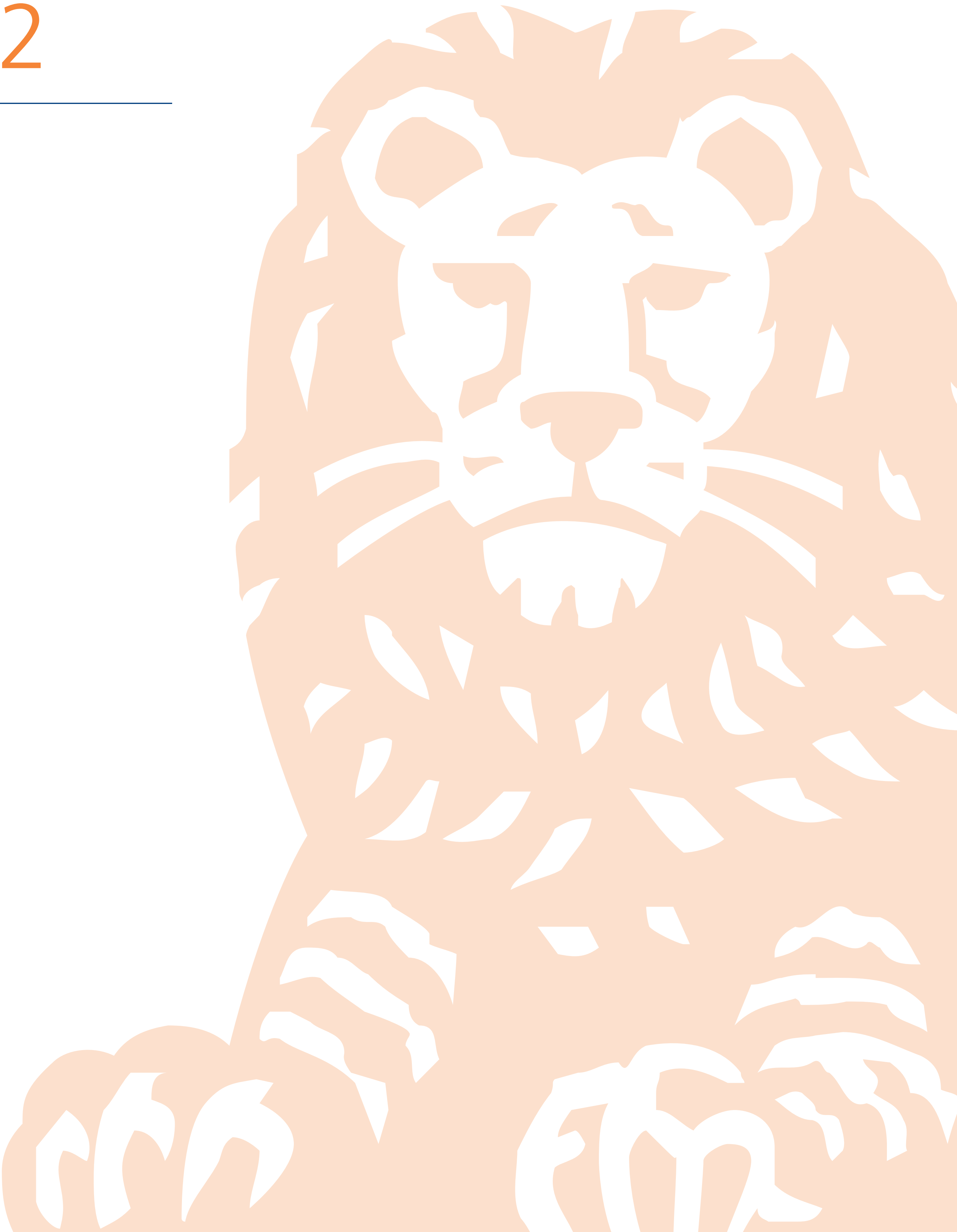
ING

ING Insurance Annual Report 2012



ING

ING Verzekeringen N.V.
2012 Annual Report

Contents

Management

COMPOSITION OF THE BOARDS

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

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

MANAGEMENT BOARD INSURANCE

Composition on 31 December 2012

Jan H.M. Hommen (69), CEO and chairman
Patrick G. Flynn (52), chief financial officer
Wilfred Nagel (56), chief risk officer

SUPERVISORY BOARD

Composition on 31 December 2012

Jeroen van der Veer (65), chairman
Peter A.F.W. Elverding (64), vice-chairman
J.P. (Tineke) Bahlmann (62)
Henk W. Breukink (62)
Jan H. Holsboer (66)
Sjoerd van Keulen [1] (66)
Piet C. Klaver (67)
Joost Ch.L. Kuiper (65)
Robert W.P. Reibestein [2] (56)
Yvonne C.M.T. van Rooy (61)
Luc A.C.P. Vandewalle (68)
Lodewijk J. de Waal (62)

[1] Resignation as of the annual General Meeting on 13 May 2013.
[2] Appointed in 2012 as of 1 January 2013.

COMMITTEES OF THE SUPERVISORY BOARD [3]

Composition on 31 December 2012

Audit Committee

Joost Kuiper, chairman
Tineke Bahlmann
Henk Breukink
Jan Holsboer
Yvonne van Rooy
Luc Vandewalle

Risk Committee

Piet Klaver, chairman
Tineke Bahlmann
Joost Kuiper
Luc Vandewalle
Jeroen van der Veer

Remuneration Committee

Peter Elverding, chairman
Piet Klaver
Jeroen van der Veer
Lodewijk de Waal

Nomination Committee

Jeroen van der Veer, chairman
Peter Elverding
Piet Klaver
Lodewijk de Waal

Corporate Governance Committee

Henk Breukink, chairman
Jeroen van der Veer
Lodewijk de Waal

[3] The current composition of the Supervisory Board Committees can be found on the website (www.ing.com).

Management continued

ING INSURANCE EURASIA N.V.

The Management Board of ING Insurance Eurasia N.V., a subsidiary of ING Verzekeringen N.V., manages the ING Insurance EurAsia insurance and investment management businesses and is responsible for strategic, operational and business decisions.

The composition of the Management Board ING Eurasia N.V. is as follows:

- Jan H.M. Hommen
- Patrick G. Flynn
- Wilfred Nagel
- E. (Lard) Friese
- Matthew J. Rider (until 31 December 2012)
- Gilbert O.J.M. Van Hassel
- Delfin Rueda (from 1 November 2012)
- Dorothee E. van Vredenburch (from 1 November 2012)
- Steven Douglas (Doug) Caldwell (from 1 December 2012)

ING U.S., INC.

The Board of ING U.S., Inc. (formerly America Insurance Holdings), a subsidiary of ING Verzekeringen N.V., is responsible for the daily management of the business in the United States consisting of retirement, investment and insurance.

The composition of the Board of ING U.S., Inc. is as follows:

- Jan H.M. Hommen
- Patrick G. Flynn
- Wilfred Nagel
- Rodney O. Martin Jr.
- Alain Karaoglan
- Ewout Steenbergen
- Robert Leary (until 6 December 2012)

ING at a glance

ING INSURANCE IS PART OF ING GROUP

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

Our profile
ING is a global financial institution of Dutch origin, currently offering banking, investments, life insurance and retirement services. We are concentrating on our position as a strong European bank with attractive home market positions in Northern Europe and growth options in Central and Eastern Europe and Asia, while creating an optimal base for independent futures for our insurance operations (including investment management).

Our strategy
To serve the interests of all stakeholders, increase management focus and create value for shareholders, ING is moving towards full separation of its banking and insurance operations. The separation is part of the Restructuring Plan required by the European Commission in order to gain approval for the Dutch state aid received in 2008/2009.

ING Group's strategic priorities are: strengthening our financial position, restructuring, streamlining the portfolio, repaying state aid and building both stronger banking and insurance/investment management businesses, all based on sound business ethics and good corporate citizenship.

On the insurance side, the focus will be to optimise returns and value for the business as we prepare for separation. We will focus on earning our customers' trust through transparent products, value for money and superior service. This reflects our universal customer ideal: saving and investing for the future should be easier.

ING Insurance/Investment Management (IM) is preparing its businesses for standalone futures. ING Insurance/IM Europe and ING Insurance/IM US are preparing for base case initial public offerings (IPOs) and the sale of ING Insurance/IM Asia is in full progress. ING Insurance/IM will continue to focus on its customers and distributors by providing exemplary products and service.

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 such as customers, employees, supervisors, shareholders, civil society organisations and regulators.

Our corporate responsibility
ING wants to build its future on sustainable profit based on sound business ethics and respect for its stakeholders and to be a good corporate citizen. 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.

TAKING CHARGE OF CHANGE
Financial position strengthened
ING places great importance on strengthening its financial position in order to put itself in the best position to facilitate the real economy. Despite persistent market volatility and uncertain economic recovery in the eurozone and elsewhere, ING gained in financial strength in 2012. Capital and liquidity improved, our funding position remained strong, earnings remained resilient, and net exposure to riskier asset classes and activities declined.

Amendments to the Restructuring Plan
To obtain approval from the European Commission in November 2009 for the support received from the Dutch State during the financial crisis, ING had to divest ING Direct USA and WestlandUtrecht Bank by 2012, and all ING's Insurance and Investment Management operations by the end of 2013. During the past few years the following important milestones have been reached:

- the operational separation of the Insurance and Banking activities, completed at the end of 2010;
- the sale of almost all of the Latin-American Insurance/IM operations in 2011;
- the sale of ING Direct USA, completed in February 2012;
- the first three sales of the Asian Insurance/IM units, announced in October 2012. Two additional sales were announced in November and December 2012; and
- in November 2012, ING U.S. filed the registration statement for its IPO.

In November 2012, ING and the Dutch State reached an agreement with the European Commission on amendments to its 2009 Restructuring Plan.

The amendments extend the time and increase the flexibility for the completion of divestments, and also adjust other commitments in light of the market conditions, economic climate and more stringent regulation.

Repayment to the Dutch state
ING has made good progress in repaying the EUR 10 billion of capital support from the Dutch State. As part of the amended Restructuring Plan, ING has filed a schedule to repay the Dutch State in four equal tranches of EUR 1.125 billion each. The first payment was made on 26 November 2012. The other tranches are due to be paid by November 2013, March 2014 and May 2015.

ING at a glance continued

So far ING has repaid EUR 10.2 billion, which consists of a principal amount of EUR 7.8 billion and EUR 2.4 billion of premiums and interest.

Regulation and supervision
ING supports the overall majority of international, European and national regulatory reforms taking place in the financial sector. However, ING is concerned about their cumulative impact, the uncertainty when and in what form they will be implemented, and how they will affect our role in financing the real economy.

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

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

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

Insurance Central and Rest of Europe
Insurance Central and Rest of Europe 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 green field operations in Bulgaria and Turkey.

Insurance US (excluding Closed Block VA)
Insurance US include ING's retirement services and life insurance operations in the US. In the US, ING is one of the top 5 providers of term insurance, and one of the top 10 providers of universal life insurance, based on premiums sold.

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.

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

Overview

2012 was a challenging year marked by continuing low interest rates and financial volatility largely related to the European sovereign debt crisis. ING Insurance focused on the restructuring of its operations and preparing its businesses for standalone futures. Progress was made on the sale of Asia Insurance and Investment Management (IM). ING U.S. moved closer to its planned IPO, and ING Insurance/IM Europe stepped up its efforts to prepare for a base case IPO, a major aspect of which is the transformation of Nationale-Nederlanden.

FINANCIAL DEVELOPMENTS

The operating environment remained challenging throughout 2012, with volatile markets and an uncertain macro-economic environment.

The results of the Asia/Pacific insurance and investment management businesses (and the Corporate Line results attributable to them) were transferred to 'net results from discontinued operations', pending the planned sale of ING's Insurance and Investment Management business in the region.

ING Insurance/IM full-year results decreased compared with 2011. The full-year 2012 net result was EUR 939 million compared with a net result of EUR 1,200 million in 2011. The 2012 net result includes result from discontinued operations, reflecting the operating segment Asia which amounted to EUR 908 million including a EUR 745 million realised gain on the sale of Insurance Malaysia. The 2011 net result from discontinued operations amounted to EUR 1,673 million related to the operating segment Asia and includes EUR 995 million gain on divestments attributable to the sale of our Latin American insurance, pension and investment management business. Divestments were EUR –6 million in 2012 compared with EUR –9 million in 2011. Special items were EUR –439 million in 2012 compared with EUR –243 million in 2011. Special items in 2012 includes the impact (net of tax) of costs related to restructuring programmes of EUR 207 million, separation and IPO preparation expenses of EUR 221 million and an offsetting impact (net of tax) related to the new pension scheme of EUR 87 million for employees in the Netherlands. The 2011 special items include a EUR 71 million net gain from the liability management transaction, i.e., the exchange offer of subordinated debt securities totalling EUR 1.0 billion, offset by costs for various restructuring programmes and separation costs. Underlying net result for 2012 was EUR 476 million compared with EUR –221 million in 2011. Underlying net result is derived from total net result by excluding the impact from divestments, discontinued operations and special items.

The underlying result before tax of Insurance/IM amounted to EUR 347 million, up from a loss of EUR 300 million in 2011. Capital gains and impairments improved from EUR –609 million in 2011 to EUR 119 million as a result of improved financial market sentiment in comparison to 2011. Revaluations decreased from EUR 206 million in 2011 to EUR –126 million in 2012 and were mainly driven by negative revaluations of equity hedges and real estate in the Benelux.

Market and other impacts improved to EUR –776 million from EUR –1,581 million in 2011, which was significantly impacted by a EUR 1,099 million charge related to a comprehensive policyholder behaviour assumption review for the US Closed Block VA business in that year. The remaining change in market and other impacts is explained by a EUR 280 million decline in the Benelux mainly due to a change in the provision for guarantees on separate account pension contracts (net of hedging) and macro interest rate hedges.

The operating result of Insurance/IM decreased to EUR 1,130 million, from EUR 1,683 million in 2011, mostly driven by higher administrative expenses and DAC amortisation, which was largely attributable to the US Insurance business. Administrative expenses increased from EUR 2,319 million in 2011 to EUR 2,529 million due to a non-recurring reduction in pension plan liabilities in the previous year. Higher DAC amortisation followed higher operating income in the US.

The Life/IM administrative expenses ratio deteriorated from 43.2% in 2011 to 47.3% in 2012 as a result of 0.5% lower Life/IM income and 9.1% higher administrative expenses. Expenses, especially in the US, were higher compared with 2011 as a result of the one-off impact of pension plan changes in 2011.

New sales (APE) in 2012 amounted to EUR 2,830 million, an increase from 2011's EUR 2,648 million, or up 6.9% compared with 2011. The increase was mainly attributable to higher sales in the US.

BUSINESS DEVELOPMENTS

ING made good progress in 2012 in restructuring its insurance and investment management operations. In Asia, ING's life insurance business in Malaysia was sold. Sales agreements were announced for the insurance businesses in Hong Kong, Macau and Thailand (closed 28 February 2013), the investment management operations in Malaysia and Thailand, and a 33.3% stake in China Merchants Fund, an investment management joint venture.

ING U.S. took another step towards its planned initial public offering (IPO) by filing an initial registration statement on Form S-1 with the US Securities and Exchange Commission (SEC) in connection with its proposed IPO. It also made progress towards a standalone capital structure by successfully raising USD 5 billion in a credit facility and a further USD 850 million in debt issuance.

Towards the end of the year, ING announced a Restructuring Plan for its European insurance/investment management operations. This involves the acceleration of a transformation programme at Nationale-Nederlanden to sharpen its strategic focus and improve processes and systems. These measures, together with the delayering of support functions, are expected to further improve the efficiency of the businesses and to result in a reduction of the workforce by an estimated 1,350 FTEs over the period of 2013-2014 and annual savings of approximately EUR 200 million by the end of 2014.

Overview continued

In November, key revisions to ING's 2009 European Commission (EC) Restructuring Plan were announced, after ING and the Dutch State reached agreement with the EC. Among other things, the deadlines for Insurance divestments were extended beyond the original deadline of year-end 2013. The amended Restructuring Plan gives ING more time and flexibility to complete the required restructuring while leaving its strategic objectives unchanged. Under the revised agreement, more than 50% of the Asian insurance and investment management businesses must be divested by year-end 2013, with the remainder divested before year-end 2016. The divestment of at least 25% of ING US has to be completed by year-end 2013, more than 50% has to be divested by year-end 2014, with the remaining interest divested by year-end 2016. The divestment of more than 50% of Insurance/IM Europe has to be completed by year-end 2015, with the remainder divested by year-end 2018. ING is committed to completing all restructuring as quickly as possible. However, these deadlines give the company more flexibility to complete divestments, given the challenging market environment and more stringent regulatory requirements.

Under the amended Restructuring Plan, certain operations of WestlandUtrecht Bank will be merged with the recently created Nationale-Nederlanden Bank. The combination will accelerate the strategy of Nationale-Nederlanden Bank, which will become a new mid-sized bank in the Netherlands under the strong Nationale-Nederlanden brand.

CUSTOMER EXPERIENCE

Insurance continued to use insights from its Net Promoter Score (NPS) programme in 17 countries that ING Insurance/IM operates in to make process improvements in 2012. Businesses in Europe and Asia revised written customer communications to ensure the language used was clear and free of jargon.

In 2012, ING Insurance/IM continued to refine its sales processes and the process for the development of new products to ensure they continue to be compliant in terms of customer suitability. A five point gauge was developed in monitoring compliance. The five points include NPS, customer complaints, welcome call analysis, policy persistency rate and agent turnover rate.

SUSTAINABILITY

Embedding sustainability in ING Insurance/Investment Management core processes is a key priority. The businesses strive – in their daily actions and decision-making – to strike a balance between financial interest and their impact on society and the environment.

For ING Insurance/IM this entails offering suitable products and services that are transparent, fair and easily understood. Furthermore, the business strives to be a responsible investor of both our proprietary assets and the assets we manage on behalf of our customers. Responsible investing (RI) at Insurance/IM includes active ownership of the assets we manage, integrating environmental, social and governance aspects in our investment processes and includes providing Socially Responsible Investment (SRI) funds and tailormade RI solutions.

In 2012, ING became one of the founding signatories of the United Nations Principles for Sustainable Insurance (PSI). The PSI was launched during the UN Conference on Sustainable Development in Rio de Janeiro and is a framework for the global insurance industry to address environmental, social and governance risks and opportunities.

ING's sustainability agenda for the insurance and the investment management businesses also includes community investment initiatives, fund raising for charities, working closely with our global partner UNICEF, special causes and employees volunteering for local causes.

SOLVENCY II

During 2012, ING Insurance/IM continued to work towards meeting the European Union directive's requirements, particularly with respect to adapting ING's risk measurement, risk management and reporting to levels required under the framework.

Due to ongoing discussions on the legislative content of Solvency II, the proposed framework will not come into force on 1 January 2014 as initially envisaged. Most importantly, more time is needed to find appropriate solutions for the treatment of long-term guarantees in the framework. Subsequent to the outcome of that discussion, the insurance industry needs time to finalise preparations for the final Solvency II regime.

Until then, ING will continue to take an active role in discussions with the industry and with regulators on developing a European Solvency II framework that is robust and enables life insurance companies to continue to provide solutions for the long-term financial needs of their customers.

EU UNISEX RULE

In March 2011, the European Court of Justice ruled that insurers in Europe cannot differentiate in price or benefits for the same insurance products, based on gender. As a result, the European Commission introduced a requirement for gender-neutral pricing in insurance, also called the unisex rule, which required that from 21 December 2012, life insurers' products and their pricing must be identical for men and women.

Overview continued

To comply with this new regulation, all product portfolios across the Insurance business units in Europe were reviewed. More than 90 products were re-priced in Insurance Central and Rest of Europe. In the Benelux, all products available for sale were reviewed in the past two years to ensure they were compliant with the EU unisex rule. From 21 December 2012, all ING's insurance products available for sale throughout the European Union were compliant with the rule.

BUSINESS LINES

For Insurance Benelux, the focus is to become a more customer-driven company. At the end of 2012, Nationale-Nederlanden announced the acceleration of the insurer's transformation programme to improve processes, deal with legacy systems and reduce expenses.

Insurance Central and Rest of Europe recorded strong life insurance sales growth in 2012 on the back of multi-channel distribution initiatives, new customer propositions and improved service levels.

Insurance US maintained steady progress towards a standalone future by focusing on delivering strong operating performance and focusing steadfastly on its customers and distribution partners.

US Closed Block VA focused on protecting regulatory reserves and rating agency capital from equity market movements.

ING Investment Management worked towards preparing its three regional businesses (ING IM International, ING IM US and ING IM Asia/Pacific) for separate standalone futures.

CONCLUSIONS AND AMBITIONS

ING Insurance/Investment Management will continue to focus on providing first-class products and services to its customers, as it works towards a standalone future. The company is mindful of its responsibility to society and will continue to pursue sustainability initiatives such as responsible investing.

In Europe, ING is aiming to create a leading European wealth management and protection company. It will have a combination of cash-generating businesses and leading positions in growth markets. The business will concentrate further on improving the customer experience, focusing on product and service innovation, distribution excellence and effective and efficient operations.

Plans for an IPO of ING U.S. remain on track. Depending on market conditions, ING anticipates an IPO of the business in 2013.

