by proxy – the General Meeting must obtain and are entitled to voting rights by proxy from the Trust. Holders of bearer depositary receipts and holders of the ADSs (American depositary shares) representing the bearer depositary receipts who do not attend the General Meeting may give binding voting instructions to the Trust. The Trust is entitled to vote on any ordinary shares underlying the bearer depositary receipts for which the Trust has not granted voting proxies, or voting instructions have not been given to the Trust. In exercising its voting discretion, the Trust is required to be guided primarily by the interests of the holders of bearer depositary receipts, while also taking into account:
- our interests, and
- the interests of our affiliates.

The Trust may, but has no obligation to, consult with the holders of bearer depositary receipts in exercising its voting rights in respect of any ordinary shares for which it is entitled to vote. These arrangements differ from practices in other jurisdictions, and accordingly may affect the rights of the holders of bearer depositary receipts and their power to affect ING's business and operations.

The share price of ING shares has been, and may continue to be, volatile.
The share price of our bearer depositary receipts has been volatile in the past, and the share price and trading volume of our bearer depositary receipts may continue to be subject to significant fluctuations due, in part, to changes in our actual or forecast operating results and the inability to fulfil the profit expectations of securities analysts, as well as to the high volatility in the securities markets generally and more particularly in shares of financial institutions. Other factors, besides our financial results, that may impact our share price include, but are not limited to:
- market expectations of the performance and capital adequacy of financial institutions in general;
- investor perception of the success and impact of our strategies;
- a downgrade or review of our credit ratings;
- the implementation and outcome of our Restructuring Plan;
- potential litigation or regulatory action involving ING or sectors we have exposure to through our insurance and banking activities;
- announcements concerning financial problems or any investigations into the accounting practices of other financial institutions; and
- general market circumstances.

Risk factors continued

There can be no assurance that we will pay dividends on our ordinary shares in the future.
It is ING's policy to pay dividends in relation to the long-term underlying development of cash earnings. Dividends can only be declared by shareholders when the Executive Board considers such dividends appropriate, taking into consideration the financial conditions then prevailing and the longer-term outlook. Given the uncertain financial environment, ING will not pay a dividend over 2010 and there can be no assurance that we will pay dividends in the future.

Certain transactions have resulted in the cumulative change in ownership of our U.S. subsidiaries of approximately 43% for U.S. tax purposes as of 21 December 2009. Future increases of capital or other changes in ownership may adversely affect our net result and equity.
Sections 382 and 383 of the U.S. Internal Revenue Code contain loss limitation rules, the general purpose of which is to prevent trafficking in tax losses (i.e. they are anti-abuse rules). The rules are triggered when the ownership of a corporation changes by more than 50% (measured by value) on a cumulative basis in any three-year period. If triggered, restrictions may be imposed on the future use of realised tax losses as well as certain losses that are built into the assets of the corporation at the time of the ownership change and that are realised within the next five years. As of 21 December 2009, the cumulative change in ownership of our U.S. subsidiaries was approximately 43% for purposes of Sections 382 and 383 (taking into account the issuance of the Core Tier 1 Securities to the Dutch State on 12 November 2008, the repurchase of some of the Core Tier 1 Securities on 21 December 2009, and the issuance of Ordinary shares on 21 December 2009). However, the calculation is subject to uncertainties and is based on various assumptions. Future increasesof capital or other changes in ownership may adversely affect our net result and equity.

The remaining Core Tier 1 Securities issued to the Dutch State may be converted into ordinary shares or bearer depositary receipts and dilute existing shareholders.
The terms of the Core Tier 1 Securities permit us, on or after 12 November 2011, to convert any or all of the remaining Core Tier 1 Securities (EUR 5 billion per year end 2010) into ordinary shares or bearer depositary receipts on the basis of one core Tier 1 security for 1,335 ordinary shares or bearer depositary receipts. Any such conversion would dilute existing shareholders. If we exercise our conversion right, the Dutch State may opt to require us to redeem the Core Tier 1 Securities on the conversion date at the original issue price of EUR 10 per Core Tier 1 Security, together with the pro rata coupon, if due, accrued to such date.

Certain holders of ING shares may not be able to participate in future equity offerings with subscription rights.
We may undertake future equity offerings with subscription rights. Holders of ING shares in certain jurisdictions, however, may not be entitled to exercise such rights unless the rights and the related shares are registered or qualified for sale under the relevant legislation or regulatory framework. Holders of ING shares in these jurisdictions may suffer dilution of their shareholding should they not be permitted to participate in future equity offerings with subscription rights.