Financial developments business lines

INSURANCE

INSURANCE BENELUX

The underlying result before tax in the Benelux decreased by 109.4%, partly due to a 31.0% lower operating result, lower result on equity hedges and negative real estate revaluations, as well as lower results from charges related to guarantees on separate account pension contracts (net of hedging) and macro interest rate hedges. This was partly offset by higher capital gains on loans, debt and public equity. The equity and macro interest rate hedges were in place to protect regulatory capital.

The operating result decreased by 31.0% as a result of a lower investment margin, a lower technical margin and a lower non-life result. The investment margin declined by 11.6% as a result of lower fixed interest income from de-risking, low reinvestment yields, lower dividends on public equity and real estate funds, all of which were partly offset by higher volumes and also offset by a EUR 51 million lower profit sharing to policyholders in the Netherlands in line with underlying results in 2012.

The technical margin decreased by 43.9% to EUR 177 million, from EUR 315 million in the previous year. This was mainly due to additions to the guarantee provisions for group life and retail life contracts, mainly due to lower interest rates, as well as a EUR 70 million gain from the surrender of a contract with a large pension fund in 2011. Life administrative expenses increased by 1.3% due to higher Solvency II expenses.

Non-Life results decreased by 53.9%, mainly due to higher claims in Income Protection as a result of the economic downturn in the Netherlands, partly offset by better results in Fire and Liability.

New sales (APE) decreased by 23.1% in 2012 to EUR 387 million due to lower sales of group and individual pensions in the Netherlands and lower sales in Belgium due to product re-pricing.

INSURANCE CENTRAL AND REST OF EUROPE

The underlying result before tax of Insurance Central and Rest of Europe was a profit of EUR 170 million compared with a EUR 198 million loss in 2011. Contrary to the lower operating result, the gains/losses and impairments were EUR –35 million compared with EUR –404 million in 2011. The latter amount reflects EUR 324 million in impairments on Greek governments bonds, EUR 34 million capital losses on the sales of Italian sovereign bonds and EUR 18 million capital losses on the sales of Portuguese bonds issued by financial institutions.

The operating result declined by 10.9% to EUR 184 million, from EUR 206 million in 2011. This decline was mainly driven by lower fees and premium-based revenues and a lower investment margin.

The investment margin of EUR 59 million was 18.1% lower compared with EUR 72 million in 2011, in part due to lower investment yields in Greece, reflecting de-risking measures. Fees and premium-based revenues declined by 6.9% compared with 2011. This decline was driven by lower fees in the life business, as higher margin portfolios mature and are replaced by lower-margin products, and by regulatory changes to pension funds in Poland and Hungary. The technical margin increased by 3.6%, largely as a result of the release of a technical provision in Romania. Life administrative expenses fell by 7.5% compared with 2011, reflecting strict control and provision releases in the current year, while 2011 was impacted by higher project costs related to building a regional IT organisation and by reorganisation expenses.

New sales (APE) increased by 11.3% to EUR 396 million compared with the previous year. Life sales grew in all countries except Hungary - a very successful 2011 Hungarian campaign boosted sales in that year - and were EUR 31 million higher compared with 2011. The increase was largely due to strong sales of the third pillar pension fund in the Czech Republic, classified as life insurance products, and the sale of life products in Turkey. Pension sales grew in Romania, Slovakia and especially in Turkey. They were EUR 9 million higher compared with 2011, reflecting 76.1% higher pension sales in Turkey, partly offset by 67.6% lower pension sales in Poland, reflecting regulatory changes.

INSURANCE US

The underlying result before tax of Insurance US increased by 50% to EUR 928 million in 2012, from EUR 618 million in 2011. The increase was driven by higher operating results, lower impairments and credit losses, gains on the sale of securities, and favourable DAC unlocking.

The operating result increased by 5.4%, as higher investment margins and fees and premium-based revenues were partially offset by a lower technical margin and higher administrative expenses. The investment margin increased by 21.9%, primarily due to higher general account assets in the Retirement Services business, partially due to customer transfers from equity accounts, and lower average crediting rates.

Fees and premium-based revenues increased by 11.7%, primarily due to growth in the Term Life business, and higher fee income, as a result of strong net flows in the full-service Retirement business and higher equity market levels.

The technical margin decreased by 45.5% compared with 2011. This decline was mainly attributable to lower results in Individual Life, partially offset by higher results in Employee Benefits and the closed block Group Reinsurance business.

Administrative expenses were 18.9% higher than in 2011, primarily due to a non-recurring reduction in pension plan liabilities in the prior year.

Financial developments business lines continued

Gains/losses and impairments improved to EUR 36 million, from EUR –171 million in 2011, primarily driven by lower impairments and credit losses as well as an increase in gains on securities sold.

Market and other impacts improved to EUR 29 million, from EUR –36 million in 2011, primarily due to net favourable Deferred Acquisition Costs (DAC) unlocking in the third quarter related to model refinements and assumption updates, largely in Annuities.

New sales (APE) were EUR 2,047 million, a 14.4% increase compared with 2011, primarily due to growth in the full-service retirement plans, partly offset by lower Annuity and Individual Life sales due to management actions to reduce sales in the current low interest rate environment.

US CLOSED BLOCK VA

The underlying result before tax of the US Closed Block VA improved to EUR –379 million, from EUR –1,273 million in 2011. The underlying result before tax in 2011 was impacted by the completion of a comprehensive policyholder behaviour assumption review for the US Closed Block VA, leading to a charge of EUR 1.1 billion in the fourth quarter of 2011.

The operating result decreased to EUR –122 million, from EUR 20 million in 2011. The decrease is mainly attributable to lower fees and premium-based revenues in addition to a lower investment margin.

The investment margin decreased to EUR 7 million compared with EUR 28 million in 2011, primarily due to lower yields on investments backing reserves due to higher liquidity balances and the low interest rate environment.

The fees and premium-based revenues decreased to EUR 100 million, from EUR 168 million in 2011. This decrease is mainly due to lower fee income and higher hedge and reserve costs.

Market and other impacts were EUR –274 million compared with EUR –1,295 million in 2011. Excluding the EUR 1.1 billion charge in the fourth quarter of 2011, market and other impacts in 2012 decreased, mainly reflecting a higher loss on hedges, net of reserve changes, due to the rising equity markets. The hedge programme is focused on protecting regulatory capital rather than mitigating earnings volatility.

ING INVESTMENT MANAGEMENT

The results of the Asian Investment Management business, with the exception of IM Japan and IM Singapore, have been transferred to 'net results from discontinued operations', pending the planned sale of ING's Insurance and Investment Management business in the region. All financials for the years 2010, 2011 and 2012 have been restated.

Assets under Management (AuM) at ING Investment Management (ING IM) increased by 9.5% to EUR 321.5 billion, from EUR 293.5 billion at year-end 2011. This increase was the result of EUR 10.8 billion inflows, realised in all segments, and market appreciation of EUR 21.7 billion, partly offset by EUR –4.6 billion of currency and other impacts.

The underlying result before tax increased by 1.0% to EUR 200 million, while the operating result decreased by 15.0% to EUR 159 million. The decline in operating result was caused by higher administrative expenses, due in part to non-recurring items, which were not fully offset by higher fees and premium-based revenues. The higher underlying result was attributable to EUR 34 million higher Revaluations in IM US, including a non-recurring EUR 10 million favourable impact for performance fees, which more than offset the lower operating result.

Fees and premium-based revenues increased by 5.2% to EUR 824 million, from EUR 783 million in 2011, to a large extent as a result of currency effects and to a lesser extent as a result of the higher asset base. The annualised fourth quarter ratio of fees to average AuM remained flat at 27 basis points compared with the previous year. This ratio is calculated using an average of opening and closing AuM balances for the period. Administrative expenses were 11.2% higher than the previous year, for a large part attributable to currency effects. On a constant currency basis, expenses rose 5.7%, mainly as a result of a non-recurring expense reduction from a change to the IM US pension plan in the prior year, as well as investments in Europe in the current year related to rebuilding its capabilities in the US.

Corporate governance

CORPORATE GOVERNANCE STATEMENT

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

[(1)] Dutch Bulletin of Acts (Staatsblad) 2011, 396.

FINANCIAL REPORTING PROCESS

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

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

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

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

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

As ING Group is subject to the US Sarbanes-Oxley Act, its Executive Board assessed the effectiveness of its internal control over financial reporting as of 31 December 2012, which was audited by ING Group's external auditor. For more information, please refer to the 2012 Annual Report of ING Group which is available on its website (www.ing.com).

BOARD COMPOSITION

ING Group aims to have an adequate and balanced composition of the Management Board and Supervisory Board of ING Verzekeringen N.V. and ING Insurance Eurasia N.V. ('Boards'). Thereto, annually, the Supervisory Board assesses the composition of the Boards. In the context of such assessment, ING Group aims to have a gender balance by having at least 30% men and at least 30% women amongst the members of the Management Board and the Supervisory Board.

However, because of the fact that ING Group needs to balance several relevant selection criteria when composing the Boards, the composition of the Boards did not meet the above-mentioned gender balance in 2012. ING Group will continue to strive for an adequate and balanced composition of the Boards in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance of large stock-listed companies and experience in the political and social environment.

EXTERNAL AUDITOR

At the annual General Meeting of ING Groep N.V. held on 14 May 2012, Ernst & Young was appointed to audit the financial statements of ING Group, including but not limited to ING Verzekeringen N.V., for the financial years 2012 and 2013, 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 2012. The external auditor attended the meetings of the Audit Committee, functioning for ING Verzekeringen N.V. as well, and the 2012 annual General Meeting of ING Groep N.V.

New legislation on the accountancy profession (Wet op het accountantsberoep) came into force as of 1 January 2013 and prohibits certain services to be conducted by an external audit firm and introduces compulsory audit firm rotation, not later than 1 January 2016. In the 2013 annual General Meeting of ING Groep N.V. it will be proposed to extend the appointment of Ernst & Young as auditor of the financial statements of ING Group by two more years, i.e. for the financial years 2014 and 2015. We will start a tender procedure with the objective to change our external audit firm as of the financial year 2016.

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

Corporate governance continued

DUTCH INSURERS' CODE

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

AMSTERDAM, 18 MARCH 2013
THE MANAGEMENT BOARD INSURANCE

Conformity statement

The Management Board is required to prepare the Annual Accounts and the Annual Report of ING Verzekeringen N.V. ('ING Insurance') for each financial year in accordance with applicable Dutch law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

The Management Board is responsible for maintaining proper accounting records, for safeguarding assets and for taking reasonable steps to prevent and detect fraud and other irregularities. It is responsible for selecting suitable accounting policies and applying them on a consistent basis, making judgments and estimates that are prudent and reasonable. It is also responsible for establishing and maintaining internal procedures which ensure that all major financial information is known to the Management Board, so that the timeliness, completeness and correctness of the external financial reporting are assured.

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

- the ING Verzekeringen N.V. 2012 Annual Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of ING Verzekeringen N.V. and the entities included in the consolidation taken as a whole;
- the ING Verzekeringen N.V. 2012 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 2012 of ING Verzekeringen N.V. and the entities included in the consolidation taken as a whole, together with a description of the principal risks ING Verzekeringen N.V. is confronted with.

AMSTERDAM, 18 MARCH 2013
THE MANAGEMENT BOARD INSURANCE

J.H.M. Hommen, CEO and chairman

P.G. Flynn, CFO

W.F. Nagel, CRO

Report of the Supervisory Board

TO THE SHAREHOLDER
The Supervisory Board hereby presents you the 2012 Annual Report of ING Verzekeringen N.V. The Annual Report includes the report of the Management Board, the Annual Accounts and Other information.

ANNUAL ACCCOUNTS AND DIVIDEND
The Annual Accounts have been prepared by the Management Board and have been discussed by the Supervisory Board. They are presented to you for adoption. No dividend will be paid over 2012.

GENERAL
Supervisory Board meetings
The Supervisory Board met 13 times in 2012 of which 8 meetings were regular meetings. On average, 94% of the Supervisory Board members were present at the scheduled meetings. As some of the extra meetings were scheduled on short notice the presence at these meeting was on average 77%. Apart from closely monitoring the financial results in 2012, the Supervisory Board also monitored the progress in executing the 2009 Restructuring Plan as approved by the European Commission (EC), including the preparation of the divestment of Insurance/IM Asia, the preparation of the initial public offerings (IPOs) for Insurance/IM Europe and Insurance US as well as the repayment of the outstanding core Tier 1 securities to the Dutch State. The Supervisory Board was regularly updated on the discussions with the EC on an amended Restructuring Plan following the European Court ruling in March 2012. The sovereign debt crisis in the eurozone and its impact on the insurance business also remained important topics on the agenda.

In January 2012 the Supervisory Board met to discuss a proposal for a divestment of Insurance/IM Asia apart from Insurance/IM Europe, given the current market circumstances and outlook beyond 2012, the regulatory capital requirements, the necessary elimination of double leverage, as well as the Restructuring Plan requirement to divest Insurance by the end of 2013. Every meeting the Supervisory Board was updated on the progress of the divestment programme, including the divestment of Insurance/IM Asia.

In 2012 the Audit Committee met five times, with no absentees, to discuss the annual and quarterly results, the annual US GAAP results and the reports from the external auditor.

The Audit Committee regularly discussed financial reporting, internal controls over financial reporting, capital management, compliance and regulatory matters. The risk costs and cost development in general were also topics of frequent debate during the year. Furthermore, solvency volatility, hedging activities and other measures to protect the solvency of Nationale-Nederlanden and Insurance US were frequently discussed. Next to that the Audit Committee discussed topics such as reserve adequacy levels in Asia and the policy holder behaviour assumptions for the US Closed Block VA. The decrease of the exposures in Spain was closely monitored. An evaluation of the performance of the external auditor Ernst & Young was discussed in the February and March 2012 Audit Committee meetings. The Audit Committee discussed and confirmed the topics mentioned in the management letter by Ernst & Young in the November meeting. Directly following the Audit Committee meetings, the members of the Audit Committee met with the internal and external auditors to confirm that all relevant topics were discussed in the Audit Committee meeting.

The Risk Committee met four times in 2012, with once an absentee. In each Risk Committee meeting the financial risk and the non-financial risk reports for insurance were discussed.

As of May the financial risk report of Insurance EurAsia and Insurance US was separately discussed. The risk appetite statements for 2012 were discussed and approved in February.

The exposure on Spain specifically and the possible risks for ING as a result of the sovereign debt crisis in the eurozone were closely monitored by the Risk Committee. As part of the 2012 permanent education programme, the Risk Committee was informed in-depth on risk models used by ING, in August. Each meeting ended with a general discussion on possible future risks.

The Nomination Committee met three times in 2012, with one absentee once and two absentees once, to discuss succession matters for the Executive Board and the Management Boards as well as the future composition of the Supervisory Board. The Nomination Committee interviewed three candidates for the Management Board Insurance EurAsia and advised positively on their nomination following a review in the Nomination Committee.

Report of the Supervisory Board continued

A specific committee was set up to prepare for a CEO succession, if and when appropriate. An executive search firm was involved in this process. The committee reported its views to the Nomination Committee and the Supervisory Board in November 2012, as well as in January and February of 2013. The Supervisory Board agreed to propose to the 2013 General Meeting the appointment of Ralph Hamers, presently CEO of ING Belgium to the Executive Board as from the 2013 AGM on 13 May. Ralph Hamers will succeed Jan Hommen as CEO from 1 October 2013. The Supervisory Board has requested Jan Hommen to stay on as CEO after his reappointment until 1 October 2013 in order to ensure a smooth CEO transition.

The Nomination Committee assigned an executive search firm to identify European Supervisory Board candidates with financial expertise. Another ambition the Committee would like to see fulfilled is that female members of the Supervisory Board will account for at least 30% of total Supervisory Board members. Various candidates were interviewed by members of the Nomination Committee and the Supervisory Board. This Committee subsequently advised the Supervisory Board to nominate certain candidates as members of the Supervisory Board, subject to approval by DNB.

In 2012, the Remuneration Committee met eight times, with three times one absentee and once two absentees. In January the Remuneration Committee advised positively on the implementation of the remuneration frameworks for ING Bank, ING Insurance EurAsia and ING Group, based on the EU CRD III and the DNB regulation on controlled remuneration policy. In February the Remuneration Committee discussed the remuneration framework for Insurance US once more and supported the proposed implementation. The proposed 2012 performance objectives for the Board were reviewed and positively advised. The Remuneration Committee also advised positively on the 2011 variable remuneration pools.

The functioning of the Executive Board and the Management Boards was discussed regularly. In February, the 2011 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 Committee also reviewed the individual compensation proposals for the Board members in February while the compensation proposals for Identified Staff were reviewed in March. In June the proposed hurdles for the 2012 capital test were discussed and a governance framework for Identified Staff compensation proposals was agreed upon. Throughout the year the Remuneration Committee approved Identified Staff related remuneration matters, based on the governance framework.

An extensive discussion about an alternative remuneration structure took place as well. In August and September compensation packages for various candidates for the Management Board Insurance EurAsia were supported. In November the Remuneration policy for Insurance US was discussed in light of the intended SEC S1 filing and taking into account the CRD III remuneration regulation. A proposal for changes to performance management and variable remuneration for ING Bank was presented as well as a specific proposal for the compensation structure for Dutch general managers ING Bank. The Remuneration Committee advised positively on both proposals.

The Corporate Governance Committee met twice in 2012. In February the Corporate Governance Committee discussed the agenda for the 2012 annual General Meeting, including the publication on the application of the Dutch Banking Code by ING Bank N.V. and the implementation of the Dutch Insurers' Code by ING Insurance Eurasia N.V. In November the Committee reviewed the charters of all boards and advised on various recommendations regarding the 2013 annual General Meeting.

CHANGES IN THE COMPOSITION OF THE EXECUTIVE BOARD AND MANAGEMENT BOARDS

The Supervisory Board will propose to the 2013 General Meeting to appoint Ralph Hamers, presently CEO of ING Belgium as a member of the Executive Board from the 2013 AGM on 13 May. Following his appointment to the Executive Board, Ralph Hamers will also become a member of the Management Board Banking and Management Board Insurance EurAsia. As of 1 October 2013 he will succeed Jan Hommen as CEO, who will be recommended for reappointment for the period as from the 2013 AGM until 1 October 2013.

The Supervisory Board will propose to reappoint Patrick Flynn as a member of the Executive Board for a consecutive period of four years, ending after the annual General Meeting in 2017.

As of 1 November 2012 Delfin Rueda and Dorothee van Vredenburch joined the Management Board Insurance EurAsia. Doug Caldwell joined the Management Board Insurance EurAsia per 1 December 2012. Delfin Rueda became the CFO of Insurance EurAsia while Doug Caldwell became the CRO of Insurance EurAsia. Both succeeded Matthew Rider, who left ING per 1 January 2013.

COMPOSITION OF THE SUPERVISORY BOARD

Prior to the annual General Meeting 2012 Aman Mehta withdrew his nomination for reappointment as member of the Supervisory Board, after negative advice on this point from shareholder advisory groups over the number of board positions Aman Mehta held.

Jan Holsboer, Yvonne van Rooy and Robert Reibestein were appointed to the Supervisory Board on 14 May 2012 by the annual General Meeting. As Robert Reibestein left McKinsey & Company on 31 December 2011, he started his function as a Supervisory Board member per 1 January 2013.

Report of the Supervisory Board continued

Following the 2012 annual General Meeting in May, Jan Holsboer joined the Audit Committee. Yvonne van Rooy joined the Audit Committee per 1 October 2012. Robert Reibestein succeeded Piet Klaver as chairman of the Risk Committee per 1 January 2013.

Please see page 3 for the composition of the Supervisory Board Committees at year-end 2012.

Jeroen van der Veer is nominated for reappointment. Tineke Bahlmann is recommended for reappointment by the Dutch State. Lodewijk de Waal has decided not to apply for reappointment. The Dutch State has indicated not to use its right to recommend a second candidate for appointment as a member of the Supervisory Board at this moment.

Sjoerd van Keulen has decided to resign from the Supervisory Board for personal reasons and the desire to rebalance his priorities, with effect from the 2013 AGM. Furthermore, Piet Klaver has decided to resign from the Supervisory Board from the 2013 AGM because other commitments are increasingly demanding his time and attention.

The Nomination Committee and the Supervisory Board will continue to strive for an adequate and balanced composition of its Supervisory Board when selecting and nominating new members for appointment.

Currently, only one Supervisory Board member, Luc Vandewalle qualifies as ‘non-independent’ as defined in best-practice provision III.2.2 of the Dutch Corporate Governance Code. Luc Vandewalle is considered to be not independent because of his previous position at ING Bank Belgium.

APPRECIATION FOR THE EXECUTIVE BOARD, MANAGEMENT BOARDS AND EMPLOYEES
The Supervisory Board would like to thank the members of the Management Boards for their continued hard work in 2012. During 2012 decisive steps were once more taken in executing the Restructuring Plan as approved by the EC. The Supervisory Board would also like to thank all employees of ING who have continued to serve the interests of customers, shareholders and other stakeholders of ING and have shown continued commitment in the past year.

AMSTERDAM, 18 MARCH 2013
THE SUPERVISORY BOARD

Consolidated balance sheet of ING Insurance

as at 31 December

amounts in millions of euros	2012	2011
Assets		
Cash and cash equivalents 1	**5,389**	11,577
Financial assets at fair value through profit and loss: 2		
– trading assets	**586**	534
– investments for risk of policyholders	**98,765**	116,438
– non-trading derivatives	**5,107**	7,285
– designated as at fair value through profit and loss	**2,000**	2,616
Available-for-sale investments 3	**119,305**	133,604
Loans and advances to customers 4	**25,823**	32,928
Reinsurance contracts 16	**5,290**	5,870
Investments in associates 5	**1,352**	1,526
Real estate investments 6	**805**	954
Property and equipment 7	**338**	469
Intangible assets 8	**1,018**	1,972
Deferred acquisition costs 9	**4,549**	10,204
Assets held for sale 10	**61,691**	
Other assets 11	**7,845**	9,410
Total assets	**339,863**	335,387
Equity		
Shareholder's equity (parent) 12	**27,299**	23,475
Minority interests	**217**	62
Total equity	**27,516**	23,537
Liabilities		
Subordinated loans 13	**2,947**	4,367
Debt securities in issue 14	**1,910**	3,436
Other borrowed funds 15	**7,442**	7,307
Insurance and investment contracts 16	**229,950**	278,833
Financial liabilities at fair value through profit and loss: 17		
– non-trading derivatives	**3,258**	4,404
Liabilities held for sale 10	**55,651**	
Other liabilities 18	**11,189**	13,503
Total liabilities	**312,347**	311,850
Total equity and liabilities	**339,863**	335,387

References relate to the notes starting on page 43. These form an integral part of the consolidated annual accounts.

Consolidated profit and loss account of ING Insurance

for the year ended 31 December

amounts in millions of euros	2012	2012	2011	2011	2010	2010
Continuing operations						
Gross premium income 33		**20,277**		20,279		21,279
Investment income 34		**6,814**		6,237		5,716
Result on disposals of group companies 35				–4		–3
Gross commission income	**2,099**		2,404		2,168	
Commission expense	**–651**		–983		–784	
Commission income 36		**1,448**		1,421		1,384
Valuation results on non-trading derivatives 37		**–1,940**		780		–608
Net trading income 38		**79**		50		–148
Share of result from associates 5		**38**		194		215
Other income 39		**45**		204		242
Total income		**26,761**		29,161		28,077
Gross underwriting expenditure	**35,711**		27,321		37,419	
Investment result for risk of policyholders	**–11,246**		186		–10,120	
Reinsurance recoveries	**–1,833**		–1,760		–1,620	
Underwriting expenditure 40		**22,632**		25,747		25,679
Intangible amortisation and other impairments 41		**77**		49		656
Staff expenses 42		**1,889**		1,736		1,808
Interest expenses 43		**467**		526		419
Other operating expenses 44		**1,905**		1,714		1,660
Total expenses		**26,970**		29,772		30,222
Result before tax from continuing operations		**–209**		–611		–2,145
Taxation 45		**–269**		–152		–191
Net result from continuing operations		**60**		–459		–1,954
Discontinued operations 23						
Net result from discontinued operations		**548**		684		414
Net result from classification as discontinued operations		**–394**				
Net result from disposal of discontinued operations		**752**		995		
Total net result from discontinued operations		**906**		1,679		414
Net result from continuing and discontinued operations (before minority interests)		**966**		1,220		–1,540

amounts in millions of euros	2012	2011	2010
Net result from continuing and discontinued operations attributable to:			
Shareholder of the parent	**939**	1,200	–1,574
Minority interests	**27**	20	34
	966	1,220	–1,540
Net result from continuing operations attributable to:			
Shareholder of the parent	**31**	–473	–1,979
Minority interests	**29**	14	25
	60	–459	–1,954
Total net result from discontinued operations attributable to:			
Shareholder of the parent	**908**	1,673	405
Minority interests	**–2**	6	9
	906	1,679	414

ING Insurance has not declared nor paid dividend in the years 2012, 2011 and 2010.

References relate to the notes starting on page 43. These form an integral part of the consolidated annual accounts.

Consolidated statement of comprehensive income of ING Insurance

for the year ended 31 December

amounts in millions of euros	2012	2011	2010
Net result from continuing and discontinued operations	**966**	1,220	–1,540
Unrealised revaluations after tax [1]	**5,083**	2,034	3,395
Realised gains/losses transferred to profit and loss [1]	**–367**	473	379
Changes in cash flow hedge reserve	**665**	1,316	641
Transfer to insurance liabilities/DAC	**–2,181**	–2,004	–1,644
Exchange rate differences	**–370**	240	1,760
Other revaluations			–3
Total amount recognised directly in equity (other comprehensive income)	**2,830**	2,059	4,528
Total comprehensive income	**3,796**	3,279	2,988
Comprehensive income attributable to:			
Shareholder of the parent	**3,762**	3,261	2,951
Minority interests	**34**	18	37
	3,796	3,279	2,988

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

Unrealised revaluations after tax comprises EUR –32 million (2011: EUR –12 million; 2010: EUR 8 million) related to the share of other comprehensive income of associates.

Exchange rate differences comprises EUR –27 million (2011: EUR –22 million; 2010: EUR 70 million) related to the share of other comprehensive income of associates.

Reference is made to Note 45 'Taxation' for the disclosure on the income tax effects on each component of the other comprehensive income.

Consolidated statement of cash flows of ING Insurance

for the year ended 31 December

amounts in millions of euros		2012	2011	2010
Result before tax		**904**	1,217	–1,598
Adjusted for:	– depreciation	**171**	176	188
	– deferred acquisition costs and value of business acquired	**–484**	277	1,159
	– increase in provisions for insurance and investment contracts	**–3,174**	4,239	4,278
	– other	**3,375**	–2,436	2,359
Taxation paid		**245**	–206	–155
Changes in:	– trading assets	**–70**	87	–147
	– non-trading derivatives	**430**	1,142	351
	– other financial assets at fair value through profit and loss	**–2,313**	42	–206
	– loans and advances to customers	**4,397**	–1,268	–641
	– other assets	**1,745**	1,164	133
	– other financial liabilities at fair value through profit and loss	**–1,590**	–280	–1,061
	– other liabilities	**–2,918**	–2,113	–1,775
Net cash flow from operating activities		**718**	2,041	2,885
Investments and advances:	– associates	**–6**	–105	–60
	– available-for-sale investments	**–72,358**	–68,540	–73,424
	– real estate investments	**–56**	–23	–16
	– property and equipment	**–60**	–77	–77
	– investments for risk of policyholders	**–67,986**	–57,130	–52,370
	– other investments	**–85**	–77	–131
Disposals and redemptions:	– group companies	**1,332**	2,736	94
	– associates	**63**	120	329
	– available-for-sale investments	**63,977**	63,616	66,307
	– real estate investments	**71**	35	6
	– property and equipment	**18**	15	56
	– investments for risk of policyholders	**72,201**	61,898	54,817
	– other investments	**7**	9	3
Net cash flow from investing activities 48		**–2,882**	2,477	–4,466
Proceeds from issuance of subordinated loans		**6**	450	
Repayments of subordinated loans		**–1,381**	–455	–1,514
Proceeds from borrowed funds and debt securities		**32,717**	41,920	98,378
Repayments of borrowed funds and debt securities		**–34,069**	–43,471	–97,223
Capital injection				1,500
Payments to acquire treasury shares		**–17**	–13	–19
Sales of treasury shares		**13**	11	18
Net cash flow from financing activities		**–2,731**	–1,558	1,140
Net cash flow 49		**–4,895**	2,960	–441
Cash and cash equivalents at beginning of year		**11,577**	8,674	9,425
Effect of exchange rate changes on cash and cash equivalents		**35**	–57	–310
Cash and cash equivalents at end of year 50		**6,717**	11,577	8,674

References relate to the notes starting on page 43. These form an integral part of the consolidated annual accounts.

Consolidated statement of changes in equity of ING Insurance

amounts in millions of euros	Share capital	Share premium	Reserves	Total share-holder's equity (parent)	Minority interest	Total equity
Balance as at 1 January 2010	174	10,374	5,119	15,667	80	15,747
Unrealised revaluations after tax			3,394	3,394	1	3,395
Realised gains/losses transferred to profit and loss			379	379		379
Changes in cash flow hedge reserve			641	641		641
Transfer to insurance liabilities/DAC			–1,644	–1,644		–1,644
Exchange rate difference			1,755	1,755	5	1,760
Other revaluations					–3	–3
Total amount recognised directly in equity (other comprehensive income)	0	0	4,525	4,525	3	4,528
Net result from continuing and discontinued operations			–1,574	–1,574	34	–1,540
Total comprehensive income	0	0	2,951	2,951	37	2,988
Employee stock option and share plans			41	41		41
Dividend					–6	–6
Capital injection		1,500		1,500		1,500
Balance as at 31 December 2010	174	11,874	8,111	20,159	111	20,270
Unrealised revaluations after tax			2,033	2,033	1	2,034
Realised gains/losses transferred to profit and loss			473	473		473
Changes in cash flow hedge reserve			1,316	1,316		1,316
Transfer to insurance liabilities/DAC			–2,004	–2,004		–2,004
Exchange rate difference			243	243	–3	240
Total amount recognised directly in equity (other comprehensive income)	0	0	2,061	2,061	–2	2,059
Net result from continuing and discontinued operations			1,200	1,200	20	1,220
Total comprehensive income	0	0	3,261	3,261	18	3,279
Employee stock option and share plans			55	55		55
Changes in composition of the group					–43	–43
Dividend					–34	–34
Capital injection					10	10
Balance as at 31 December 2011	**174**	**11,874**	**11,427**	**23,475**	**62**	**23,537**
Unrealised revaluations after tax			**5,075**	**5,075**	**8**	**5,083**
Realised gains/losses transferred to profit and loss			**–367**	**–367**		**–367**
Changes in cash flow hedge reserve			**665**	**665**		**665**
Transfer to insurance liabilities/DAC			**–2,181**	**–2,181**		**–2,181**
Exchange rate difference			**–369**	**–369**	**–1**	**–370**
Total amount recognised directly in equity (other comprehensive income)	**0**	**0**	**2,823**	**2,823**	**7**	**2,830**
Net result from continuing and discontinued operations			**939**	**939**	**27**	**966**
Total comprehensive income	**0**	**0**	**3,762**	**3,762**	**34**	**3,796**
Employee stock option and share plans			**62**	**62**		**62**
Changes in composition of the group					**127**	**127**
Dividend					**–6**	**–6**
Balance as at 31 December 2012	**174**	**11,874**	**15,251**	**27,299**	**217**	**27,516**

In 2012, no additional share premium was received from ING Group to strengthen solvency (2011: nil, 2010: EUR 1,500 million).

Consolidated statement of changes in equity of ING Insurance continued

Reserves includes Revaluation reserve of EUR 8,334 million (2011: EUR 5,060 million; 2010: EUR 3,345 million), Currency translation reserve of EUR –331 million (2011: EUR 131 million; 2010: EUR –178 million) and Other reserves of EUR 7,248 million (2011: EUR 6,236 million; 2010: EUR 4,944 million). Changes in individual components are presented in Note 12 ‘Shareholder’s equity (parent)’.

Accounting policies for the consolidated annual accounts of ING Insurance

AUTHORISATION OF ANNUAL ACCOUNTS

The consolidated annual accounts of ING Verzekeringen N.V. for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Management Board on 18 March 2013. The Management Board may decide to amend the annual accounts as long as these are not adopted by the General Meeting of shareholders. The General Meeting of shareholders may decide not to adopt the annual accounts, but may not amend these. ING Verzekeringen N.V. is incorporated and domiciled in Amsterdam, the Netherlands. The principal activities of ING Insurance are described in 'ING at a glance' on page 5.

BASIS OF PRESENTATION

ING Insurance applies International Financial Reporting Standards as adopted by the European Union ('IFRS-EU'). In the annual accounts the term 'IFRS-EU' is used to refer to International Financial Reporting Standards as adopted by the EU, including the decisions ING Insurance made with regard to the options available under IFRS-EU.

IFRS-EU provides a number of options in accounting policies. The key areas in which IFRS-EU allows accounting policy choices, and the related ING accounting policy, are summarised as follows:

- Under IFRS 4, an insurer may continue its existing pre-IFRS accounting policies for insurance contracts, provided that certain minimum requirements are met. Upon adoption of IFRS in 2005, ING Insurance decided to continue the then existing accounting principles for insurance contracts under IFRS. ING Insurance operates in many different countries and the accounting principles for insurance contracts follow local practice in these countries. ING's businesses in the Netherlands apply accounting standards generally accepted in the Netherlands (Dutch GAAP) for its provisions for liabilities under insurance contracts; similarly, ING's businesses in the United States apply accounting standards generally accepted in the United States (US GAAP);
- ING Insurance's accounting policy for Real estate investments is fair value, with changes in fair value reflected immediately in the profit and loss account;
- ING Insurance's accounting policy for Property for own use is fair value, with changes in fair value reflected, after tax, in the revaluation reserve in equity ('Other comprehensive income'). A net negative revaluation on individual properties is reflected immediately in the profit and loss account;
- For defined benefit pension plans, ING's accounting policy is to defer actuarial gains and losses through the so-called corridor; and
- ING Insurance's accounting policy for joint ventures is proportionate consolidation.

ING Insurance's accounting policies under IFRS-EU and its decision on the options available are included in the section 'Principles of valuation and determination of results' below. Except for the options included above, the principles in section 'Principles of valuation and determination of results' are IFRS-EU and do not include other significant accounting policy choices made by ING. The accounting policies that are most significant to ING are included in section 'Critical accounting policies'.

CHANGES IN 2012

Amendments to IFRS 7 'Disclosures - Transfers of Financial Assets' and Amendments to IAS 12 'Deferred tax - Recovery of Underlying Assets' became effective for ING Insurance in 2012. Neither of these has a significant effect on ING Insurance.

In 2012, Note 50 'Cash and cash equivalents' was included to separately present the cash amount included in discontinued operations/businesses held for sale as included in the consolidated statement of cash flows.

The comparison of balance sheet items between 31 December 2012 and 31 December 2011 is impacted by the disposal of companies as disclosed in Note 28 'Companies acquired and companies disposed' and by the held for sale classification as disclosed in Note 10 'Assets and liabilities held for sale' and Note 23 'Discontinued operations'. Changes in assets and liabilities as a result of classification as held for sale are included in the notes in the line 'Changes in the composition of the group'. In 2012, this relates mainly to ING's Insurance and investment management businesses in Asia and the reinsured Japan SPVA businesses in Corporate Reinsurance ('Asia').

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

UPCOMING CHANGES IN IFRS-EU IN 2013

The following new and/or amended IFRS-EU standards will be implemented by ING Insurance as of 1 January 2013:

- Amendments to IAS 19 'Employee Benefits';
- Amendments to IAS 1 'Presentation of Financial Statements';
- Amendments to IFRS 7 'Financial instruments: Disclosures'; and
- IFRS 13 'Fair Value Measurement'.

Accounting policies for the consolidated annual accounts of ING Insurance continued

Amendments to IAS 19 ‘Employee Benefits’
The most significant change of the revised IAS 19 ‘Employee Benefits’ relates to the accounting for defined benefit pension obligations and the corresponding plan assets. The amendments require immediate recognition in Other comprehensive income (i.e. in equity) of changes in the defined benefit obligation and in the fair value of plan assets due to actuarial gains and losses. The deferral of actuarial gains and losses through the ‘corridor approach’, which was applied under the previous version of IAS 19 until the end of 2012, is no longer allowed. As a related consequence, deferred actuarial gains and losses are no longer released to the profit and loss account upon curtailment. Furthermore, the amendments require the expected return on plan assets to be determined using a high-quality corporate bond rate, equal to the discount rate of the defined benefit obligation; currently management’s best estimate is applied. The amendments also introduce a number of other changes and extended disclosure requirements. The implementation of the amendments to IAS 19 results in the recognition of accumulated actuarial gains and losses in equity as at 1 January 2013; more information is provided in Note 18 ‘Other liabilities’. As a result, Shareholder’s equity will decrease with EUR –0.9 billion (after tax) at 1 January 2013. The recognition of actuarial gains and losses in equity will create volatility in equity going forward. In the 2013 consolidated annual accounts, the comparative figures for previous years will be restated to reflect the impact of the amendments to IAS 19.

The impact of changes in IAS 19 as at 1 January 2013 is as follows:

Upcoming changes in IFRS-EU in 2013

amounts in millions of euros	IAS 19 ‘Employee Benefits’
Assets held for sale	
Assets – other	–805
Impact on Total assets	**–805**
Liabilities held for sale	4
Liabilities – other	66
Impact on Total liabilities	**70**
Shareholders’ equity	–875
Impact on Total equity and liabilities	**–805**

Amendments to IAS 1 ‘Presentation of Financial Statements’
The amendments to IAS 1 ‘Presentation of Financial Statements’ introduce changes to the presentation in the Statement of Other Comprehensive income, including a split of Other comprehensive income into items that may be recognised in the profit and loss account in future periods and items that will never be recognised in the profit and loss account. There will be no impact on Shareholder’s equity, Net result and/or Other comprehensive income.

Amendments to IFRS 7 ‘Financial instruments: Disclosures’
The amendments to IFRS 7 ‘Financial instruments: Disclosures’ introduce additional disclosures on offsetting (netting) of financial instruments in the balance sheet and on the potential effect of netting arrangements. There will be no impact on Shareholder’s equity, Net result and/or Other comprehensive income.

IFRS 13 ‘Fair Value Measurement’
IFRS 13 ‘Fair value measurement’ brings together in one standard all guidance on how to determine fair value. It does not change the scope of assets/liabilities that are measured at fair value. ING Insurance’s interpretation of fair value measurement is not significantly different from the guidance in IFRS 13. Therefore, the implementation of IFRS 13 ‘Fair Value Measurement’ at 1 January 2013 will not have a significant impact on Shareholder’s equity, Net result and/or Other comprehensive income. In addition, IFRS 13 introduces an extended scope for the disclosure of the fair value hierarchy by level of fair value. ING Insurance will implement the new requirements as of 2013.

UPCOMING CHANGES IN IFRS-EU AFTER 2013
The following new standards will become effective for ING Insurance as at 1 January 2014:
- IFRS 10 ‘Consolidated Financial Statements’;
- IFRS 11 ‘Joint Arrangements’ and amendments to IAS 28 ‘Investments in Associates and Joint Ventures’; and
- IFRS 12 ‘Disclosure of Interests in Other Entities’.

IFRS 10 ‘Consolidated Financial Statements’
IFRS 10 ‘Consolidated Financial Statements’ introduces amendments to the criteria for consolidation. Similar to the requirements that were applicable until the end of 2012, all entities controlled by ING Insurance are included in the consolidated annual accounts. However, IFRS 10 redefines control as being exposed to variable returns and having the ability to affect those returns through power over the investee. The implementation of IFRS 10 is expected not to have significant impact on Shareholder’s equity, Net result and/or Other comprehensive income.

Accounting policies for the consolidated annual accounts of ING Insurance continued

IFRS 11 'Joint Arrangements' and amendments to IAS 28 'Investments in Associates and Joint Ventures'
IFRS 11 'Joint Arrangements' and the related amendments to IAS 28 'Investments in Associates and Joint Ventures' eliminate the proportionate consolidation method for joint ventures that was applied by ING. Under the new requirements, all joint ventures will be reported using the equity method of accounting (similar to the accounting that is already applied for Investments in associates). The implementation of IFRS 11 is expected not to have a significant impact on Shareholder's equity, Net result and/or Other comprehensive income.

IFRS 12 'Disclosure of Interests in Other Entities'
IFRS 12 'Disclosure of Interests in Other Entities' introduces extended disclosure requirements for subsidiaries, associates, joint ventures and structured entities. The implementation of IFRS 12 will not have an impact on Shareholder's equity, Net result and/or Other comprehensive income.

The following new or revised standards were issued by the International Accounting Standards Board (IASB) and will become effective for ING Insurance in 2014 if and when endorsed by the EU:
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27); and
- Amendments to IAS 32 'Presentation - Offsetting Financial Assets and Financial Liabilities'.

The adoption of these new or revised standards is expected not to have a significant impact on Shareholder's equity, Net result and/or Other comprehensive income.

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

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

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

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

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

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

Accounting policies for the consolidated annual accounts of ING Insurance continued

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 shareholder's equity to insurance, interest rate, equity, foreign currency and real estate risks. These sensitivities are based on changes in assumptions that management considers reasonably likely at the balance sheet date.

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

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

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

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

When markets are less liquid there may be a range of prices for the same security from different price sources, selecting the most appropriate price requires judgement and could result in 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 incorrect or misused models.

Reference is made to Note 32 'Fair value of financial assets and liabilities' and the 'Risk management' section for the basis of the determination of the fair values of financial instruments and related sensitivities.

IMPAIRMENTS
Impairment evaluation is a complex process that inherently involves significant judgements and uncertainties that may have a significant impact on ING Insurance's consolidated financial statements. Impairments are especially relevant in two areas: Available-for-sale debt and equity securities and Goodwill/Intangible assets.

Accounting policies for the consolidated annual accounts of ING Insurance continued

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 the (acquisition) cost and fair value is removed from equity and recognised in net result. Impairments on debt securities may be reversed if there is a decrease in the amount of the impairment which can be objectively related to an observable event. Impairments on equity securities cannot be reversed.

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

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

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

EMPLOYEE BENEFITS

Group companies operate various defined benefit retirement plans covering a significant number of ING Insurance's domestic and international employees.

The liability recognised in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains or losses, and unrecognised past service costs.

The determination of the defined benefit plan liability is based on internal and external actuarial models and calculations. The defined benefit obligation is calculated using the projected unit credit method. Inherent in these actuarial models are assumptions including discount rates, rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs, consumer price index and the expected return on plan assets. The assumptions are based on available market data and the historical performance of plan assets, and are updated annually.