Financial glossary

ACTUARIAL AND UNDERWRITING RISK
These risks (mortality, longevity, morbidity, adverse motor or home claims, etc.), result from the pricing and acceptance of insurance contracts. Actuarial risk is the risk that premium levels and provisions in respect of insurance risk may turn out to be (no longer) correct. Underwriting risk is the risk that an issuer will receive a claim under an insurance policy it issues/underwrites. Maximum underwriting exposures are limited through exclusions, cover limits and reinsurance.

ADVANCED MEASUREMENT APPROACH (AMA)
The risk methodology to calculate the regulatory Operational Risk capital.

ALT-A RESIDENTIAL MORTGAGE BACKED SECURITY (ALT-A RMBS)
A type of US residential mortgage which is considered riskier than 'prime' and less risky than 'sub-prime' mortgages. Parameters generally taken into account are borrower credit scores, residential property values and loan-to-value ratios. Alt-A mortgages are further characterised by a limited degree of income and/or asset verification.

AMORTISED COST
The amount at which the financial asset or liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

ASSET AND LIABILITY COMMITTEE (ALCO)
Manages the balance sheet of ING, especially with regard to strategic non-trading risk. These risks comprise interest rate exposures, equity risk, real estate risk, liquidity, solvency and foreign exchange risk and fluctuations.

ASSET LIABILITY MANAGEMENT (ALM)
The practice of managing a business such that decisions on assets and liabilities are coordinated. It involves the ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities.

ASSET BACKED COMMERCIAL PAPER (ABCP)
Commercial paper that is collateralised by other financial assets.

ASSET BACKED SECURITIES (ABS)
A type of bond or note that is based on pools of assets, or collateralised by the cash flows from a specified pool of underlying assets.

ASSOCIATE
An entity over which the Group has significant influence, generally accompanying a shareholding of between 20% and 50% of the voting rights, and that is not a subsidiary not a joint venture.

AVAILABLE FINANCIAL RESOURCES (AFR)
The available financial resources equal the market value of assets minus market value of liabilities, excluding hybrids issued by ING Group which is counted as capital. ING's policy is that the available financial resources should exceed economic capital for Bank, Insurance and Group.

AVAILABLE-FOR-SALE FINANCIAL ASSETS
Those non-derivative financial assets that are designated as available-for-sale or are not classified as:
- loans and receivables;
- held-to-maturity investments; or
- financial assets at fair value through profit and loss.

BASEL I
Regulatory requirements issued by the Basel Committee on Banking Supervision for the solvency calculation, which are superseded by Basel II, for ING, from 2008 onwards.

BASEL II
Regulatory requirements issued by the Basel Committee on Banking Supervision for the solvency calculation, which, for ING, apply from 2008 onwards. Basel II is an international standard for calculating the required capital based on internal models that take into account the financial and operational risks.

BASEL III
Regulatory requirements issued by the Basel Committee on Banking Supervision for the solvency calculation and liquidity requirements, which will supersede Basel II. From 1 January 2013 these requirements will start to apply, with the full requirements being effective as of 1 January 2018.

BASIS POINT VALUE (BPV)
The change in the Net Present Value of a cash flow or a pool of cash flows due to a one basis point change of the yield curve.

BASIS RISK
This risk arises from an imperfect correlation in the adjustment of the rates earned and paid on different financial instruments. Examples of products in which these risks are inherent are demand deposits, saving accounts and mortgages with prepayment options.

BIS
An international organisation which fosters international monetary and financial co-operation and serves as a bank for central banks. BIS has set a minimum for the solvency ratio reflecting the relationship between capital and risk weighted assets. The ratio should be at least 8%.

BUSINESS RISK
The exposure to value loss due to fluctuations in volumes, margins and costs. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency.

CAPITAL AT RISK (CAR)
The maximum negative impact on ING Group's economic surplus over a one year forward looking horizon under normal market conditions. CaR is calculated at a 90% confidence interval.

CERTIFICATES OF DEPOSIT
Short-term negotiable bearer debt instruments issued by banks.