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

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULTS

CONSOLIDATION

ING Insurance comprises ING Verzekeringen N.V. and all its subsidiaries. The consolidated financial statements of ING Insurance comprise the accounts of ING Verzekeringen N.V. and 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 27 'Principal subsidiaries'.

Accounting policies for the consolidated annual accounts of ING Insurance continued

The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether ING Insurance controls another entity. For interests in investment vehicles, the existence of control is determined taking into account both ING Insurance's financial interests for own risk and its role as investment manager.

The results of the operations and the net assets of subsidiaries are included in the profit and loss account and the balance sheet from the date control is obtained until the date control is lost. On disposal, the difference between the sales proceeds, net of directly attributable transaction costs, and the net assets is included in net result.

A subsidiary which ING Insurance has agreed to sell but is still legally owned by ING Insurance may still be controlled by ING Insurance at the balance sheet date and, therefore, still be included in the consolidation. Such a subsidiary may be presented as a held for sale disposal group if certain conditions are met.

All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies are eliminated. Where necessary, the accounting policies used by subsidiaries are changed to ensure consistency with ING Insurance policies. In general, the reporting dates of subsidiaries are the same as the reporting date of ING Verzekeringen N.V.

ING Verzekeringen N.V. and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid–up capital, and reserves required by law. Additionally, certain group companies are subject to restrictions on the amount of funds they may transfer in the form of dividends, or otherwise, to the parent company.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries.

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

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

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

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
A segment is a distinguishable component of ING Insurance, engaged in providing products or services, subject to risks and returns that are different from those of other segments. A geographical area is a distinguishable component of ING Insurance engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The geographical analyses are based on the location of the office from which the transactions are originated.

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

Accounting policies for the consolidated annual accounts of ING Insurance continued

FOREIGN CURRENCY TRANSLATION

Functional and presentational currency

Items included in the financial statements of each of ING Insurance's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is ING Insurance's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Exchange rate 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 38 'Net trading income', which discloses the amounts included in the profit and loss account. Exchange rate differences relating to the disposal of available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in Investment income. As mentioned below in Group companies relating to the disposals of group companies, any exchange rate difference deferred in equity is recognised in the profit and loss account in Result on disposals of group companies. Reference is also made to Note 12 'Shareholder's equity (parent)', which discloses the amounts included in the profit and loss account.

Group companies

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

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

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

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

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

Reference is made to Note 32 'Fair value of financial assets and liabilities' for the basis of determination of the fair value of financial instruments.

RECOGNITION AND DERECOGNITION OF FINANCIAL INSTRUMENTS

Recognition of financial assets

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

Accounting policies for the consolidated annual accounts of ING Insurance continued

Derecognition of financial assets
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where ING Insurance has transferred substantially all risks and rewards of ownership. If ING Insurance neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset.

Financial liabilities
Debt securities in issue are recognised and derecognised at trade date.

Realised gains and losses on investments
Realised gains and losses on investments are determined as the difference between the sale proceeds and (amortised) cost. For equity securities the cost is determined using a weighted average per portfolio. For debt securities, the cost is determined by specific identification.

CLASSIFICATION OF FINANCIAL INSTRUMENTS
Financial assets at fair value through profit and loss
Financial assets at fair value through profit and loss include: equity securities, debt securities, derivatives and other, and comprise the following sub-categories: trading assets, non-trading derivatives, financial assets designated at fair value through profit and loss by management, and investments for risk of policyholders.

A financial asset is classified as at fair value through profit and loss if acquired principally for the purpose of selling in the short term or if designated by management as such. Management will make this designation only if this eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis.

Investments for risk of policyholders are investments against insurance liabilities for which all changes in fair value of invested assets are offset by similar changes in insurance liabilities.

Transaction costs on initial recognition are expensed as incurred. Interest income from debt securities and loans and receivables classified as at fair value through profit and loss is recognised in Investment income in the profit and loss account using the effective interest method.

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

Available-for-sale investments
Investments (including loans quoted in active markets) classified as available-for-sale are initially recognised at fair value plus transaction costs. Investment securities and actively traded loans intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale.

Available-for-sale financial assets include available-for-sale debt securities and available-for-sale equity securities. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. For available-for-sale debt securities, the difference between cost and redemption value is amortised. Interest income is recognised using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available-for-sale is recognised in Investment income in the profit and loss account. 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.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Loans and receivables include Loans and advances to customers and Other assets and are reflected in these balance sheet lines. Interest income from loans and receivables is recognised in Investment income in the profit and loss account using the effective interest method.

Credit risk management classification
Credit risk management disclosures are provided in the 'Risk management' section. The relationship between credit risk classifications in that section and the consolidated balance sheet classifications above is explained below:

- Lending risk arises when ING Insurance grants a loan to a customer, or issues guarantees on behalf of a customer and mainly relates to the balance sheet classification Loans and advances to customers and off balance sheet items e.g. obligations under financial guarantees and letters of credit;
- Investment risk comprises the credit default and migration risk that is associated with ING Insurance's investment portfolio and mainly relates to the balance sheet classification Investments (available-for-sale);
- Money market risk arises when ING Insurance places short term deposits with a counterparty in order to manage excess liquidity and among others relates to the balance sheet classifications Cash and cash equivalents and Loans and advances to customers;
- Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING Insurance has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk classification mainly relates to the balance sheet classification Financial assets at fair value through profit and loss (trading assets and non-trading derivatives); and
- Settlement risk arises when there is an exchange of value (funds, instruments or commodities) for the same or different value dates and receipt is not verified or expected until ING Insurance has paid or delivered its side of the trade. Settlement risk mainly relates to the risk arising on disposal of financial instruments that are classified in the balance sheet as Financial assets at fair value through profit and loss (trading assets and non-trading derivatives) and Investments (available-for-sale).

Maximum credit risk exposure
The maximum credit risk exposure for items on the balance sheet is generally the carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Reference is made to Note 25 'Contingent liabilities and commitments' for these off-balance sheet items. Collateral received is not taken into account when determining the maximum credit risk exposure.

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

DERIVATIVES AND HEDGE ACCOUNTING
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently 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 options pricing models, as appropriate. All derivatives are carried as assets when their fair values are positive and as liabilities when their fair values are negative.

Some credit protection contracts that take the legal form of a derivative, such as certain credit default swaps, are accounted for as financial guarantees.

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit and loss, and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account. An assessment is carried out when ING Insurance first becomes party to the contract. A reassessment is carried out only when there is a change in terms of the contract that significantly modifies the expected cash flows.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. ING Insurance designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge), hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction (cash flow hedge), or hedges of a net investment in a foreign operation. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction ING Insurance documents the relationship between hedging instruments and hedged items, its risk management objectives, together with the methods selected to assess hedge effectiveness. ING Insurance also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

Accounting policies for the consolidated annual accounts of ING Insurance continued

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

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

Net investment hedges
Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity and the gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Gains and losses accumulated in equity are included in the profit and loss account when the foreign operation is disposed.

Non-trading derivatives that do not qualify for hedge accounting
Derivative instruments that are used by ING Insurance as part of its risk management strategies, but which do not qualify for hedge accounting under ING Insurance's accounting policies, are presented as non-trading derivatives. Non-trading derivatives are measured at fair value with changes in the fair value taken to the profit and loss account.

OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES
Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet when ING Insurance has a current legally enforceable right to set off the recognised amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

IMPAIRMENTS OF LOANS AND ADVANCES TO CUSTOMERS (LOAN LOSS PROVISIONS)
ING Insurance assesses periodically and at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, but before the balance sheet date, (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The following circumstances, among others, are considered objective evidence that a financial asset or group of assets is impaired:
- The borrower has sought or has been placed in bankruptcy or similar protection and this leads to the avoidance of or delays in repayment of the financial asset;
- The borrower has failed in the repayment of principal, interest or fees and the payment failure has remained unsolved for a certain period;
- The borrower has demonstrated significant financial difficulty, to the extent that it will have a negative impact on the expected future cash flows of the financial asset;
- The credit obligation has been restructured for non-commercial reasons. ING Insurance has granted concessions, for economic or legal reasons relating to the borrower's financial difficulty, the effect of which is a reduction in the expected future cash flows of the financial asset; and
- Historical experience, updated for current events where necessary, provides evidence that a proportion of a group of assets is impaired although the related events that represent impairment triggers are not yet captured by ING Insurance's credit risk systems.

In certain circumstances ING Insurance grants borrowers postponement and/or reduction of loan principal and/or interest payments for a temporary period of time to maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. When such postponement and/or reduction of loan principal and/or interest payments is executed based on credit concerns it is also referred to as 'forbearance'. In general, forbearance represents an impairment trigger under IFRS. In such cases, the net present value of the postponement and/or reduction of loan and/or interest payments is taken into account in the determination of the appropriate level of Loan loss provisioning as described below. If the forbearance results in a substantial modification of the terms of the loan, the original loan is derecognised and a new loan is recognised at its fair value at the modification date.

Accounting policies for the consolidated annual accounts of ING Insurance continued

ING Insurance does not consider events that may be expected to occur in the future as objective evidence, and consequently they are not used as a basis for concluding that a financial asset or group of assets is impaired.

In determining the impairment, expected future cash flows are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Losses expected as a result of future events, no matter how likely, are not recognised.

ING Insurance first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and then individually or collectively for financial assets that are not individually significant. If ING Insurance determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on an asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account ('Loan loss provision') and the amount of the loss is recognised in the profit and loss account under 'Investment income'. If the asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The collective evaluation of impairment includes the application of a 'loss confirmation period' to default probabilities. The loss confirmation period is a concept which recognises that there is a period of time between the emergence of impairment triggers and the point in time at which those events are captured by ING Insurance's credit risk systems. Accordingly, the application of the loss confirmation period ensures that impairments that are incurred but not yet identified are adequately reflected in ING Insurance's loan loss provision. Although the loss confirmation periods are inherently uncertain, ING Insurance applies estimates to sub-portfolios (e.g. large corporations, small and medium size enterprises and retail portfolios) that reflect factors such as the frequency with which customers in the sub-portfolio disclose credit risk sensitive information and the frequency with which they are subject to review by the ING Insurance's account managers. Generally, the frequency increases in relation to the size of the borrower. Loss confirmation periods are based on historical experience and are validated, and revised where necessary, through regular back-testing to ensure that they reflect recent experience and current events.

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

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

IMPAIRMENT OF OTHER FINANCIAL ASSETS

At each balance sheet date ING Insurance assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the specific case of equity investments classified as available-for-sale, (the combination of) a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities; generally 25% and 6 months are used as triggers. If any objective evidence exists for available-for-sale debt and equity investments, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in net result - is removed from equity and recognised in the profit and loss account. Impairment losses on equity instruments can never be reversed. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

Accounting policies for the consolidated annual accounts of ING Insurance continued

INVESTMENTS IN ASSOCIATES
Associates are all entities over which ING Insurance has significant influence but not control. Significant influence generally results from a shareholding of between 20% and 50% of the voting rights, but also is the ability to participate in the financial and operating policies through situations including, but not limited to one or more of the following:
- Representation on the board of directors;
- Participation in the policy making process; and
- Interchange of managerial personnel.

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

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

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

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

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

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

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

ING Group owns a real estate portfolio, diversified by region, by investment segment (Office, Retail and Residential) and by investment type (Core, Value Add and Opportunistic). The valuation of different investments is performed using different discount rates ('yields'), dependent on specific characteristics of each property, including occupancy, quality of rent payments and specific local market circumstances. For ING's main direct properties in its main locations, the yields applied in the 2012 year-end valuation generally are in the range of 6% to 9%.

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

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

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

Accounting policies for the consolidated annual accounts of ING Insurance continued

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 shareholder's equity. Decreases in the carrying amount that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the profit and loss account. Increases that reverse a revaluation decrease on the same asset previously recognised in net result are recognised in the profit and loss account. Depreciation is recognised based on the fair value and the estimated useful life (in general 20-50 years). Depreciation is calculated on a straight-line basis. On disposal the related revaluation reserve is transferred to retained earnings.

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

Property obtained from foreclosures

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

Property under development

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

Property developed and under development for which ING Insurance has the intention to sell the property under development after its completion and where there is not yet a specifically negotiated contract is measured at direct construction cost incurred up to the balance sheet date, including borrowing costs incurred during construction and ING Insurance's own directly attributable development and supervision expenses less any impairment losses. Profit is recognised using the completed contract method (on sale date of the property). Impairment is recognised if the estimated selling price in the ordinary course of business, less applicable variable selling expenses is lower than book value.

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

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

Equipment

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

Disposals

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

Borrowing costs

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

LEASES

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

ING Insurance as the lessee

The leases entered into by ING Insurance are primarily operating leases. The total payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Accounting policies for the consolidated annual accounts of ING Insurance continued

ACQUISITIONS, GOODWILL AND OTHER INTANGIBLE ASSETS

Acquisitions and goodwill

ING Insurance's acquisitions are accounted for using the acquisition method of accounting. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. Goodwill, being the difference between the cost of the acquisition (including assumed debt) and ING Insurance's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. The results of the operations of the acquired companies are included in the profit and loss account from the date control is obtained.

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

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

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

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

Goodwill is only capitalised on acquisitions after the implementation date of IFRS-EU (1 January 2004). Accounting for acquisitions before that date has not been restated; goodwill and internally generated intangibles on these acquisitions were recognised directly in shareholder's equity. Goodwill is allocated to reporting units for the purpose of impairment testing. These reporting units represent the lowest level of which goodwill is monitored for internal management purposes. This test is performed annually or more frequently if there are indicators of impairment. Under the impairment tests, the carrying value of the reporting units (including goodwill) is compared with its recoverable amount which is the higher of its fair value less costs to sell and its value in use.

Adjustments to the fair values at the date of acquisition of acquired assets and liabilities that are identified within one year after acquisition are recognised as an adjustment to goodwill; any subsequent adjustment is recognised as income or expense. On disposal of group companies, the difference between the sale proceeds and carrying value (including goodwill) and the unrealised results (including the currency translation reserve in equity) is included in the profit and loss account.

Computer software

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

Value of business acquired (VOBA)

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

Other intangible assets

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

DEFERRED ACQUISITION COSTS

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

Accounting policies for the consolidated annual accounts of ING Insurance continued

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

For other types of flexible life insurance contracts DAC is amortised over the lives of the policies in relation to the emergence of estimated gross profits. Amortisation is adjusted when estimates of current or future gross profits, to be realised from a group of products, are revised. The estimates and the assumptions are reassessed at the end of each reporting period. Higher/lower expected profits (e.g. reflecting stock market performance or a change in the level of assets under management) may cause a lower/higher balance of DAC due to the catch-up of amortisation in previous and future years. This process is known as DAC unlocking. The impact of the DAC unlocking is recognised in the profit and loss account of the period in which the unlocking occurs. Effective as of 2011, the estimate for the short-term equity growth assumption used to calculate the amortisation of DAC in the United States (Insurance US) was changed to a mean reversion assumption.

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

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

TAXATION

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

Deferred income tax

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

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

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

FINANCIAL LIABILITIES

Financial liabilities at amortised cost

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

If ING Insurance purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in the profit and loss account.

Financial liabilities at fair value through profit and loss

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

Financial guarantee contracts

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

Accounting policies for the consolidated annual accounts of ING Insurance continued

INSURANCE, INVESTMENT AND REINSURANCE CONTRACTS

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

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

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

Insurance contracts

Insurance policies which bear significant insurance risk and/or contain discretionary participation features are presented as insurance contracts. Provisions for liabilities under insurance contracts represent estimates of future payouts that will be required for life and non-life insurance claims, including expenses relating to such claims. For some insurance contracts the measurement reflects current market assumptions. Unless indicated otherwise below changes in the insurance provisions are recognised in the profit and loss account.

Provision for life insurance

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

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

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

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

Provision for unearned premiums and unexpired insurance risks

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

Claims provision

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

Accounting policies for the consolidated annual accounts of ING Insurance continued

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

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

Provisions for life insurance for risk of policyholders
For investment contracts for risk of policyholders the provisions are generally shown at the balance sheet value of the related investments.

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

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

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

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

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

The adequacy test continues to be applied to businesses that are presented as discontinued operations; the relevant businesses continue to be evaluated as part of the adequacy test of the business line in which these were included before classification as discontinued operations.

Since 2009, the Closed Block Variable Annuity business in the United States is inadequate at the 90% confidence level. As there are offsetting amounts within other Group business units, the Group remains adequate at the 90% confidence level. In line with the above policy, specific measures were defined to mitigate the inadequacy in the Closed Block Variable Annuity business in the United States. These specific measures are effective as of 2010 and result in a limitation of additions to DAC that would otherwise result from negative amortisation and unlocking. This limitation of DAC is applied on a quarterly basis and in any year if and when a reserve inadequacy existed at the start of the year. Net result in 2011 includes a charge to restore the adequacy of the Insurance US Closed Block VA segment to the 50% confidence level. Reference is made to Note 40 ‘Underwriting expenditure’.

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

OTHER LIABILITIES
Employee benefits - pension obligations
ING Insurance companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. ING Insurance has both defined benefit and defined contribution plans.

Accounting policies for the consolidated annual accounts of ING Insurance continued

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses, and unrecognised past service costs. The defined benefit obligation is calculated annually by internal and external actuaries using the projected unit credit method.

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

The expected value of the assets is calculated using the expected rate of return on plan assets. Differences between the expected return and the actual return on these plan assets and actuarial changes in the defined benefit obligation are not recognised in the profit and loss account, unless the accumulated differences and changes exceed 10% of the greater of the defined benefit obligation and the fair value of the plan assets. The excess is recognised in the profit and loss account over employees' remaining working lives. The corridor was reset to nil at the date of transition to IFRS-EU.

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

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

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

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

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

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

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

Accounting policies for the consolidated annual accounts of ING Insurance continued

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

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

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

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

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

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

For the purposes of the statement of cash flows, Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition. Investments qualify as a cash equivalent if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash flows arising from foreign currency transactions are translated into the functional currency using the exchange rates at the date of the cash flows.

The difference between the net cash flow in accordance with the statement of cash flows and the change in Cash and cash equivalents in the balance sheet is due to exchange rate differences and is accounted separately for as part of the reconciliation of the net cash flow and the balance sheet change in Cash and cash equivalents.

Notes to the consolidated annual accounts of ING Insurance

amounts in millions of euros, unless stated otherwise

ASSETS

1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents	2012	2011
Cash and bank balances	**2,980**	3,230
Short term deposits	**2,409**	8,347
	5,389	11,577

The majority of the short-term deposits reported, are held with ING Bank. Reference is made to Note 31 'Related parties' for an overview of all transactions with ING Bank.

In 2012, the decrease in cash and cash equivalents is mainly a result of the classification as held for sale of ING's Insurance and investment management business in Asia. Reference is made to Note 10 'Assets and liabilities held for sale' and Note 28 'Companies acquired and companies disposed'.

2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial assets at fair value through profit and loss	2012	2011
Trading assets	**586**	534
Investments for risk of policyholders	**98,765**	116,438
Non-trading derivatives	**5,107**	7,285
Designated as at fair value through profit and loss	**2,000**	2,616
	106,458	126,873

Trading assets by type	2012	2011
Equity securities	**576**	490
Debt securities	**10**	44
	586	534

Investments for risk of policyholders by type	2012	2011
Equity securities	**89,994**	105,580
Debt securities	**6,940**	9,612
Loans or receivables	**1,831**	1,246
	98,765	116,438

In 2012, the change in 'Investments for risk of policyholders' is mainly the result of the income for the year as well as the classification as held for sale of ING's Insurance and investment management business in Asia. Reference is made to Note 10 'Assets and liabilities held for sale' and Note 40 'Underwriting expenditure'.