Financial glossary continued

CLAIM
A demand for payment of a policy benefit because of the occurrence of an insured event, such as the death or disability of the insured or the maturity of an endowment, the incurrence of hospital or medical bills, the destruction or damage of property and related deaths or injuries, defects in, liens on, or challenges to the title to real estate, or the occurrence of a surety loss.

CLAIMS RATIO
Claims, including claims handling expenses, expressed as a percentage of net earned premiums.

COLLATERALISED DEBT OBLIGATION (CDO)
A type of asset-backed security which provides investors exposure to the credit risk of a pool of fixed income assets.

COLLATERALISED LOAN OBLIGATION (CLO)
A type of CDO which is backed primarily by leveraged bank loans.

COMBINED RATIO
The sum of the claims ratio and the cost ratio for a non-life insurance company or a reinsurance company. A combined ratio of more than 100% does not necessarily mean that there is a loss on non-life insurance policies, because the result also includes the allocated investment income.

COMMERCIAL PAPER
Promissory note (issued by financial institutions or large firms) with very-short to short maturity period (usually 2 to 30 days, and not more than 270 days), and unsecured.

COMPLIANCE RISK
Compliance risk is defined as the risk of damage to ING's reputation as a result of failure or perceived failure to comply with relevant laws, regulations, internal policies and procedures or ethical standards.

CONCENTRATIONS OF CREDIT RISK
Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect groups of counterparties whose aggregate exposure is material in relation to ING Group's total exposure.

CONTINGENT LIABILITIES
Possible obligations that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

CONTROL
The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

CONVERTIBLE DEBENTURES
Debentures with embedded options issued by corporations. The holder has the right to exchange a convertible debenture for equity in the issuing company at certain times in the future according to a certain exchange ratio. Very often, the conversion is callable. This means that it can be repurchased by the issuer at a certain price at certain times in the future. Once the debentures have been called, the holder can always choose to convert prior to repurchase.

CONVEXITY
The non-linear relationship between changes in the interest rates and changes in bond prices and their Net Present Value. It is a very important market risk measure for portfolios containing (embedded) options.

CORE DEBT
Investments in ING Group subsidiaries minus the equity of the holding company including hybrids.

COST OF CAPITAL
The costs related to owning capital. These can be split into the cost of equity, hybrids and debt, taking a target leverage into account.

COST RATIO
Underwriting costs expressed as a percentage of premiums written.

COUNTRY RISK
The risk that a government will not fulfil its obligations or obstructs the remittance of funds by debtors, either for financial reasons (transfer risk) or for other reasons (e.g. political risk).

CREDIT INSTITUTIONS
All institutions that are subject to banking supervision by public authorities, including mortgage banks, capital market institutions, multilateral development banks and the International Monetary Fund (IMF).

CREDIT RISK
The risk of loss from default by borrowers (including bond issuers) or counterparties. Credit risks arise in ING's lending, presettlement and investment activities, as well as in its trading activities. Credit risk management is supported by dedicated credit risk information systems and internal rating methodologies for debtors and counterparties.

DEFERRED TAX LIABILITIES
The amounts of income tax payable in future periods in respect of taxable temporary differences between carrying amounts of assets or liabilities in the balance sheet and tax base, based on tax rates that are expected to apply in the period when the assets are realised or the liabilities are settled.

DEFINED BENEFIT PLAN
Post-employment benefit plans other than defined contribution plans.

DEFINED CONTRIBUTION PLAN
Post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Financial glossary continued

DELTA HEDGE
The delta hedge minimises the exposure of the employee option scheme by holding an appropriate number of (depositary receipts for) ordinary shares. The exposure is reassessed every quarter and, if necessary, ordinary shares are bought from the market. 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 out of exercise and vesting. Once all shares in the hedge portfolio are used ING will fund these obligations by issuing new shares.

DEPOSITARY RECEIPT
Depositary receipt for ordinary and preference shares, issued by the ING Trust Office, in exchange for ordinary and preference shares issued by ING Group.

DERIVATIVES
Financial instruments, which include forwards, futures, options and swaps, whose value is based on an underlying asset, index or reference rate.

DISCOUNTED BILLS
Bills that are sold under deduction of interest giving the owner the right to receive an amount of money on a given date.

DISCRETIONARY PARTICIPATION FEATURE
A contractual right to receive, as a supplement to guaranteed benefits, additional benefits that: are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the insurer, that are contractually based on the performance of a specified pool or type of contract, (un)realised investment returns on a specified pool of assets held by the insurer, or the profit of the company, fund, or other entity that issues the contract.