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

Non-trading derivatives by type	2012	2011
Derivatives used in:		
– cash flow hedges	**2,450**	2,572
– hedges of net investments in foreign operations	**2**	5
Other non-trading derivatives	**2,655**	4,708
	5,107	7,285

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

Notes to the consolidated annual accounts of ING Insurance continued

Designated as at fair value through profit and loss by type		
	2012	2011
Equity securities		15
Debt securities	**1,096**	1,159
Other	**904**	1,442
	2,000	2,616

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

3 AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments by type		
	2012	2011
Equity securities	**5,073**	6,839
Debt securities	**114,232**	126,765
	119,305	133,604

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

Debt securities		
	2012	2011
Available-for-sale investments	**114,232**	126,765
Loans and advances to customers	**6,323**	6,681
Available-for-sale investments and Assets at amortised cost	**120,555**	133,446
Trading assets	**10**	44
Investments for risk of policyholders	**6,940**	9,612
Designated as at fair value through profit and loss	**1,096**	1,159
Financial assets at fair value through profit and loss	**8,046**	10,815
	128,601	144,261

ING Insurance's total exposure to debt securities included in Available-for-sale investments and assets at amortised cost of EUR 120,555 million (2011: EUR 133,446 million) is specified as follows by type of exposure:

Debt securities by type and balance sheet line - Available-for-sale investments and Assets at amortised cost						
	Available-for-sale investments		Loans and advances to customers		Total	
	2012	2011	**2012**	2011	**2012**	2011
Government bonds	**49,420**	54,732			**49,420**	54,732
Covered bonds	**996**	1,118			**996**	1,118
Corporate bonds	**43,072**	45,260			**43,072**	45,260
Financial institution bonds	**9,037**	11,700			**9,037**	11,700
Bond portfolio (excluding ABS)	**102,525**	112,810	**0**	0	**102,525**	112,810
US agency RMBS	**4,216**	5,228			**4,216**	5,228
US prime RMBS	**1,025**	1,380			**1,025**	1,380
US Alt-A RMBS	**284**	295			**284**	295
US subprime RMBS	**733**	752			**733**	752
NON-US RMBS	**215**	513	**3,745**	4,515	**3,960**	5,028
CDO/CLO	**130**	183	**290**	505	**420**	688
Other ABS	**1,440**	1,459	**1,997**	1,346	**3,437**	2,805
CMBS	**3,664**	4,145	**291**	315	**3,955**	4,460
ABS portfolio	**11,707**	13,955	**6,323**	6,681	**18,030**	20,636
	114,232	126,765	**6,323**	6,681	**120,555**	133,446

Notes to the consolidated annual accounts of ING Insurance continued

Asset backed security portfolio

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

Exposures, revaluations and losses on certain ABS bonds

	31 December 2012		Change in 2012			31 December 2011	
	Balance sheet value [1]	Before tax revaluation reserve	Changes through equity (before tax)	Changes through profit and loss (before tax)	Other changes	Balance sheet value [1]	Before tax revaluation reserve
US Subprime RMBS	733	–32	158		–177	752	–190
US Alt-A RMBS	284	49	31	–2	–40	295	18
CDO/CLOs	420	–7	16		–284	688	–23
CMBS	4,042	38	445	2	–956	4,551	–407
Total ABS	5,479	48	650	0	–1,457	6,286	–602

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

'Other changes' mainly relate to the de-risking program of ING Insurance and includes sales and redemptions of certain ABS bonds.

Reference is made to Note 32 'Fair value of financial assets and liabilities' for disclosure by fair value hierarchy and Note 34 'Investment income' for impairments on available-for-sale debt securities.

Greece, Italy, Ireland, Portugal and Spain (2012)

In the first half of 2010 concerns arose regarding the creditworthiness of certain southern European countries, which later spread to a few other European countries. As a result of these concerns the value of sovereign debt decreased and exposures in those countries are being monitored closely. With regard to the sovereign debt crisis, ING Insurance's main focus is on Greece, Italy, Ireland, Portugal and Spain as these countries have either applied for support from the European Financial Stability Facility ('EFSF') or receive support from the European Central Bank ('ECB') via government bond purchases in the secondary market. For these countries, ING Insurance's main focus is on exposure to Government bonds and Unsecured Financial institutions' bonds.

At 31 December 2012, ING Insurance's balance sheet value of 'Government bonds' and 'Unsecured Financial institutions' bonds to Greece, Italy, Ireland, Portugal and Spain and the related before tax revaluation reserve in equity was as follows:

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

2012	Balance sheet value	Before tax revaluation reserve	Before tax impair-ments	Amortised cost value
Greece				
Government bonds available-for-sale	76	40		36
Italy				
Government bonds available-for-sale	1,377	32		1,345
Financial institutions available-for-sale	51	–1		52
Ireland				
Government bonds available-for-sale	55	1		54
Financial institutions available-for-sale	15			15
Portugal				
Government bonds available-for-sale	7	–3		10
Financial institutions available-for-sale	40	2		38
Spain				
Government bonds available-for-sale	872	–97		969
Financial institutions available-for-sale	96	–2	–11	109
Total	2,589	–28	–11	2,628

(1) Exposures are included based on the country of residence.

Changes in the 'Balance sheet value' are a result of sales and maturity of bonds and the Private Sector Involvement ('PSI') as explained below.

Notes to the consolidated annual accounts of ING Insurance continued

The revaluation reserve on debt securities includes EUR 6,298 million (before tax) related to Government bonds. This amount comprises EUR 27 million negative revaluation reserve for Government bonds from Greece, Italy, Ireland, Portugal and Spain, which is more than offset by EUR 6,325 million positive revaluation reserves for Government bonds from other countries.

In the first quarter of 2012, the agreement under the PSI to exchange Greek Government bonds into new instruments was executed. Under this exchange ING Insurance received new listed Greek Government bonds (for a notional amount of 31.5% of the notional of the exchanged bonds, maturities between 2023 and 2042), listed European Financial Stability Facility ('EFSF') notes (for a notional amount of 15% of the notional of the exchanged bonds, maturities of one to two years) and listed short-term EFSF notes (maturity of 6 months, in discharge of all unpaid interest accrued on the exchanged bonds). These new securities were recognised as available-for-sale instruments. Furthermore, ING Insurance received listed GDP-linked securities issued by Greece (notional equal to notional of the new Greek Government bonds, maturity 2042). The exchange was executed on 12 March 2012. The exchanged bonds were derecognised and the new instruments were recognised at fair value on the exchange date. The exchange resulted in a loss of EUR 7 million in the second quarter of 2012, being the difference between amortised cost (net of cumulative impairments) of the exchanged bonds and fair value of the new instruments at the date of exchange. This result is included in 'Investment income'.

Greece, Italy, Ireland, Portugal and Spain (2011)
At 31 December 2011, ING Insurance's balance sheet value of 'Government bonds' and 'Unsecured Financial institutions' bonds to Greece, Italy, Ireland, Portugal and Spain and the related before tax revaluation reserve in equity was as follows:

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

2011	Balance sheet value	Before tax revaluation reserve	Before tax impair-ments [2]	Amortised cost value
Greece				
Government bonds available-for-sale	104		–352	456
Italy				
Government bonds available-for-sale	1,207	–219		1,426
Financial institutions available-for-sale	83	–21		104
Ireland				
Government bonds available-for-sale	43	–10		53
Financial institutions available-for-sale	15			15
Portugal				
Government bonds available-for-sale	95	–88		183
Financial institutions available-for-sale	47	–17		64
Spain				
Government bonds available-for-sale	866	–118		984
Financial institutions available-for-sale	163	–30		193
Total	2,623	–503	–352	3,478

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

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

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

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

Notes to the consolidated annual accounts of ING Insurance continued

Reference is made to Note 32 'Fair value of financial assets and liabilities' for disclosure by fair value hierarchy and Note 34 'Investment income' for impairments on available-for-sale debt securities.

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

Changes in available-for-sale investments

	Equity securities		Debt securities		Total	
	2012	2011	**2012**	2011	**2012**	2011
Opening balance	**6,839**	7,013	**126,765**	116,334	**133,604**	123,347
Additions	**1,474**	1,391	**70,884**	67,149	**72,358**	68,540
Amortisation			**–304**	–395	**–304**	–395
Transfers and reclassifications		904			**0**	904
Changes in the composition of the group and other changes	**–1,335**	–153	**–26,805**	–645	**–28,140**	–798
Changes in unrealised revaluations	**475**	–382	**6,931**	4,309	**7,406**	3,927
Impairments	**–159**	–188	**–48**	–750	**–207**	–938
Reversal of impairments			**8**	5	**8**	5
Disposals and redemptions	**–2,224**	–1,765	**–61,753**	–61,851	**–63,977**	–63,616
Exchange rate differences	**3**	19	**–1,446**	2,609	**–1,443**	2,628
Closing balance	**5,073**	6,839	**114,232**	126,765	**119,305**	133,604

In 2012, Changes in the composition of the group and other changes relates mainly to the classification of ING's Insurance and investment management businesses in Asia as a disposal group held for sale. Reference is made to Note 10 'Assets and liabilities held for sale'.

Reference is made to Note 34 'Investment income' for details on impairments.

Transfers and reclassifications of available-for-sale investments

	Equity securities		Debt securities		Total	
	2012	2011	**2012**	2011	**2012**	2011
To/from investments in associates		904			**0**	904

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

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

Notes to the consolidated annual accounts of ING Insurance continued

Reclassifications to Loans and advances to customers	
	Q2 2009
As per reclassification date	
Fair value	6,135
Range of effective interest rates (weighted average)	1.4%-24.8%
Expected recoverable cash flows	7,118
Unrealised fair vale losses in shareholder's equity (before tax)	–896
Recognised fair value gains (losses) in shareholder's equity (before tax) between the beginning of the year in which the reclassification too place and the reclassification date	173
Recognised fair value gains (losses) in shareholder's equity (before tax) in the year prior to reclassification	–971
Recognised impairment (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	nil
Recognised impairment (before tax) in the year prior to reclassification	nil
Impact on the financial years after reclassification	
2012	
Carrying value as at 31 December	**1,694**
Fair value as at 31 December	**1,667**
Unrealised fair value losses in shareholder's equity (before tax) as at 31 December	**–186**
Effect on shareholder's equity (before tax) if reclassification had not been made	**–27**
Effect on result (before tax) if reclassification had not been made	**nil**
Effect on result (before tax) for the year (interest income and sales results)	**–47**
Recognised impairments (before tax)	**nil**
Recognised provision for credit losses (before tax)	**nil**
2011	
Carrying value as at 31 December	3,057
Fair value as at 31 December	2,883
Unrealised fair value losses in shareholder's equity (before tax) as at 31 December	–307
Effect on shareholder's equity (before tax) if reclassification had not been made	–174
Effect on result (before tax) if reclassification had not been made	nil
Effect on result (before tax) for the year (mainly interest income)	90
Recognised impairments (before tax)	nil
Recognised provision for credit losses (before tax)	nil
2010	
Carrying value as at 31 December	4,465
Fair value as at 31 December	4,594
Unrealised fair value losses in shareholder's equity (before tax) as at 31 December	–491
Effect on shareholder's equity (before tax) if reclassification had not been made	129
Effect on result (before tax) if reclassification had not been made	nil
Effect on result (before tax) for the year (mainly interest income)	89
Recognised impairments (before tax)	nil
Recognised provision for credit losses (before tax)	nil
2009	
Carrying value as at 31 December	5,550
Fair value as at 31 December	5,871
Unrealised fair value losses in shareholder's equity (before tax) as at 31 December	–734
Effect on shareholder's equity (before tax) if reclassification had not been made	321
Effect on result (before tax) if reclassification had not been made	nil
Effect on result (before tax) after the reclassification until 31 December (mainly interest income)	121
Effect on result (before tax) for the year (mainly interest income)	n/a
Recognised impairments (before tax)	nil
Recognised provision for credit losses (before tax)	nil

Notes to the consolidated annual accounts of ING Insurance continued

Available-for-sale equity securities

	2012	2011
Listed	2,297	3,807
Unlisted	2,776	3,032
	5,073	6,839

Reference is made to Note 21 'Transfer of financial assets' for information on securities lending and sale and repurchase transactions.

Borrowed debt securities are not recognised in the balance sheet and amounted to nil as at 31 December 2012 (2011: EUR 466 million).

ING Insurance did not have ‘Available-for-sale investments’ that did not produce any income for the year ended 31 December 2012 and 2011.

4 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers by type

	Netherlands		International		Total	
	2012	2011	2012	2011	2012	2011
Policy loans	38	44	1,704	3,308	1,742	3,352
Loans secured by mortgages	6,376	6,450	7,327	7,692	13,703	14,142
Unsecured loans	2,070	2,143	1,231	5,135	3,301	7,278
Asset backed securities	6,323	6,681			6,323	6,681
Other	338	355	527	1,244	865	1,599
	15,145	15,673	10,789	17,379	25,934	33,052
Loan loss provisions	–68	–80	–43	–44	–111	–124
	15,077	15,593	10,746	17,335	25,823	32,928

Changes in loan loss provisions

	2012	2011
Opening balance	124	117
Changes in the composition of the group	–4	–2
Write–offs	–39	–24
Recoveries		2
Increase in loan loss provisions	29	33
Exchange rate differences	1	–2
Closing balance	111	124

Reference is made to the section 'Risk management'.

5 INVESTMENTS IN ASSOCIATES

Investments in associates

2012	Interest held (%)	Fair value of listed invest-ments	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
Sul America S.A.	36	674	366	5,037	4,048	4,285	3,969
CBRE Retail Property Fund Iberica LP	29		129	1,423	964	–22	75
CBRE Lionbrook Property Partnership LP	20		102	577	77	31	23
CBRE Property Fund Central Europe LP	25		97	907	519	66	30
CBRE French Residential Fund C.V.	42		76	253	71	11	8
CBRE Retail Property Fund France Belgium C.V.	15		76	1,388	882	123	78
CBRE Nordic Property Fund FGR	14		55	1,057	674	19	68
Other investments in associates			451				
			1,352				

Notes to the consolidated annual accounts of ING Insurance continued

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

No accumulated impairments have been recognised in 2012 and 2011.

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

In general the reporting dates of all significant associates are consistent with the reporting date of ING Insurance. However the reporting dates of certain associates can differ from the reporting date of ING Insurance, but is no more than three months.

Where the listed fair value is lower than the balance sheet value, an impairment review and an evaluation of the going concern basis has been performed.

Investments in associates

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

Changes in investments in associates

	2012	2011
Opening balance	**1,526**	2,428
Additions	**23**	118
Changes in the composition of the group	**–46**	–14
Transfers to and from Investments		–904
Revaluations	**–30**	–17
Share of results	**38**	194
Dividends received	**–56**	–126
Disposals	**–76**	–131
Exchange rate differences	**–27**	–22
Closing balance	**1,352**	1,526

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

In 2012, the share of results of EUR 38 million (2011: EUR 194 million) was presented in the profit and loss account in the 'Share of result from associates'. There were no impairments recognised for the year 2012 and 2011.

Notes to the consolidated annual accounts of ING Insurance continued

6 REAL ESTATE INVESTMENTS

Changes in real estate investments	2012	2011
Opening balance	**954**	1,063
Additions	**56**	23
Changes in the composition of the group	**–87**	–93
Transfers to and from Other assets	**–2**	
Fair value gains/(losses)	**–48**	2
Disposals	**–71**	–35
Exchange rate differences	**3**	–6
Closing balance	**805**	954

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2012 is EUR 71 million (2011: EUR 73 million). No amount of contingent rent was recognised in the profit and loss account for the year ended 31 December 2012 and 2011.

The total amount of direct operating expenses (including repairs and maintenance) in relation to Real estate investments that generated rental income for the year ended 31 December 2012 is EUR 14 million (2011: EUR 17 million). The total amount of direct operating expenses (including repairs and maintenance) incurred on Real estate investments that did not generate rental income for the year ended 31 December 2012 is EUR 3 million (2011: EUR 1 million).

In 2012, all real estate investments were appraised by independent qualified valuers.

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

Real estate exposure	2012	2011
Real estate investments	**805**	954
Investments in associates	**869**	956
Other assets – property development and obtained from foreclosures	**72**	72
Property and equipment – property in own use	**220**	292
Investments – available-for-sale	**1,412**	1,511
	3,378	3,785

Furthermore, the exposure is impacted by third party interests, leverage in funds and off-balance commitments, resulting in an overall exposure of EUR 5.4 billion (2011: EUR 5.9 billion). Reference is made to the 'Risk management' section.

7 PROPERTY AND EQUIPMENT

Property and equipment by type	2012	2011
Property in own use	**220**	292
Equipment	**118**	177
	338	469

Notes to the consolidated annual accounts of ING Insurance continued

Changes in property in own use

	2012	2011
Opening balance	292	313
Additions		3
Changes in the composition of the group	–25	–16
Transfers to and from other assets	1	
Depreciation	–3	–4
Revaluations	–33	–6
Disposals	–11	–2
Exchange rate differences	–1	4
Closing balance	220	292
Gross carrying amount as at 31 December	255	327
Accumulated depreciation as at 31 December	–32	–32
Accumulated impairments as at 31 December	–3	–3
Net carrying value as at 31 December	220	292
Revaluation surplus		
Opening balance	44	43
Revaluation in year	–16	1
Released in year	–1	
Closing balance	27	44

The cost or the purchase price amounted to EUR 228 million (2011: EUR 283 million). Cost or the purchase price less accumulated depreciation and impairments would have been EUR 193 million (2011: EUR 248 million) had property in own use been valued at cost instead of fair value.

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

In percentages	2012	2011
Most recent appraisal in current year	84	45
Most recent appraisal one year ago		16
Most recent appraisal two years ago	15	
Most recent appraisal three years ago		39
Most recent appraisal four years ago	1	
	100	100

Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2012	2011	2012	2011	2012	2011
Opening balance	65	67	112	137	177	204
Additions	38	38	22	36	60	74
Changes in the composition of the group	–14	–9	–26	–16	–40	–25
Disposals	–2	–1	–5	–12	–7	–13
Depreciation	–36	–29	–31	–36	–67	–65
Impairments			–1	–1	–1	–1
Exchange rate differences				–1	0	–1
Other changes		–1	–4	5	–4	4
Closing balance	51	65	67	112	118	177
Gross carrying amount as at 31 December	198	256	265	394	463	650
Accumulated depreciation as at 31 December	–147	–191	–198	–282	–345	–473
Net carrying value as at 31 December	51	65	67	112	118	177

Notes to the consolidated annual accounts of ING Insurance continued

8 INTANGIBLE ASSETS

Changes in intangible assets

	Value of business acquired		Goodwill		Software		Other		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Opening balance	**871**	1,320	**786**	1,425	**135**	166	**180**	345	**1,972**	3,256
Additions				8	**82**	73		1	**82**	82
Capitalised expenses	**83**	81			**3**	2			**86**	83
Amortisation and unlocking	**–207**	–244			**–60**	–59	**–30**	–48	**–297**	–351
Impairments			**–56**		**–2**	–34			**–58**	–34
Effect of unrealised revaluations in equity	**–140**	–250							**–140**	–250
Changes in the composition of the group and other changes	**–89**	–43	**–469**	–575	**–44**	–2	**–30**	–108	**–632**	–728
Exchange rate differences	**–5**	7	**16**	–72	**1**	–2		–10	**12**	–77
Disposals					**–7**	–9			**–7**	–9
Closing balance	**513**	871	**277**	786	**108**	135	**120**	180	**1,018**	1,972
Gross carrying amount as at 31 December	**1,977**	2,244	**1,019**	1,471	**783**	818	**286**	369	**4,065**	4,902
Accumulated amortisation as at 31 December	**–1,464**	–1,373			**–646**	–646	**–120**	–143	**–2,230**	–2,162
Accumulated impairments as at 31 December			**–742**	–685	**–29**	–37	**–46**	–46	**–817**	–768
Net carrying value as at 31 December	**513**	871	**277**	786	**108**	135	**120**	180	**1,018**	1,972

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
In addition to exchange rate differences, changes in goodwill relate to impairments and changes in composition of the group.

2012 – Impairment
In 2012, a goodwill impairment of EUR 56 million is recognised relating to the reporting unit Insurance Benelux. The reporting unit Insurance Benelux equals the segment Insurance Benelux. In the impairment test of Insurance Benelux, the IFRS book value (including goodwill) is compared with a valuation based on the surplus in the market consistent balance sheet and the market value of new business. These are commonly used metrics in the European insurance industry. During 2012, the book value of Insurance Benelux increased, mainly as a result of declining interest rates being reflected in the fair value of assets but with no corresponding increase in the IFRS book value of insurance liabilities. As the market value surplus (MVS) of Insurance Benelux did not increase similarly, the margin of MVS over IFRS book value, which supported the goodwill, became negative and, as a result, goodwill was fully impaired. This charge is included in the profit and loss account in the line ‘Intangible amortisation and other impairments’. Goodwill is recognised in the Corporate Line and, therefore, this charge is included in the segment reporting in Corporate Line Insurance.

2011 – Impairment
There was no impairment for the year 2011.

2010 – Impairment
Due to the unfavourable market circumstances for Insurance, including the low interest rate environment, there were indications in the third quarter of 2010 that the recoverable amount of the reporting unit Insurance US had fallen below carrying value. As a result, a full goodwill impairment review was performed for the reporting unit Insurance US in the third quarter of 2010. The reporting unit Insurance US equals the segment Insurance US as disclosed in Note 46 ‘Segments’. The 2009 impairment test for Insurance US showed that the recoverable amount based on fair value (using market multiples for Price/Book and Price/Earnings of listed peer companies) was at least equal to carrying value. The outcome of the impairment test performed in the third quarter of 2010 indicated that the fair value had become less than carrying value by an amount that exceeded the goodwill of Insurance US, indicating that the full amount of goodwill relating to Insurance US was impaired. Further analysis of the recoverable amount confirmed the impairment. As a result, the goodwill of EUR 637 million (before tax) was written off. The related charge was included in the profit and loss account in the line ‘Intangibles amortisation and other impairments’. Goodwill was recognised in the Corporate Line and, therefore, this charge was included in the segment reporting in Corporate Line Insurance.

Notes to the consolidated annual accounts of ING Insurance continued

2012 – Changes in composition of the group and other changes
In 2012, 'Changes in composition of the group and other changes' represents the classification of goodwill to 'Assets held for sale'. This includes all goodwill that relates to businesses that were classified as held for sale. For 2012, the amount is EUR 469 million and relates to Insurance Korea (EUR 200 million), Investment Management Korea (EUR 180 million), Insurance India (EUR 41 million) and Investment Management Taiwan (EUR 48 million). As businesses to which these goodwill amounts relate to are now classified as held for sale, the related goodwill is no longer evaluated at the level of the reporting unit to which it was allocated in the regular goodwill impairment test. Instead, it is reviewed as part of the valuation of the disposal unit that is presented as held for sale. Reference is made to Note 10 'Assets and liabilities held for sale'.

2011 – Changes in composition of the group and other changes
In 2011, 'Changes in composition of the group and other changes' related mainly to the disposal of the Latin American operations.

Allocation of Goodwill to reporting units
After the above changes, the remaining goodwill is allocated to goodwill reporting units as follows:

Goodwill allocation to reporting units

	2012	2011
Insurance Benelux		56
Insurance Central & Rest of Europe	114	112
Insurance Asia/Pacific – South Korea		192
Insurance Asia/Pacific – Rest of Asia		44
ING Investment Management	163	382
Total Insurance	277	786

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

As a first step of the impairment test, the best estimate of the recoverable amount of reporting units to which goodwill is allocated 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 transactions in the market for comparable businesses. Earnings and carrying values are equal to or derived from the relevant measure under IFRS-EU.

If the outcome of this first step indicates that the difference between recoverable amount and carrying value may not be sufficient to support the amount of goodwill allocated to the reporting unit, an additional analysis is performed in order to determine a recoverable amount in a manner that better addresses the specific characteristics of the relevant reporting unit.

Such additional analyses were performed for the goodwill that was concluded to be impaired as set out above. For other reporting units, the goodwill allocated to these reporting units was fully supported in the first step.

9 DEFERRED ACQUISITION COSTS

Changes in deferred acquisition costs

	Life insurance		Non-life insurance		Total	
	2012	2011	2012	2011	2012	2011
Opening balance	10,165	10,457	39	42	10,204	10,499
Capitalised	1,659	1,575	15	12	1,674	1,587
Amortisation and unlocking	–1,051	–1,689	–15	–13	–1,066	–1,702
Effect of unrealised revaluations in equity	–251	–526			–251	–526
Changes in the composition of the group	–5,765	44	–3	–2	–5,768	42
Exchange rate differences	–244	304			–244	304
Closing balance	4,513	10,165	36	39	4,549	10,204

Notes to the consolidated annual accounts of ING Insurance continued

For flexible life insurance contracts the growth rate assumption used to calculate the amortisation of the deferred acquisition costs for 2012 is 8.1% gross and is 7.3% net of investment management fees (2011: 8.1% gross and 7.4% net of investment management fees). Percentages are based on the portfolios from continuing operations.

In 2012, Changes in the composition of the group relates mainly to the classification of ING’s Insurance and investment management businesses in Asia as a disposal group held for sale. Reference is made to Note 10 ‘Assets and liabilities held for sale’.

In 2011, Amortisation and unlocking includes EUR 488 million relating to the assumption review for the Insurance US Closed Block Variable Annuity (VA) business. Reference is made to Note 40 ‘Underwriting expenditure’.

10 ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities held for sale includes 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 but for which the transaction has not yet closed or a sale is highly probable at the balance sheet date but for which no sale has yet been agreed. As at 31 December 2012 this relates to ING's Insurance and investment management businesses in Asia and the reinsured Japan SPVA businesses in corporate reinsurance ('Asia').

There were no Assets and liabilities classified as held for sale as at 31 December 2011.

Reference is made to Note 28 ‘Companies acquired and companies disposed’.

The classification in 2012 of ‘Asia’ as held for sale and discontinued operations relates to all of ING's Insurance and investment management businesses in Asia and the reinsured Japan SPVA businesses in corporate reinsurance. During 2012, the divestment of ING’s insurance business in Malaysia was closed; as a result the insurance business in Malaysia is no longer consolidated as at 31 December 2012. Furthermore, several divestments were agreed that are expected to close or closed in 2013, including ING’s insurance businesses in Hong Kong, Macau and Thailand and ING’s investment management businesses in Thailand and Malaysia; these remain to be classified as held for sale as at 31 December 2012. ‘Reference is made to Note 28 ‘Companies acquired and companies disposed’. In addition, several other businesses remain in held for sale, for which no divestments have yet been concluded; this includes mainly ING’s Japanese, Korean and Taiwanese insurance and investment management businesses.

ING continues to discuss various options for ING Life Japan, including its closed block VA business. However, the closing of sales of ING's other Asian insurance units may trigger a charge to strengthen reserves for the Japanese closed block VA under ING's reserve adequacy policy. ING measures reserve adequacy at the business line level, where excess reserves in other Asian business units currently offset a shortfall related to the Japanese closed block VA. As transactions close, if the aggregate reserves for the remaining businesses fall below a 50% confidence level, the shortfall must be recognised immediately in the profit and loss account. The reserve inadequacy for the Japanese insurance business, including the VA guarantees reinsured to ING Re, was approximately EUR 0.4 billion at the 50% confidence level at 31 December 2012. This is an inadequacy of approximately EUR 0.9 billion for the closed block VA, offset by a sufficiency of EUR 0.5 billion for the corporate-owned life insurance business. The nature and timing of any profit and loss charge from such reserve inadequacy depends on the closing of other divestments in Asia as well as various options currently under investigation for ING Life Japan. Further announcements will be made if and when appropriate. The above mentioned amounts refer to ING’s reserve adequacy policy under IFRS which does not affect the local solvency positions of ING Life Japan nor ING Re.

Assets held for sale

	2012
Cash and cash equivalents	1,328
Financial assets at fair value through profit and loss	26,688
Available-for-sale investments	24,805
Loans and advances to customers	2,084
Reinsurance contracts	98
Investments in associates	37
Property and equipment	33
Intangible assets	176
Deferred acquisition costs	5,124
Other assets	1,318
	61,691

Notes to the consolidated annual accounts of ING Insurance continued

Liabilities held for sale	
	2012
Insurance and investments contracts	51,198
Financial liabilities at fair value through profit and loss	2,073
Other liabilities	2,380
	55,651

Included in Shareholder's equity is cumulative other comprehensive income of EUR 1,585 million (2011: nil) related to Assets and liabilities held for sale.

Other potential divestments
In addition to the businesses presented as held for sale above, ING is considering potential divestments, including those that are listed under the European Commission Restructuring Plan in Note 31 'Related parties'. However, none of these businesses qualify as held for sale as at 31 December 2012 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.

Goodwill
Intangible assets under Assets held for sale includes goodwill that relates to businesses that are classified as held for sale. In 2012, EUR 469 million goodwill was reclassified to Assets held for sale. This relates to Insurance Korea (EUR 200 million), Investment Management Korea (EUR 180 million), Insurance India (EUR 41 million) and Investment Management Taiwan (EUR 48 million).

For businesses classified as held for sale, the related goodwill is no longer evaluated at the level of the reporting unit to which it was allocated in the regular goodwill impairment test. Instead, it is reviewed as part of the valuation of the disposal unit that is presented as held for sale. In 2012, goodwill of EUR 180 million in Investment Management Korea, EUR 200 million in ING Life Korea and EUR 15 million in ING Vysya Life Insurance was written off, as the related businesses have been or are expected to be sold below IFRS book value. The related charge is included in the profit and loss account in Net result from classification as discontinued operation.

Remaining goodwill in Assets held for sale amounts to EUR 75 million and relates mainly to Investment Management Taiwan and ING Vysya Life Insurance. This goodwill is expected to be recovered through divestments at or above IFRS book value.

Fair value measurement
The fair value hierarchy of financial assets and liabilities (measured at fair value), which are presented as held for sale is included below. The fair value hierarchy consists of three levels, depending upon whether fair values were determined based on quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have a more than insignificant impact on the fair value of the instrument (Level 3). Reference is made to Note 32 'Fair value of financial assets and liabilities' for more details on the methods applied in determining fair values.

Methods applied in determining fair values of financial assets and liabilities – Held for sale				
2012	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	18			18
Investments for risk of policyholders	22,452		116	22,568
Non-trading derivatives		1,447		1,447
Financial assets designated as at fair value through profit and loss		2,640	15	2,655
Available-for-sale investments	16,180	8,386	239	24,805
	38,650	12,473	370	51,493
Liabilities				
Non-trading derivatives	287	1,786		2,073
Investment contracts (for contracts carried at fair value)	95			95
	382	1,786	0	2,168

In 2012, there were no significant changes in Level 3 Assets and Liabilities.

Notes to the consolidated annual accounts of ING Insurance continued

11 OTHER ASSETS

Other assets by type

	2012	2011
Reinsurance and insurance receivables	**1,763**	1,971
Deferred tax assets	**76**	186
Property development and obtained from foreclosures	**72**	72
Income tax receivable	**44**	82
Accrued interest and rents	**2,448**	2,999
Other accrued assets	**1,040**	1,670
Pension assets	**1,476**	1,251
Other	**926**	1,179
	7,845	9,410

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

Accrued interest and rents includes EUR 1,948 million (2011: EUR 2,216 million) accrued interest on assets measured at amortised cost under the IAS 39 classification Loans and receivables.

ING Insurance did not capitalised borrowing costs relating to Property under development for third parties in 2012 and 2011.

Reinsurance and insurance receivables

	2012	2011
Receivables on account of direct insurance from:		
– policyholders	**1,083**	1,238
– intermediaries	**50**	67
Reinsurance receivables	**630**	666
	1,763	1,971

The allowance for uncollectable reinsurance and insurance receivables amounts to EUR 50 million as at 31 December 2012 (2011: EUR 66 million). The allowance is deducted from this receivable.

Notes to the consolidated annual accounts of ING Insurance continued

EQUITY
12 SHAREHOLDER'S EQUITY (PARENT)

Shareholder's equity (parent)

	2012	2011	2010
Share capital	174	174	174
Share premium	11,874	11,874	11,874
Revaluation reserve	8,334	5,060	3,345
Currency translation reserve	–331	131	–178
Other reserves	7,248	6,236	4,944
Shareholder's equity (parent)	27,299	23,475	20,159

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

Share capital

	Ordinary shares (par value EUR 1.13)					
	Number x 1,000			Amount		
	2012	2011	2010	2012	2011	2010
Authorised share capital	680,000	680,000	680,000	768	768	768
Unissued share capital	526,116	526,116	526,116	594	594	594
Issued share capital	153,884	153,884	153,884	174	174	174

No changes occurred in the Issued share capital and Share premium in 2012, 2011 or 2010.

Ordinary shares
All shares are in registered form. No share certificates have been issued. Shares may be transferred by means of a deed of transfer, subject to the approval of the Management Board Insurance. The par value of ordinary shares is EUR 1.13. The authorised ordinary share capital of ING Insurance consists of 680 million shares, of which as at 31 December 2012, 154 million have been issued and fully paid.

Dividend restrictions
ING Verzekeringen N.V. and its Dutch group companies are subject to legal restrictions regarding the amount of dividends they can pay to their shareholders. The Dutch Civil Code contains the restriction that dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid–up capital, and reserves required by law. Additionally, certain group companies are subject to restrictions on the amount of funds they may transfer in the form of dividends or otherwise to the parent company.

Furthermore, in addition to the restrictions in respect of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries.

Changes in revaluation reserve

2012	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	31	2,146	2,883	5,060
Unrealised revaluations after tax	–13	5,102		5,089
Realised gains/losses transferred to profit and loss		–299		–299
Change in cash flow hedge reserve			665	665
Transfer to insurance liabilities/DAC		–2,181		–2,181
Closing balance	18	4,768	3,548	8,334

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

Notes to the consolidated annual accounts of ING Insurance continued

Changes in revaluation reserve

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

Changes in revaluation reserve

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

Changes in currency translation reserve

	2012	2011	2010
Opening balance	**131**	–178	–1,515
Unrealised revaluations after tax	**–25**	–90	–418
Realised gains/losses transferred to profit and loss	**–68**	156	
Exchange rate differences	**–369**	243	1,755
Closing balance	**–331**	131	–178

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

Changes in other reserves

2012	**Retained earnings**	**Share of associates reserve**	**Total**
Opening balance	**6,060**	**176**	**6,236**
Result for the year	**939**		**939**
Unrealised revaluations after tax	**11**		**11**
Transfer to share of associates reserve	**–164**	**164**	**0**
Employee stock options and share plans	**62**		**62**
Closing balance	**6,908**	**340**	**7,248**

Changes in other reserves

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

Notes to the consolidated annual accounts of ING Insurance continued

Changes in other reserves

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

Notes to the consolidated annual accounts of ING Insurance continued

LIABILITIES
13 SUBORDINATED LOANS

Subordinated loans

Interest rate	Year of Issue	Due date		Notional amount in original currency	Balance sheet value 2012	Balance sheet value 2011
Variable	2011	Perpetual	EUR	450	**450**	450
Variable	2008	Perpetual	USD	1,100	**834**	850
Variable	2007	Perpetual	USD	1,000	**758**	772
4.176%	2005	Perpetual	EUR	168	**181**	313
Variable	2005	Perpetual	USD	200	**152**	154
Variable	2005	Perpetual	USD	100	**76**	77
6.375%	2002	7 May 2027	EUR	476	**496**	501
Variable	2001	21 June 2021	EUR	1,250		1,250
					2,947	4,367

Subordinated loans consist of subordinated bonds issued by ING Verzekeringen N.V. These bonds have been issued to raise hybrid capital. Under IFRS-EU these bonds are classified as liabilities. They are considered capital for regulatory purposes. EUR 2,451 million (2011: EUR 2,616 million) has been issued to ING Group.

The decrease in 'Subordinated loans' reflects the redemption of the 2001, Variable interest rate, EUR 1,250 million hybrid security in December 2012.

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

14 DEBT SECURITIES IN ISSUE

The debt securities in issue relate to debentures and other issued debt securities with either fixed interest rates or interest rates based on interest rate levels, such as certificates of deposit and accepted bills issued by ING Insurance, except for subordinated items. Debt securities in issue do not include debt securities presented as Financial liabilities at fair value through profit and loss. ING Insurance does not have debt securities that are issued on terms other than those available in the normal course of business. The maturities of the debt securities are as follows:

Debt securities in issue - maturities

	2012	2011
Fixed rate debt securities		
Within 1 year	**530**	849
More than 1 year but less than 2 years		1,114
More than 5 years	**1,110**	473
Total fixed rate debt securities	**1,640**	2,436
Floating rate debt securities		
Within 1 year	**270**	
More than 1 year but less than 2 years		1,000
Total floating rate debt securities	**270**	1,000
Total debt securities	**1,910**	3,436

As at 31 December 2012, ING Insurance has EUR 1,137 million unused lines of credit (2011: EUR 60 million) available.

Notes to the consolidated annual accounts of ING Insurance continued

On 8 March 2012, ING launched three separate exchange offers and consent solicitations on a total of three series of senior debt securities of ING Verzekeringen N.V. with a total nominal value of EUR 2.6 billion. Holders had the possibility to exchange the original securities into new securities issued by ING Group and / or consent to a modification of existing terms. On average 64% of the holders have accepted the offer to exchange into new securities issued by ING Group. The total nominal amount of the new securities issued by ING Group in exchange for the existing ING Verzekeringen N.V. securities is EUR 1,654 million. Approximately 6% of the holders, representing EUR 151 million, accepted a modification of the existing terms of the securities. The transactions were completed on 30 March 2012. A charge of EUR 39 million (EUR 30 million after tax) was recognised in the first quarter of 2012. The settlement date of the exchange offers and consent solicitations was on 4 April 2012.

ING U.S., Inc. (ING U.S.) announced on 16 July 2012 that it completed a private debt offering of USD 850 million principal amount of its 5.5% Senior Notes due in 2022.

15 OTHER BORROWED FUNDS

Other borrowed funds by remaining term

2012	**2013**	**2014**	**2015**	**2016**	**2017**	**Years after 2017**	**Total**
Loans contracted	**1,740**	**815**			**4**	**663**	**3,222**
Loans from credit institutions	**3,306**			**60**		**854**	**4,220**
	5,046	**815**	**0**	**60**	**4**	**1,517**	**7,442**

Other borrowed funds by remaining term

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

16 INSURANCE AND INVESTMENT CONTRACTS, REINSURANCE CONTRACTS

The Provision for insurance and investment contracts, net of reinsurance (i.e. the provision for ING Insurance's own account) is presented gross in the balance sheet as 'Insurance and investment contracts'. The related reinsurance is presented as 'Reinsurance contracts' under Assets in the balance sheet.

Insurance and investment contracts, reinsurance contracts

	Provision net of reinsurance		Reinsurance contracts		Insurance and investment contracts	
	2012	2011	**2012**	2011	**2012**	2011
Provision for non-participating life policy liabilities	**62,797**	88,492	**5,065**	5,534	**67,862**	94,026
Provision for participating life policy liabilities	**47,801**	52,753	**87**	102	**47,888**	52,855
Provision for (deferred) profit sharing and rebates	**7,236**	5,623	**3**	2	**7,239**	5,625
Life insurance provisions excluding provisions for risk of policyholders	**117,834**	146,868	**5,155**	5,638	**122,989**	152,506
Provision for life insurance for risk of policyholders	**90,754**	109,487	**49**	136	**90,803**	109,623
Life insurance provisions	**208,588**	256,355	**5,204**	5,774	**213,792**	262,129
Provision for unearned premiums and unexpired risks	**265**	297	**2**	4	**267**	301
Reported claims provision	**2,621**	2,620	**82**	89	**2,703**	2,709
Claims incurred but not reported (IBNR)	**558**	493	**2**	3	**560**	496
Claims provisions	**3,179**	3,113	**84**	92	**3,263**	3,205
Other insurance provisions						
Total provisions for insurance contracts	**212,032**	259,765	**5,290**	5,870	**217,322**	265,635
Investment contracts for risk of company	**4,561**	6,259			**4,561**	6,259
Investment contracts for risk of policyholders	**8,067**	6,939			**8,067**	6,939
Total provisions for investment contracts	**12,628**	13,198	**0**	0	**12,628**	13,198
Total	**224,660**	272,963	**5,290**	5,870	**229,950**	278,833

Notes to the consolidated annual accounts of ING Insurance continued

The deferred profit sharing amount on unrealised revaluation is included in Provision for (deferred) profit sharing and rebates and amounts to EUR 6,304 million as at 31 December 2012 (2011: EUR 3,721 million).

Changes in life insurance provisions

	Provision net of reinsurance (excluding provision for life insurance for risk of policyholder)		Provisions for life insurance for risk of policyholder (net of reinsurance)		Reinsurance contracts		Life insurance provisions	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Opening balance	**146,868**	135,314	**109,487**	114,603	**5,774**	5,685	**262,129**	255,602
Changes in the composition of the group and other changes	**–31,577**	–335	**–23,852**	–1,781	**–244**	–65	**–55,673**	–2,181
	115,291	134,979	**85,635**	112,822	**5,530**	5,620	**206,456**	253,421
Current year provisions	**13,221**	13,774	**9,122**	7,623	**381**	636	**22,724**	22,033
Change in deferred profit sharing liability	**2,889**	1,963					**2,889**	1,963
Prior year provisions:								
– benefit payments to policyholders	**–16,074**	–13,872	**–14,919**	–12,548	**–668**	–700	**–31,661**	–27,120
– interest accrual and changes in fair value of liabilities	**4,651**	6,302			**38**	35	**4,689**	6,337
– valuation changes for risk of policyholders			**13,909**	–1,190			**13,909**	–1,190
– effect of changes in other assumptions	**–275**	635	**–77**	–17	**16**	–2	**–336**	616
	–11,698	–6,935	**–1,087**	–13,755	**–614**	–667	**–13,399**	–21,357
Exchange rate differences	**–1,869**	3,087	**–2,916**	2,797	**–93**	185	**–4,878**	6,069
Closing balance	**117,834**	146,868	**90,754**	109,487	**5,204**	5,774	**213,792**	262,129

Where discounting is used in the calculation of life insurance provision, the rate is within the range of 3.0% to 5.1% (2011: 2.8% to 5.5%) based on weighted averages. The change is mainly due to a change in the composition of the portfolio.

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 29 ‘Legal proceedings’.

In 2012, 'Changes in the composition of the group and other changes' relates mainly to the classification of ING’s Insurance and investment management businesses in Asia as a disposal group held for sale. Reference is made to Note 10 ‘Assets and liabilities held for sale’.

In 2011, ‘Changes in the composition of the group and other changes’ includes the transfers of certain insurance contracts outside ING Insurance.

In 2012, ‘Effect of changes in other assumptions’ includes EUR –104 million relating to the assumptions refinement for the Insurance US Closed Block Variable Annuity (VA) business. Reference is made to Note 40 ‘Underwriting expenditure’.

In 2011, 'Effect of changes in other assumptions' includes EUR 611 million relating to the assumption review for the Insurance US Closed Block VA business. Reference is made to Note 40 ‘Underwriting expenditure’.

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

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

Notes to the consolidated annual accounts of ING Insurance continued

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

As at 31 December 2012, the total Reinsurance exposure, including Reinsurance contracts and Receivables from reinsurers (presented in Other assets) amounts to EUR 5,920 million (2011: EUR 6,536 million). There was no provision for uncollectable reinsurance in 2012 and 2011.