EARNINGS AT RISK (EAR)
Measures the impact on earnings resulting from changes in market rates over a one-year horizon.

EARNINGS SENSITIVITY (ES)
Measures the impact on earnings resulting from changes in economic and financial conditions over a one-year horizon.

ECONOMIC CAPITAL
The minimum amount of capital that is required to absorb unexpected losses in times of severe stress. Given ING Group's A target rating, ING calculates economic capital requirements for ING Bank at a 99.95% level of confidence. This confidence level is derived from the historical default frequency of AA-rated companies (probability of default of 1 in 2000 years or 0.05%). For ING Insurance the economic capital is calculated based on a confidence level of 99.5%, which is aligned with the Solvency II.

EFFECTIVE INTEREST METHOD
A method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period.

ELIMINATION
A process by which intercompany transactions are matched with each other and deducted, so that the assets, liabilities, income and expenses are not inflated.

EMBEDDED VALUE (EV)
Embedded value is the present value of all future cash flows from the contracts being owned today (embedded value does not take into account future sales). The discount rate used is equal to Weighted average cost of capital.

EMBEDDED VALUE PROFIT (EVP)
Embedded value profit is the change in embedded value over a given period over and above the amount related to the unwinding of the discount rate.

EMPLOYEE BENEFITS
All forms of consideration given by a company in exchange for service rendered by (current and former) employees.

FAIR VALUE
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FINANCE LEASE
A lease that transfers substantially all the risks and rewards associated with ownership of an asset to the lessee. Title may or may not eventually be transferred.

FINANCIAL ASSET
Any asset that is:
- cash;
- an equity instrument of another company;
- a contractual right to;
  - receive cash or another financial asset from another company; or
  - exchange financial instruments with another company under conditions that are potentially favourable; or
  - certain contract that will or may be settled in ING's own equity instruments.

FINANCIAL INSTRUMENTS
Contracts that give rise to both a financial asset for one company and a financial liability or equity instrument for another company.

FINANCIAL LIABILITY
Any liability that is a contractual obligation:
- to deliver cash or another financial asset to another company; or
- to exchange financial instruments with another company under conditions that are potentially unfavourable; or
- certain contracts that will or may be settled in ING's own equity instruments.

FOREIGN EXCHANGE RATE RISK
Probability of loss occurring from an adverse movement in foreign exchange rates.

FORWARD CONTRACTS
Commitments to exchange currencies or to buy or sell other financial instruments at specified future dates.

Financial glossary continued

FUTURE CONTRACTS
Commitments to exchange currencies or to buy or sell other financial instruments at specified future dates. Exchanges act as intermediaries and require daily cash settlement and collateral deposits.

GROSS PREMIUMS WRITTEN
Total premiums (whether or not earned) for insurance contracts written or assumed (including deposits for investment contracts with limited or no life contingencies written) during a specific period, without deduction for premiums ceded.

HELD-TO-MATURITY INVESTMENTS
Non-derivative financial assets with fixed or determinable payments and fixed maturity that ING Group has the positive intention and ability to hold to maturity other than:

a. those that ING Group upon initial recognition designates as at fair value through profit and loss;
b. those that ING Group designates as available-for-sale; and
c. those that meet the definition of loans and receivables.

HISTORICAL SIMULATION
A model to calculate Value at Risk, assuming that future changes in risk factors will have the same distribution as they had in the past taking into account the non-linear behaviour of financial products.

IMPAIRMENT LOSS
The amount by which the carrying amount of an asset exceeds its recoverable amount.

INTEREST BEARING INSTRUMENT
A financial asset or a liability for which a time-proportionate compensation is paid or received in relation to a notional amount.

INTERNAL RATE OF RETURN (IRR)
Internal rate of return is the discount rate at which the present value of distributable earnings from new business equals the investment in new business (i.e. the projected return on the investment in new business) is calculated.

INTEREST-RATE REBATES
Profit sharing for group life insurance business. A rebate granted to policyholders based on the discounted value of the difference between the interest rate used to calculate the premiums and the expected yield on investment. The profit sharing is granted by means of a premium discount related to the yield on government bonds.

INTEREST RATE RISK
Probability that the market interest rates will rise significantly higher than the interest rate earned on investments such as bonds, resulting in their lower market value.

IN THE MONEY
A call option is said to be in the money if the exercise price is lower than the price of the underlying value; a put option is said to be in the money if the exercise price is higher than the price of the underlying value.

INVESTMENT RISK
Investment risk is the credit default and risk rating migration risk that is associated with ING Group'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).

INVESTMENT PORTFOLIO
Comprises those assets which are intended for use on a continuing basis, and have been identified as such. These investments are held in order to cover the insurance provisions and to manage interest rate, capital and liquidity risks.

IRREVOCABLE FACILITIES
Mainly constitute unused portions of irrevocable credit facilities granted to corporate clients and commitments made to purchase securities to be issued by governments and private issuers.

IRREVOCABLE LETTERS OF CREDIT
Concerns an obligation on behalf of a client to pay an amount of money under submission of a specific document or to accept a bill of exchange, subject to certain conditions. An irrevocable letter of credit cannot be cancelled or adjusted by the bank that has granted it during the duration of the agreement unless all those concerned agree.

JOINT VENTURE
A contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.

LEGAL RISK
Legal risk is the risk related to:

- a failure (or perceived failure) to adhere to applicable laws, regulations and standards;
- contractual liabilities or contractual obligations that are defaulted or cannot be enforced as intended, or are enforced in an unexpected or adverse way; and
- liability (tort) towards third parties due to an act or omission contributable to ING; (potentially) resulting in impairment of ING's integrity, leading to damage to ING's reputation, legal or regulatory sanctions, or financial loss.

LENDING RISK
Lending risk arises when ING Group 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, or discount/premium amortisations or impairments.

LIQUIDITY RISK
The risk that ING Group or one of its subsidiaries cannot meet its financial liabilities when they fall due, at reasonable costs and in a timely manner.

MARKET RISK
Market risk is the risk that movements in market variables, such as interest rates, equity prices, implied volatilities, foreign exchange rates, real estate prices negatively impact the earnings or market value.

Financial glossary continued

MARKET VALUE AT RISK (MVAR)
A calculation method which measures the decrease in the market value surplus caused by movements in financial markets, at a 99.95% confidence level over a one year horizon.

MINORITY INTERESTS
The part of the profit and loss and net assets of a subsidiary attributable to an interest which is not owned, directly or indirectly, by the parent company.

MONETARY ASSETS AND LIABILITIES
Assets and liabilities which are fixed in terms of units of currency by contract or otherwise. Examples are cash, short or long-term accounts, notes receivable in cash and notes payable in cash.

MONEY MARKET RISK
Money market risk arises when ING Group 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 Group 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.

MONOLINER
A financial company that deals specifically with one particular branch of the financial industry.

MONTE CARLO SIMULATION
A model to calculate Value at Risk, assuming that changes in risk factors are (jointly) normally distributed taking into account nonlinear behaviour of financial products.

MORTGAGE BACKED SECURITIES (MBS)
A security whose cash flows are backed by typically the principal and/or interest payments of a pool of mortgages.

NEW SALES
New sales of life insurance, measured as Annual Premium Equivalent (APE), have been defined as the total of annual premiums and 10% of single premiums received on production in a given period.

NET ASSET VALUE
Used in the equity method of accounting. The initial net asset value of the investment is determined by the fair value of the assets and liabilities of the investee. After the initial valuation of assets and liabilities of the investee at fair value, the assets and liabilities of the investee are valued in accordance with the accounting policies of the investor. The profit and loss account reflects the investor's share in the results of operations of the investee.

NET PREMIUMS WRITTEN
Gross premiums written for a given period less premiums ceded to retrocessionaires during the given period.

NET PRESENT VALUE AT RISK (NPV-AT-RISK)
Establishes what the value of future cash flows is in terms of today's monetary value. NPV-at-Risk establishes the change in value of future cash flows as a result of interest rate changes in terms of today's monetary value.

NON-VOTING EQUITY SECURITIES
Core Tier 1 securities issued to the Dutch State in November 2008 for a total consideration of EUR 10 billion. In December 2009 EUR 5 billion was paid back to the Dutch State. This capital injection qualifies as core Tier 1 capital for regulatory purposes.

NOTIONAL AMOUNTS
Represent units of account which, in respect of derivatives, reflect the relationship with the underlying assets. They do not reflect, however, the credit risks assumed by entering into derivative transactions.

OPERATING LEASE
A lease other than a finance lease.