Changes in provision for unearned premiums and unexpired risks

	Provision net of reinsurance		Reinsurance contracts		Provision for unearned premiums and unexpired risk	
	2012	2011	**2012**	2011	**2012**	2011
Opening balance	**297**	345	**4**	4	**301**	349
Changes in the composition of the group	**–12**	–8	**–2**		**–14**	–8
	285	337	**2**	4	**287**	341
Premiums written	**1,693**	1,682	**40**	43	**1,733**	1,725
Premiums earned during the year	**–1,715**	–1,708	**–40**	–43	**–1,755**	–1,751
Exchange rate differences		1			**0**	1
Other changes	**2**	–15			**2**	–15
Closing balance	**265**	297	**2**	4	**267**	301

Changes in claims provisions

	Provision net of reinsurance		Reinsurance contracts		Claims provision	
	2012	2011	**2012**	2011	**2012**	2011
Opening balance	**3,113**	3,103	**92**	100	**3,205**	3,203
Changes in the composition of the group	**–15**	–7	**–1**		**–16**	–7
	3,098	3,096	**91**	100	**3,189**	3,196
Additions:						
– for the current year	**1,213**	1,166	**6**	10	**1,219**	1,176
– for prior years	**–39**	–71	**2**	–11	**–37**	–82
– interest accrual of provision	**45**	40			**45**	40
	1,219	1,135	**8**	–1	**1,227**	1,134
Claim settlements and claim settlement costs:						
– for the current year	**–473**	–472	**–1**	–1	**–474**	–473
– for prior years	**–643**	–665	**–13**	–6	**–656**	–671
	–1,116	–1,137	**–14**	–7	**–1,130**	–1,144
Exchange rate differences	**–1**	2			**–1**	2
Other changes	**–21**	17	**–1**		**–22**	17
Closing balance	**3,179**	3,113	**84**	92	**3,263**	3,205

ING Insurance has an outstanding balance of EUR 36 million as at 31 December 2012 (2011: EUR 35 million) relating to environmental and asbestos claims. In establishing the liability for unpaid claims and claims adjustment expenses related to asbestos related illness and toxic waste clean-up, management of ING Insurance considers facts currently known including current legislation and coverage litigation. Liabilities are recognised for IBNR claims and for known claims (including the costs of related litigation) when sufficient information has been obtained to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, liabilities are reviewed and updated regularly.

Where discounting is used in the calculation of the claims provision the rate is, based on weighted averages, within the range of 3.0% to 4.0% (2011: 3.0% to 4.0%).

Notes to the consolidated annual accounts of ING Insurance continued

Changes in investment contracts liabilities

	2012	2011
Opening balance	13,198	11,974
Changes in the composition of the group	–187	
	13,011	11,974
Current year liabilities	8,865	7,867
Prior year provisions:		
– payments to contract holders	–9,471	–7,709
– interest accrual	30	39
– valuation changes investments	129	–55
	–9,312	–7,725
Exchange rate differences	–176	380
Other changes	240	702
Closing balance	12,628	13,198

Gross claims development table

								Underwriting year		
	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Estimate of cumulative claims:										
At the end of underwriting year	1,040	1,109	1,100	1,020	1,078	1,200	1,169	1,218	1,232	
1 year later	913	1,041	1,057	923	1,060	1,213	1,198	1,245		
2 years later	789	940	978	859	1,030	1,153	1,159			
3 years later	773	911	962	856	1,029	1,146				
4 years later	777	896	969	836	1,020					
5 years later	770	889	954	831						
6 years later	763	870	959							
7 years later	757	870								
8 years later	751									
	751	870	959	831	1,020	1,146	1,159	1,245	1,232	9,213
Cumulative payments	–695	–751	–812	–647	–780	–827	–813	–720	–464	–6,509
	56	119	147	184	240	319	346	525	768	2,704
Effect of discounting	–7	–16	–18	–28	–34	–38	–48	–57	–32	–278
Liability recognised	49	103	129	156	206	281	298	468	736	2,426
Liability relating to underwriting years prior to 2004										837
Total amount recognised in the balance sheet										3,263

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

Notes to the consolidated annual accounts of ING Insurance continued

17 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial liabilities at fair value through profit and loss

	2012	2011
Non-trading derivatives	3,258	4,404

Non-trading derivatives by type

	2012	2011
Derivatives used in:		
– fair value hedges	203	264
– cash flow hedges	255	302
– hedges of net investments in foreign operations		12
Other non-trading derivatives	2,800	3,826
	3,258	4,404

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

18 OTHER LIABILITIES

Other liabilities by type

	2012	2011
Deferred tax liabilities	1,627	1,911
Income tax payable	127	53
Post-employment benefits	77	74
Pension benefits	258	279
Other staff-related liabilities	254	502
Other taxation and social security contributions	101	148
Deposits from reinsurers	869	1,015
Accrued interest	593	812
Costs payable	702	1,079
Amounts payable to brokers	50	72
Amounts payable to policyholders	2,139	2,171
Reorganisation provision	275	79
Other provisions	84	134
Amounts to be settled	2,687	3,874
Other	1,346	1,300
	11,189	13,503

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

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

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

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

Notes to the consolidated annual accounts of ING Insurance continued

Changes in deferred tax

	Net liability 2011	Change through equity	Change through net result	Changes in the composition of the group	Exchange rate differences	Other	Net liability 2012
Investments	1,736	1,978	–79	–489	–50	9	3,105
Real estate investments	378		–23			–8	347
Financial assets and liabilities at fair value through profit and loss	–20			1	–1	–6	–26
Deferred acquisition costs and VOBA	2,731	–147	166	–1,301	–98		1,351
Depreciation			–4	1		–1	–4
Insurance provisions	–3,350	–803	–293	407	52	1	–3,986
Cash flow hedges	955	235		–6		–1	1,183
Pension and post-employment benefits	86		–9	22	8	15	122
Other provisions	–161		317	–112	16	–22	38
Receivables	–31		1	–8	–1		–39
Loans and advances to customers	14		–2	3	1		16
Unused tax losses carried forward	–674		–48	92	4	7	–619
Other	61	9	–135	113	17	–2	63
	1,725	1,272	–109	–1,277	–52	–8	1,551
Comprising:							
– deferred tax liabilities	1,911						1,627
– deferred tax assets	–186						–76
	1,725						1,551

In 2012, 'Changes in the composition of the group' relates mainly to the classification of ING's Insurance and investment management businesses in Asia as a disposal group held for sale. Reference is made to Note 10 'Assets and liabilities held for sale'.

Changes in deferred tax

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

Notes to the consolidated annual accounts of ING Insurance continued

Deferred tax in connection with unused tax losses carried forward		
	2012	2011
Total unused tax losses carried forward	**4,522**	5,919
Unused tax losses carried forward not recognised as a deferred tax asset	**–2,231**	–3,647
Unused tax losses carried forward recognised as a deferred tax asset	**2,291**	2,272
Average tax rate	**27.0%**	29.7%
Deferred tax asset	**619**	674

The following tax losses carried forward 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	
	2012	2011	**2012**	2011
Within 1 year	**19**	11	**15**	40
More than 1 year but less than 5 years	**132**	229	**166**	404
More than 5 years but less than 10 years	**111**	507	**1,882**	1,075
More than 10 years but less than 20 years	**1,969**	2,885		192
Unlimited		15	**228**	561
	2,231	3,647	**2,291**	2,272

Deferred tax assets are recognised for temporary deductible differences, for tax losses carried forward 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 to which applies is EUR 129 million (2011: EUR 209 million).

This can be specified by jurisdiction as follows:

Breakdown by jurisdiction		
	2012	2011
United States		120
Belgium	**73**	70
Spain	**56**	19
	129	209

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 at 31 December 2012 and 31 December 2011, ING Insurance had no significant temporary differences associated with the parent company's investments in subsidiaries, branches and associates and interest in joint ventures as any economic benefit from those investments will not be taxable at parent company level.

Sections 382 and 383 of the U.S. Internal Revenue Code, as amended, operate as anti-abuse rules, the general purpose is to prevent trafficking in tax losses and credits, but the sections can apply without regard to whether a 'loss trafficking' transaction occurs or is intended. These rules are triggered when an 'ownership change' —generally defined as when the ownership of a company, or its parent, changes by more than 50% (measured by value) on a cumulative basis in any three year period—occurs. If triggered, the amount of the taxable income for any post-change year which may be offset by a pre-change loss is subject to an annual limitation. As at 31 December 2012, ING Insurance believes that ING Insurance's subsidiaries in the US did not have an 'ownership change' for purposes of Sections 382 and 383. However, this assessment is subject to uncertainties and is based on various assumptions. Future increases of capital or other changes in ownership may adversely affect our cumulative ownership, and could trigger an 'ownership change', which could limit the ability of these subsidiaries to use tax attributes, and could correspondingly decrease the value of these attributes.

Notes to the consolidated annual accounts of ING Insurance continued

Changes in reorganisation provisions

	Reorganisations	
	2012	2011
Opening balance	**79**	101
Changes in the composition of the group		–2
Additions	**364**	136
Releases	**–7**	–6
Charges	**–148**	–144
Exchange rate differences		–1
Other changes	**–13**	–5
Closing balance	**275**	79

As at 31 December 2012, the provision for reorganisation includes a number of reorganisation initiatives. Further information on the most significant reorganisations included below.

Additions to the reorganisation provision are mainly related to the restructuring of Insurance EurAsia.

A reorganisation provision of EUR 172 million is recognised in the segment Insurance Benelux and EUR 27 million is recognised in the Corporate line Insurance following the initiative to accelerate the transformation programme in preparation for the stand-alone future of Insurance EurAsia. In response to changing customer preferences and market dynamics, Insurance EurAsia is undertaking actions to increase its agility in the current operating environment by delayering the support staff structure in the Netherlands and sharpen the strategic focus of its business units, in particular Nationale-Nederlanden (NN). These measures are expected to result in a reduction of the workforce of around 1,350 FTE’s over a period of two years.

An additional reorganisation provision of EUR 55 million is recognised in the segment Insurance Benelux for the strategic initiatives announced in 2011. The main goals of the strategic initiative are to regain customer trust, diversify distribution channels, implement a new product range and increase efficiency. In 2012, the reorganisation measures resulted in a reduction of the workforce of 470 FTE’s.

Each of these initiatives will be implemented over a period of several years and the estimate of the reorganisation provisions is inherently uncertain. However, the provision at balance sheet date represent the best estimate of the expected redundancy costs and are expected to be sufficient to cover these costs.

Changes in other provisions

	Litigation		Other		Total	
	2012	2011	**2012**	2011	**2012**	2011
Opening balance	**41**	54	**93**	90	**134**	144
Changes in the composition of the group	**–3**	–2	**–8**	–10	**–11**	–12
Additions	**9**	7	**14**	27	**23**	34
Releases	**–14**	–7	**–32**	–3	**–46**	–10
Charges	**–3**	–8	**–14**	–34	**–17**	–42
Exchange rate differences	**–2**	–2	**–2**	–7	**–4**	–9
Other changes	**–7**	–1	**12**	30	**5**	29
Closing balance	**21**	41	**63**	93	**84**	134

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

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

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

Notes to the consolidated annual accounts of ING Insurance continued

Pension and post-employment benefits

Summary of pension benefits

					Pension benefits
	2012	2011	2010	2009	2008
Defined benefit obligation	**7,538**	5,803	5,758	4,975	5,223
Fair value of plan assets	**7,542**	6,644	5,813	5,102	4,697
	–4	–841	–55	–127	526
Unrecognised past service costs		–2	–3	–3	–5
Unrecognised actuarial gains/(losses)	**–1,214**	–129	–734	–635	–955
Net liability (asset) recognised in the balance sheet	**–1,218**	–972	–792	–765	–434
Presented as:					
– Other liabilities	**258**	279	400	348	236
– Other assets	**–1,476**	–1,251	–1,192	–1,113	–670
	–1,218	–972	–792	–765	–434

Summary of post-employment benefits

					Post-employment benefits
	2012	2011	2010	2009	2008
Defined benefit obligation	**75**	69	69	69	112
Unrecognised past service costs	**1**	2	2	7	1
Unrecognised actuarial gains/(losses)	**1**	3	3	10	7
	77	74	74	86	120

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

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

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

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

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

Actuarial gains and losses related to pension and post-employment benefits for the year ended 31 December 2012 include EUR 600 million (2011: EUR 480 million; 2010: EUR 410 million; 2009: EUR 104 million; 2008: EUR –969 million) experience gain adjustments for assets and EUR –14 million (2011: EUR 53 million; 2010: EUR 37 million; 2009: EUR 135 million; 2008: EUR 3 million) experience gain adjustments for liabilities.

Notes to the consolidated annual accounts of ING Insurance continued

Changes in defined benefit obligation

	Pension benefits		Post-employment benefit other than pension	
	2012	2011	**2012**	2011
Opening balance	**5,803**	5,758	**69**	69
Current service cost	**102**	105	**6**	5
Interest cost	**299**	303	**3**	3
Benefits paid	**–232**	–250	**–4**	–4
Actuarial gains and losses	**1,814**	–99	**2**	–4
Past service cost		1		
Changes in the composition of the group and other changes	**–80**	–3		–1
Effect of curtailment or settlement	**–133**	–64		
Exchange rate differences	**–35**	52	**–1**	1
Closing balance	**7,538**	5,803	**75**	69
Relating to:				
– funded plans	**7,492**	5,757		
– unfunded plans	**46**	46	**75**	69
	7,538	5,803	**75**	69

Actuarial gains and losses in 2012 include mainly the impact of the change in the discount rate from 5.3% to 3.8% as explained below.

In 2012, ING finalised its agreement on a new pension scheme for employees in the Netherlands, following acceptance by both the unions and their members. The new pension scheme will take effect on 1 January 2014 and will apply to the approximately 19,000 staff members in the Netherlands of ING Bank and WestlandUtrecht Bank as well as to the approximately 8,000 staff members in the Netherlands of Insurance/Investment Management (IM). Under the agreement, two new separate pension funds will be created, one for banking and one for Insurance/IM. The new scheme qualifies as a defined contribution under IFRS and will replace the existing defined benefit scheme in the Netherlands.

The key elements of the new scheme are:

- ING contributes a yearly pre-defined premium to the funds. The employee contribution to the new scheme will gradually increase to one-third of the base pension premium;
- The minimum salary level at which pensions are provided will be lowered to EUR 15,000;
- Pension benefit will be based on average wage over period of employment with a 2% annual accrual rate;
- The pension funds, not ING, will bear responsibility for funding adequacy; ING Bank and Insurance/IM to pay an additional risk premium;
- Responsibility for inflation indexation will move to the new funds; and
- Standard retirement age will be raised to 67.

At the start of the new defined contribution plan on 1 January 2014, the current defined benefit plan will stop accruing new pension benefits. Accruals built up under the defined benefit plan up to that date will remain valid. The change to the new pension scheme represents a curtailment under IFRS and has resulted in a release of provisions previously taken by ING to cover estimated future liabilities in the existing defined benefit plan that are now no longer required. This release amounts to a one-off after tax gain of EUR 87 million (EUR 115 million before tax). The curtailment is included in the line Staff expenses in 2012. This curtailment relates to the current defined benefit plan in The Netherlands, which represents approximately 75% of the above defined benefit obligation.

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

The estimated unrecognised past service cost and unrecognised actuarial gains and losses for the defined benefit plans will be deducted from Shareholder's equity as at 1 January 2013. Reference is made to 'Amendments to IAS 19 Employee Benefits' in the section 'Upcoming changes in IFRS-EU in 2013' on page 24.

Notes to the consolidated annual accounts of ING Insurance continued

Changes in fair value of plan assets

	Pension benefits	
	2012	2011
Opening balance	**6,644**	5,813
Expected return on plan assets	**309**	308
Employer's contribution	**236**	243
Participants contributions	**9**	1
Benefits paid	**–230**	–230
Actuarial gains and losses	**624**	480
Changes in the composition of the group and other changes	**–32**	–2
Exchange rate differences	**–18**	31
Closing balance	**7,542**	6,644

The actual return on the plan assets amounts to EUR 933 million (2011: EUR 788 million).

No plan assets are expected to be returned to ING Insurance during 2013.

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	
	2013	**2012**	2011	**2012**	2011
Equity securities	**34**	**26**	27	**6.0**	6.9
Debt securities	**51**	**64**	60	**2.8**	3.8
Other	**15**	**10**	13	**4.3**	5.2
	100	**100**	100	**4.2**	4.9

There were no ING Groep N.V. ordinary shares as part of 'Equity securities' as at 31 December 2012 and 2011. Debt securities include investments in ING Groep N.V. of EUR 15 million (0.20% of total plan assets) as at 31 December 2012 (2011: EUR 14 million, 0.20% of total plan assets). In 2012 and 2011 no Real estate occupied by ING Insurance was included in Other.

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

Notes to the consolidated annual accounts of ING Insurance continued

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

	Pension benefits		Post-employment benefits other than pensions	
	2012	2011	**2012**	2011
Discount rates	**3.80**	5.30	**2.30**	4.10
Mortality rates	**0.80**	1.00	**0.80**	1.00
Expected rates of salary increases (excluding promotion increases)	**2.50**	2.50	**2.00**	2.00
Medical cost trend rates				6.10
Indexation	**1.90**	1.80	**2.00**	2.00

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

The discount rate is the weighted average of the discount rates that are applied in different regions where the Group has defined benefit pension plans. The discount rate is based on a methodology that uses market yields on high quality corporate bonds of the specific regions with durations matching the pension liabilities as key input. Market yields of high quality corporate bonds reflect the yield on corporate bonds with an AA rating for durations where such yields are available. An extrapolation is applied in order to extrapolate the yield to the longer durations for which no AA-rated corporate bonds are available. As a result of the limited availability of long-duration AA-rated corporate bonds, extrapolation is an important element of the determination of the discount rate. The extrapolation was further refined for the eurozone in 2012. The discount rate decreased from 5.3% in 2011 to 3.8% in 2012. This decrease reflects the decrease in market interest rates, the narrowing of credit spreads and the above refinement of the extrapolation. The decrease in the discount rate resulted in an increase of the defined benefit obligation of approximately EUR 2 billion, which includes EUR –0.5 billion as a result of the above refinement of the extrapolation; this refinement of the extrapolation is part of the 'Actuarial gains and losses' and did not impact Shareholder's equity, Net result and/or Other comprehensive income. As at 31 December 2012 the methodology remained to be based on AA-rated corporate bond yields. Discussions are ongoing, both in the industry and at the IASB, on whether the definition of 'high quality corporate bonds' for setting the discount rate for defined benefit pension liabilities should be broader than only AA-rated corporate bonds. ING Group will reconsider the methodology for setting the discount rate if and when appropriate.

An increase of 1% in the assumed medical cost trend rate for each future year would have resulted in an additional accumulated defined benefit obligation of EUR 1 million as at 31 December 2012 (2011: nil), but no increase in the charge for the year 2012 (2011: no increase). A decrease of 1% in the medical cost trend rate for each future year would have resulted in lower defined benefit obligation of EUR 1 million as at 31 December 2012 (2011: nil) but no decrease in the charge for the year 2012 (2011: no decrease).

At 31 December 2012, the actuarial assumption for future indexation for inflation is 1.8% (31 December 2011: 1.8%). This percentage is mainly based on the expected inflation and the best estimate assumption for future indexation in the pension plan in the Netherlands. The best estimate assumption for future indexation reflects the uncertain circumstances and the impact thereof on the probability of granting indexation in the short-term future.

Expected cash flows
For 2013, the expected contributions to pension plans are EUR 153 million.

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

Benefit payments

	Pension benefits	Post-employment benefits other than pensions
	2012	**2012**
2013	**231**	**4**
2014	**228**	**3**
2015	**234**	**3**
2016	**244**	**2**
2017	**255**	**2**
Years 2018 – 2022	**1,459**	**9**

Notes to the consolidated annual accounts of ING Insurance continued

19 ASSETS BY CONTRACTUAL MATURITY

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

Assets by contractual maturity

2012	Less than 1 month [1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Assets							
Cash and cash equivalents	5,389						5,389
Financial assets at fair value through profit and loss:							
– trading assets				4		582	586
– investments for risk of policyholders [2]						98,765	98,765
– non-trading derivatives	129	120	214	1,430	3,214		5,107
– designated as at fair value through profit and loss		13	34	242	605	1,106	2,000
Available-for-sale investments	682	1,081	8,137	20,931	72,206	16,268	119,305
Loans and advances to customers	439	157	1,633	2,370	19,282	1,942	25,823
Reinsurance contracts	19	49	281	1,277	1,992	1,672	5,290
Intangible assets	2	5	37	159	44	771	1,018
Deferred acquisition costs	19	18	77	158	316	3,961	4,549
Assets held for sale [3]		5,553				56,138	61,691
Other assets	1,991	577	1,186	2,341	1,418	332	7,845
Remaining assets (for which maturities are not applicable) [4]						2,495	2,495
Total assets	8,670	7,573	11,599	28,912	99,077	184,032	339,863

(1) Includes assets on demand.
(2) Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of ING Insurance.
(3) Assets held for sale consist of the assets of the disposal groups classified as held for sale as disclosed in Note 10 'Assets and liabilities held for sale'. For these assets and liabilities, the underlying contractual maturities are no longer relevant to ING. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in 'maturity not applicable'.
(4) Included in remaining assets for which 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

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

(1) Includes assets on demand.
(2) Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of ING Insurance.
(3) Included in remaining assets for which maturities are not applicable are property and equipment, real estate investments and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Notes to the consolidated annual accounts of ING Insurance continued

20 LIABILITIES BY MATURITY

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

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

Liabilities by maturity

2012	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjust-ment (1)	Total
Liabilities								
Subordinated loans					476	2,438	33	2,947
Debt securities in issue	1		799		1,116		–6	1,910
Other borrowed funds	3,476	32	1,539	969	1,426			7,442
Financial liabilities at fair value through profit and loss:								
– non-trading derivatives	292	96	313	1,289	751	1,145	–628	3,258
Financial liabilities	3,769	128	2,651	2,258	3,769	3,583	–601	15,557
Insurance and investment contracts	1,646	1,951	9,156	36,050	79,065	102,082		229,950
Liabilities held for sale (2)		4,656				50,995		55,651
Other liabilities	1,829	328	2,777	3,352	2,408	495		11,189
Non-financial liabilities	3,475	6,935	11,933	39,402	81,473	153,572	0	296,790
Total liabilities	7,244	7,063	14,584	41,660	85,242	157,155	–601	312,347
Coupon interest due on financial liabilities	10	21	42	279	578			930

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

(2) Liabilities held for sale consist of the liabilities of the disposal groups classified as held for sale as disclosed in Note 10 'Assets and liabilities held for sale'. For these assets and liabilities, the underlying contractual maturities are no longer relevant to ING. For businesses for which a binding sale agreement exists, all related assets and liabilities held for sale are classified in accordance with the agreed or expected closing date. For other businesses, for which no sale agreement exists, assets and liabilities held for sale are included in 'maturity not applicable'.