OPERATIONAL RISK
The risk of a direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

OPTION CONTRACTS
Give the purchaser, for a premium, the right, but not the obligation, to buy or sell within a limited period of time a financial instrument or currency at a contracted price that may also be settled in cash. Written options are subject to market risk, but not to credit risk since the counterparties have already performed in accordance with the terms of the contract by paying a cash premium up front.

ORDINARY SHARE
An equity instrument that is subordinate to all other classes of equity instruments. Ordinary shares participate in the net profit for the financial year after other types of shares such as preference shares.

OUT OF THE MONEY
A call option is said to be out of the money if the exercise price is higher than the price of the underlying value; a put option is said to be out of the money if the exercise price is lower than the price of the underlying value.

OVER-THE-COUNTER INSTRUMENT
A non-standardised financial instrument not traded on a stock exchange but directly between market participants.

PLAN ASSETS
Comprise assets held by a long-term employee benefit fund and qualifying insurance policies. Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting enterprise) that:
- are held by an entity (a fund) that is legally separate from the reporting enterprise and exists solely to pay or fund employee benefits; and
- are available to be used only to pay or fund employee benefits, are not available to the reporting enterprise's own creditors (even in bankruptcy), and cannot be returned to the reporting enterprise, unless either the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting enterprise or the assets are returned to the reporting enterprise to reimburse it for employee benefits already paid.

Financial glossary continued

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party of the reporting enterprise, if the proceeds of the policy:

- can be used only to pay or fund employee benefits under a defined benefit plan; and
- are not available to the reporting enterprise's own creditors (even in bankruptcy) and cannot be paid to the reporting enterprise, unless either the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations or the proceeds are returned to the reporting enterprise to reimburse it for employee benefits already paid.

POST-EMPLOYMENT BENEFIT PLANS
Formal or informal arrangements under which a company provides post-employment benefits for one or more employees. Post-employment benefits are employee benefits other than termination benefits and equity compensation benefits, which are payable after the completion of employment.

PREFERENCE SHARE
Similar to an ordinary share but carries certain preferential rights. These rights usually concern the guarantee of a fixed (cumulative) return to the shareholder or a guaranteed return on the investment.

PREMIUMS EARNED
The portion of net premiums written in current and past periods which applies to the expired portion of the policy period, calculated by subtracting movements in unearned premium reserves from net premiums.

PRE-SETTLEMENT RISK
Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING Group 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 Group 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 outstanding is generally based on the replacement value (mark-to-market) plus potential future volatility concept, using an historical 7 year time horizon and a 99% confidence level.

PRESSURISED ASSETS
Pressurised assets have been defined as subprime ABS exposures, Alt-A ABS exposures, CMBS, CDO/CLOs, Greek Government bonds, Greek Financial Institution Bonds, Irish Government bonds and Irish Financial Institution bonds.

PRIVATE LOAN
Loans to governments, other public bodies, public utilities, corporations, other institutions or individuals with a loan agreement as the only instrument of title.

PRIVATE PLACEMENT
A placement in which newly issued shares or debentures come into possession of a limited group of subscribers who are prepared to buy the new securities.

PROJECTED UNIT CREDIT METHOD
An actuarial valuation method that considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

QUALIFYING ASSET (WITHIN THE MEANING OF BORROWING COSTS)
An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

RECOGNITION
The process of incorporating in the balance sheet or profit and loss account an item that meets the definition of an element and satisfies the following criteria for recognition:

- it is probable that any future economic benefit associated with the item will flow to or from the enterprise; and
- the item has a cost or value that can be measured reliably.

RECOVERABLE AMOUNT
The higher of an asset's net selling price and its value in use.

REDEMPTION VALUE
With respect to investments in fixed-interest securities, the amount payable on the maturity date.

REINSURANCE
The practice whereby one party, called the reinsurer, in consideration for a premium paid to him, agrees to indemnify another party, called the reinsured or ceding company, for part or all of the liability assumed by the reinsured under a contract or contracts of insurance which the reinsured has issued. The reinsured may also be referred to as the original or primary insurer, the direct writing company, or the ceding company.

RETURN ON EQUITY (ROE)
The return on equity is the net result as percentage of the average equity.

RISK ADJUSTED RETURN ON CAPITAL (RAROC)
A performance indicator that measures revenues in the perspective of the risks that had to be taken to obtain that revenue. RAROC is calculated by dividing the risk-adjusted-return by economic capital. In the RAROC calculation, the actual credit-risk provisioning is replaced by statistically expected losses reflecting the average credit losses over the entire economic cycle.

RISK-WEIGHTED ASSETS ('RWA' UNDER BASEL I)
Assets which are weighted for credit risk according to a formula used by the Dutch central bank (De Nederlandsche Bank), which conforms to the capital adequacy guidelines of the BIS (Bank of International Settlements). On and off-balance-sheet items are weighted for risk, with off-balance-sheet items converted to balance-sheet equivalents (using credit-conversion factors) before being allocated a risk weight.

RISK-WEIGHTED ASSETS ('RWA' UNDER BASEL II)
Assets which are weighted for credit and market risk in accordance with the Basel II methodology. The risk-weighted assets are calculated using internal models approved by The Dutch central bank (De Nederlandsche Bank). Regulatory capital requirements for operational risk are calculated without use of risk-weighted assets.

Financial glossary continued

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 Group has paid or delivered its side of the trade. The risk is that ING Group delivers, but does not receive delivery from the counterparty.

SIGNIFICANT INFLUENCE
The power to participate in the financial and operating policy decisions of an entity, but not to have control over these policies. Significant influence may be gained by share ownership, statute or agreement.

SOLVENCY II
The fundamental reform of European insurance solvency and risk governance legislation, which is effective as of 1 January 2013.

SUB-PRIME MORTGAGES
Mortgage loans made to borrowers who cannot get a regular mortgage because they have a bad credit history or limited income.

SUBSIDIARY
An entity that is controlled by another entity.

SURRENDER
The termination of a life or retirement contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, on the contract.

SWAP CONTRACTS
Commitments to settle in cash at a specified future date, based on differentials between specified financial indices as applied to a notional principal amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party.

TIER 1 CAPITAL
Also referred to as the core capital of ING Bank. It comprises paid up share capital, reserves excluding revaluation reserves, retained earnings, minority interests and hybrid Tier 1.

TIER 1 RATIO
Reflecting the Tier 1 capital of ING Bank as a percentage of its total risk weighted assets. The minimum set by the Dutch central bank is 4%.

TOTAL AND UNDERLYING NET RESULT
The variance between Total and Underlying net result is caused by divestments and special items.

TRADING PORTFOLIO
Comprises those financial instruments which are held to obtain short-term transaction results, to facilitate transactions on behalf of clients or to hedge other positions in the trading portfolio.

TRANSFER RISK
Probability of loss due to currency conversion (exchange) restrictions imposed by a foreign government that make it impossible to move money out of the country.

TREASURY BILLS
Generally short-term debt certificates issued by a central government. Dutch Treasury Certificates are regarded as Dutch Treasury bills.

TREASURY SHARES
An entity's own equity instruments, held by the entity or other members of the consolidated group.

VALUE CREATION
Value creation is measured by Economic Profit (regarding non life and asset management business and banking operations) and Embedded Value Profit (regarding life and long term health business).

VALUE AT RISK (VAR)
Quantifies, with a one-sided confidence level of at least 99%, the maximum overnight loss in Net Present Value that could occur due to changes in risk factors (e.g. interest rates, foreign exchange rates, equity prices, credit spreads, implied volatilities) if positions remain unchanged for a time interval of one day.

VALUE IN USE
The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

VARIANCE-COVARIANCE
A model to calculate Value at Risk, assuming that changes in risk factors are (jointly) normally distributed and that the change in portfolio value is linearly dependent on all risk factor changes.

WARRANT
A financial instrument that gives the holder the right to purchase ordinary shares.

WEIGHTED AVERAGE COST OF CAPITAL (WACC)
The weighted average cost of capital is used as the discount rate for calculating the present value of future cash flows.

General information

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.

General information continued

ING PUBLICATIONS

– Annual Report, in Dutch and English
– Annual Report on Form 20-F, in English
  (in accordance with SEC guidelines)

These publications are available on www.ing.com.
The publications can be ordered on the internet:
www.ing.com, button 'Publications',
by fax: +31 411 652 125, or
by mail: P.O. Box 258, 5280 AG Boxtel, the Netherlands.

This Annual Report contains the Reports of the Executive Board and Supervisory Board as well as the Annual Accounts and Other information for the financial year 2010 in their original language (English).

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