Liabilities by maturity

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

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

21 TRANSFER OF FINANCIAL ASSETS

The majority of ING Insurance's financial assets, that have been transferred, but do not qualify for derecognition are debt instruments used in Securities Lending or Sale and Repurchase transactions. There are no significant assets and liabilities recognised as a result of continuing involvement in transferred assets.

Transfer of financial assets

	Securities lending	
2012	**Equity**	**Debt**
Transferred assets at carrying amount		
Available-for-sale investments		**2,590**

Transfer of financial assets

	Securities lending	
2011	Equity	Debt
Transferred assets at carrying amount		
Available-for-sale investments		8,745

There were no Sale and repurchase transactions in 2012 and 2011.

The tables above does not include assets relating to the Illiquid Assets Back-up Facility that ING Insurance agreed with the Dutch State. Reference is made to Note 31 ‘Related parties’ for detailed disclosure on the facility.

22 DERIVATIVES AND HEDGE ACCOUNTING

Use of derivatives and hedge accounting

As described in the ‘Risk management’ section, ING Insurance uses derivatives (principally interest rate swaps and cross currency interest rate swaps) for economic hedging purposes in the management of its asset and liability portfolios and structural positions. The objective of economic hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure. The impact of ING Insurance’s hedging activities is to optimise the overall cost to ING Insurance of accessing debt capital markets and to mitigate the market risk which would otherwise arise from structural imbalances in the duration and other profiles of its assets and liabilities. In addition, hedging activities are undertaken to hedge against the interest rate risk in the mortgage offer period in relation to retail mortgages and to lock in the interest margin in relation to interest bearing assets and the related funding.

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

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

With respect to exchange rate and interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; however they do not represent amounts at risk. ING Insurance uses credit derivatives to manage its exposure to credit risk, including total return swaps and credit default swaps, to sell or buy protection for credit risk exposures in the loan, investment and trading portfolios. Hedge accounting is not applied in relation to credit derivatives.

Fair value hedge accounting

ING Insurance’s fair value hedges principally consist of interest rate swaps and cross-currency interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates.

Gains and losses on derivatives designated under fair value hedge accounting are recognised in the profit and loss account. The effective portion of the fair value change on the hedged item is also recognised in the profit and loss account. As a result, only the net accounting ineffectiveness has an impact on the net result.

Notes to the consolidated annual accounts of ING Insurance continued

For the year ended 31 December 2012, ING Insurance recognised EUR 18 million (2011: EUR –73 million) of fair value changes on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was offset by EUR –26 million (2011: EUR 58 million) fair value changes recognised on hedged items. This resulted in EUR –8 million (2011: EUR –15 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2012, the fair values of outstanding derivatives designated under fair value hedge accounting was EUR –203 million (2011: EUR –264 million), presented in the balance sheet as EUR 203 million (2011: EUR 264 million) negative fair values under liabilities.

Cash flow hedge accounting
ING Insurance's cash flow hedges principally consist of (forward) interest rate swaps and cross-currency interest rate swaps that are used to protect against its exposure to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows 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 shareholder's equity. Interest cash flows on these derivatives are recognised in the profit and loss account in interest result consistent with the manner in which the forecast cash flows affect net result. The gains and losses on ineffective portions of such derivatives are recognised immediately in the profit and loss account.

For the year ended 31 December 2012, ING Insurance recognised EUR 665 million (2011: EUR 1,316 million) in equity as effective fair value changes on derivatives under cash flow hedge accounting. The balance of the cash flow hedge reserve in equity as at 31 December 2012 is EUR 4,736 million (2011: EUR 3,835 million) gross and EUR 3,548 million (2011: EUR 2,883 million) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value of the underlying derivatives and will be reflected in the profit and loss account under Interest income/expense over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities up to 45 years with the largest concentrations in the range of 1 year to 9 years. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in a loss of EUR 11 million (2011: EUR 10 million loss) which was recognised in the profit and loss account.

As at 31 December 2012, the fair values of outstanding derivatives designated under cash flow hedge accounting was EUR 2,195 million (2011: EUR 2,270 million), presented in the balance sheet as EUR 2,450 million (2011: EUR 2,572 million) positive fair values under assets and EUR 255 million (2011: EUR 302 million) negative fair values under liabilities.

As at 31 December 2012 and 31 December 2011, 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 307 million (2011: EUR 336 million) and EUR 107 million (2011: EUR 138 million), respectively, relating to derivatives used in cash flow hedges.

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

Gains and losses on the effective portions of derivatives designated under net investment hedge accounting are recognised in Shareholder's 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 2012, the fair values of outstanding derivatives designated under net investment hedge accounting was EUR 2 million (2011: EUR –7 million), presented in the balance sheet as EUR 2 million (2011: EUR 5 million) positive fair values under assets and nil (2011: EUR 12 million) negative fair values under liabilities.

As at 31 December 2012, the fair values of outstanding non-derivatives designated under net investment hedge accounting was EUR –1,416 million (2011: EUR –1,515 million), presented in the balance sheet as negative fair values under liabilities. Non-derivatives designated as hedging instruments consist mainly of loan agreements.

There was no accounting ineffectiveness recognised in the profit and loss account for the year ended 31 December 2012 and 2011 on derivatives and non-derivatives designated under net investment hedge accounting.

23 DISCONTINUED OPERATIONS

General

ING's Insurance and investment management businesses in Asia and the reinsured Japan SPVA businesses in corporate reinsurance ('Asia') are classified as discontinued operations.

In 2011, ING's pension, life insurance and investment management activities in Latin America ('Latin America') were classified as discontinued operations. The divestment of Latin America was completed in December 2011.

Total net result from discontinued operations

	2012	2011	2010
Asia	**548**	570	198
Latin America		114	216
Net result from discontinued operations	**548**	684	414
Net result from classification as discontinued operations Asia	**–394**		
Net result from disposal of discontinued operations [1]	**752**	995	
Total net result from discontinued operations	**906**	1,679	414

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

In 2012 and 2011, Net result from discontinued operations includes the net result (after tax) of the businesses classified as discontinued operations and is presented separately in the profit and loss account. Result from discontinued operations was as follows:

Result from discontinued operations 2012 – Asia (2011 and 2010: Asia and Latin America)

	2012	2011	2010
Total income	**8,388**	10,086	9,726
Total expenses	**7,632**	9,252	9,178
Result before tax from discontinued operations	**756**	834	548
Tax	**208**	150	134
Net result from discontinued operations	**548**	684	414

In 2012, Net result from classification as discontinued operations Asia includes goodwill write-offs of EUR 200 million in ING Life Korea, EUR 180 million in Investment Management Korea and EUR 15 million in ING Vysya Life Insurance. Reference is made to Note 10 'Assets and liabilities held for sale'.

In 2012, Net result from disposal of discontinued operations includes the divestment gain on the sale of the Insurance businesses in Malaysia. In 2011, Net result from disposal of discontinued operations includes the divestment gain on the sale of Latin America. Reference is made to Note 28 'Companies acquired and companies disposed'.

The net cash flow from discontinued operations was as follows:

Net cash flow from discontinued operations 2012 – Asia (2011 and 2010: Asia and Latin America)

	2012	2011	2010
Operating cash flow	**3,181**	2,038	1,239
Investing cash flow	**–3,022**	–2,156	–2,138
Financing cash flow	**–142**	–200	1,406
Net cash flow	**17**	–318	507

Sales proceeds in cash in 2012 of EUR 1,332 million (2011: EUR 2,572 million) is presented in the consolidated statement of cash flows under 'Net cash flow from investment activities - Disposals and redemptions: group companies' and is not included in the table above.

Notes to the consolidated annual accounts of ING Insurance continued

ING's Insurance and investment management businesses in Asia and the reinsured Japan SPVA businesses in corporate reinsurance were previously included respectively in the segments Insurance Asia/Pacific, ING Investment Management and in the Corporate Line Insurance before they were classified as discontinued operations and held for sale. The segment Insurance Asia/Pacific ceased to exist, following the classification as discontinued operations, as all activities previously included in this segment are now discontinued operations.

24 ASSETS NOT FREELY DISPOSABLE

The assets not freely disposable relate primarily to investments of EUR 238 million (2011: EUR 251 million) provided as guarantees for certain contingent liabilities. There are no material terms and conditions relating to the collateral represented by such guarantees.

Assets relating to securities lending as well as sale and repurchase transactions are disclosed in Note 21 'Transfer of financial assets'.

25 CONTINGENT LIABILITIES AND COMMITMENTS

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

Contingent liabilities and commitments

2012	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Commitments	556	229	134	188	68	69	1,244
Guarantees	221			6	10	1	238
	777	229	134	194	78	70	1,482

Contingent liabilities and commitments

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

ING Insurance has issued certain guarantees, which are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows. In addition to the items included in contingent liabilities, ING Insurance has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes which apply in different countries.

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

Future rental commitments for operating lease contracts

	2012
2013	35
2014	26
2015	22
2016	20
2017	17
years after 2017	32

26 INVESTMENT FUNDS

ING Insurance as fund manager and investor

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

ING Insurance as fund manager

ING Insurance acts as fund manager for several funds. Fees related to these management activities are charged on an arm's-length basis. In general, these funds are generally not included in the consolidated financial statement of ING Insurance. These funds are included in the consolidated financial statements of the ING Insurance if and when control exists, taking into account both ING Insurance's financial interests for own risk and its role as investment manager.

27 PRINCIPAL SUBSIDIARIES
The principal subsidiaries of ING Verzekeringen N.V. and their statutory place of incorporation or primary place of business are as follows:

Nationale-Nederlanden Levensverzekering Maatschappij N.V.	The Netherlands
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	The Netherlands
ING Insurance Eurasia N.V.	The Netherlands
Parcom Capital B.V.	The Netherlands
Nationale-Nederlanden Services N.V.	The Netherlands
Movir N.V.	The Netherlands
ING Re (Netherlands) N.V..	The Netherlands
ING Fund Management B.V.	The Netherlands
REI Fund Netherlands B.V.	The Netherlands
ING Životná poist'ovna, a.s.	Slovakia
ING Uslugi Finansowe S.A.	Poland
ING Powszechne Towarzystwo Emerytalne S.A.	Poland
ING Asigurari de Viata S.A.	Romania
ING Greek Life Insurance Company S.A.	Greece
ING Biztosító Zártkörûen Mûködõ Részvénytársaság	Hungary
Nationale-Nederlanden Vida, Compañia de Seguros y Reaseguros S.A.	Spain
Nationale-Nederlanden Generales, Compañia de Seguros y Reaseguros S.A.	Spain
ING U.S., Inc.	United States of America
ING International Nominee 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 Life Insurance Company Limited	Japan
ING Life Insurance Korea, Ltd	South Korea
ING Life Insurance Company (Bermuda) Limited	Hong Kong

28 COMPANIES ACQUIRED AND COMPANIES DISPOSED
Acquisitions effective in 2012
There were no significant acquisitions in 2012.

Disposals announced in 2013
ING Vysya Life Insurance
In January 2013, ING Insurance announced it has agreed to sell its full interest in ING Vysya Life Insurance Company Ltd. to its joint venture partner Exide Industries Ltd. ING's exit from the Indian life insurance joint venture is part of the previously announced intended divestment of ING's Insurance and investment management businesses in Asia. The transaction is expected to result in a loss and therefore, the related goodwill has been reduced by EUR 15 million in the fourth quarter of 2012. Subject to regulatory approvals, the transaction is expected to close in the first half of 2013.

Disposals effective in 2012
Insurance businesses in Malaysia
In October 2012, ING announced that it reached an agreement with AIA Group Ltd. on the sale of ING's insurance operations in Malaysia, which include its life insurance business, its market-leading employee benefits business and its 60% stake in ING Public Takaful Ehsan Berhad. ING received a total cash consideration of EUR 1.3 billion. In December 2012, ING announced that it has completed the sale with a net transaction gain of EUR 745 million after tax.

Notes to the consolidated annual accounts of ING Insurance continued

Disposals announced in 2012 but not closed in 2012
ING’s Insurance and investment management businesses in Asia
In 2012, ING’s Insurance and investment management businesses in Asia (‘Asia’) were classified as assets held for sale and discontinued operations. During the year, various individual transactions were agreed. The specifics of these transactions are included below. The Asian Insurance and Investment Management businesses and the reinsured Japan SPVA businesses in Corporate Reinsurance were previously included respectively in the segments Insurance Asia/Pacific and ING Investment Management and in the Corporate Line Insurance before they were classified as discontinued operations. Reference is made to Note 10 ‘Assets and liabilities held for sale’ and Note 23 ‘Discontinued operations’.

ING’s investment management business in Thailand
In November 2012 ING announced that it has reached an agreement to sell its investment management business in Thailand to UOB Asset Management Ltd. Under the terms agreed, ING will receive a total cash consideration of EUR 10 million for the investment management business in Thailand. The transaction is subject to regulatory approvals and is expected to close in the first half of 2013.

Insurance in Hong Kong, Macau, Thailand
In October 2012, ING announced that it has reached an agreement to sell its life insurance, general insurance, pension and financial planning units in Hong Kong and Macau, and its life insurance operation in Thailand to Pacific Century Group for a combined consideration of USD 2.1 billion (approximately EUR 1.6 billion) in cash. The transaction closed on 28 February 2013. A net gain of approximately EUR 950 million will be recognised in 2013. ING Investment Management's funds management businesses in Hong Kong and Thailand are outside the scope of this transaction.

China Merchants Fund
In October 2012, ING announced that it has reached an agreement for the sale of its 33.3% stake in China Merchants Fund, an investment management joint venture, to its joint venture partners China Merchants Bank Co., Ltd., and China Merchants Securities Co., Ltd. Under the terms agreed, ING will receive a total cash consideration of approximately EUR 98 million. At closing of the transaction, ING expects the transaction to realise a net gain of approximately EUR 64 million which will be recognised on closing of the transaction. This transaction is subject to regulatory approvals and is expected to close in the second quarter of 2013.

ING Insurance's Malaysian investment management business
In December 2012, ING Insurance announced that it has reached an agreement to sell its 70%-stake in ING Funds Berhad (IFB), ING's investment management business in Malaysia, to Kenanga Investors Berhad (Kenanga Investors), a wholly owned subsidiary of K & N Kenanga Holdings Berhad (Kenanga). Tab Inter-Asia Services Sdn Berhad has also agreed to sell its 30% stake in IFB to Kenanga Investors. This transaction will not have a material impact on ING's results and is subject to regulatory approvals. The transaction does not impact ING's other businesses in the region and is expected to close in the first quarter of 2013.

Notes to the consolidated annual accounts of ING Insurance continued

Disposals effective in 2012

Most significant companies disposed in 2012	ING Insurance Malaysia
Sales proceeds	
Cash proceeds	1,332
Sales proceeds	1,332
Assets	
Cash assets	86
Investments	3,293
Loans and advances to customers	539
Financial assets at fair value through profit and loss	224
Real estate investments	87
Miscellaneous other assets	899
Liabilities	
Insurance and investment contracts	3,964
Miscellaneous other liabilities	512
Net assets	652
% disposed	100%
Net assets disposed	652
Gain/loss on disposal (1)	745

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

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

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

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

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

Notes to the consolidated annual accounts of ING Insurance continued

The Latin American operations were previously included in the segments Insurance Latin America and ING Investment Management before they classified as discontinued operations. The segment Insurance Latin America has ceased to exist following this transaction as the majority of the assets and activities in this segment have been sold. The net result from discontinued operations was presented separately in the consolidated profit and loss account. Reference is made to Note 23 'Discontinued operations' for more detailed disclosures.

Most significant companies disposed in 2011

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

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

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

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

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

29 LEGAL PROCEEDINGS

ING Insurance companies are involved in litigation and arbitration proceedings in the Netherlands and in a number of foreign jurisdictions, including the United States, involving claims by and against them which arise in the ordinary course of their businesses, including in connection with their activities as insurers, lenders, employers, investors and taxpayers. In certain of such proceedings, very large or indeterminate amounts are sought, including punitive and other damages. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, the Company's management is of the opinion that neither it nor any of its subsidiaries is aware of any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have in the recent past had a significant effect on the financial position or profitability of the Company.

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

Proceedings in which ING is involved, include complaints and lawsuits concerning the performance of certain interest sensitive products that were sold by a former subsidiary of ING in Mexico. Proceedings also include lawsuits that have been filed by former employees of an Argentinean subsidiary, whose employment was terminated as a result of the Republic of Argentina's nationalisation of the pension fund system. Litigation has been filed by the purchaser of certain ING Mexican subsidiaries who claims that the financial condition of the subsidiaries was not accurately depicted. An administrator of an ERISA plan has filed a lawsuit seeking to represent a class of ERISA plan administrators claiming that an ING subsidiary has breached certain of its ERISA duties. The District Court has granted the Administrator's motion for class certification. These matters are being defended vigorously; however, at this time, ING is unable to assess their final outcome. Therefore at this moment it is not practicable to provide an estimate of the (potential) financial effect. An additional purported class litigation challenges the operation of the ING Americas Savings Plan and ESOP and the ING 401(k) Plan for ILIAC Agents. The District Court dismissed the case and plaintiffs appealed. The parties have reached an agreement on the terms of settlement of all claims in this case on a class-wide basis. The District Court must approve the settlement before it becomes effective. The current expectation is that the outcome will not have a significant impact on the Net result.

Since the end of 2006, unit-linked products (commonly referred to in Dutch as 'beleggingsverzekeringen') have received negative attention in the Dutch media, from the Dutch Parliament, the AFM and consumer protection organisations. Costs of unit-linked products sold in the past are perceived as too high and insurers are in general being accused of being less transparent in their offering of unit-linked products. The criticism on unit-linked products led to the introduction of compensation schemes by Dutch insurance companies that have offered unit-linked products. In 2008 ING's Dutch insurance subsidiaries reached an outline agreement with consumer protection organisations to offer compensation to their unit-linked policyholders where individual unit-linked policies have a cost charge in excess of an agreed maximum and to offer similar compensation for certain hybrid insurance products. At 31 December 2008 a provision was recognised for the costs of the settlement. The costs were valued at EUR 365 million. A full agreement on implementation was reached in 2010 with one of the two main consumer protection organisations while in June 2012 also the other main consumer protection organisation signed this agreement. In addition, ING's Dutch insurance subsidiaries announced additional (so-called 'flanking') measures that comply with the 'Best in Class' criteria as formulated on 24 November 2011 by the Dutch Minister of Finance. In December 2011 this resulted in an agreement on these measures with the two main consumer protection organisations. In 2012 almost all unit-linked policyholders were informed about compensation. The agreements with the consumer protection organisations are not binding for policyholders. Consequently, neither the implementation of the compensation schemes nor the additional measures prevent individual policyholders from initiating legal proceedings against ING's Dutch insurance subsidiaries. Policyholders have initiated and may continue to initiate legal proceedings claiming further damages. In early 2013 a new association named 'Vereniging Woekerpolis.nl' announced legal proceedings on behalf of policyholders against ING's Dutch life insurance subsidiaries and other Dutch life insurers. Because of the continuous public and political attention for the unit-linked issue in general and the uncertain outcome of pending and future legal proceedings, it is not feasible to predict or determine the ultimate financial consequences.

In January 2010, ING lodged an appeal with the General Court of the European Union against specific elements of the European Commission's decision regarding ING's restructuring plan. In its appeal, ING contested the way the Commission has calculated the amount of state aid ING received and the disproportionality of the price leadership restrictions specifically and the disproportionality of restructuring requirements in general. In July 2011, the appeal case was heard orally by the General Court of the European Union. On 2 March 2012, the General Court handed down its judgment in relation to ING Group's appeal and annulled part of the EC's state aid decision. Subsequently, the EC filed an appeal against the General Court's judgment before the Court of Justice of the European Union. In parallel, the EC adopted a decision on 11 May 2012 that re-approved the state aid granted to ING Group as compatible with the internal market on the basis of ING Group's 2009 Restructuring Plan. On the same date, the EC adopted an interim decision which opened an investigation concerning certain amendments and elements of the 2009 Restructuring Plan.

Notes to the consolidated annual accounts of ING Insurance continued

On 24 July 2012, ING announced that the Dutch State and ING were in dialogue with the European Commission on an amended and updated Restructuring Plan to be submitted to the European Commission. However, in order to safeguard its legal rights, ING filed an appeal with the General Court of the European Union against the European Commission's decision of 11 May 2012, which re-approved ING's Restructuring Plan that ING submitted in 2009.

On 19 November 2012, ING Group and the EC announced that the EC had approved amendments to the 2009 Restructuring Plan (the '2012 Amended Restructuring Plan') . With the approval, the Commission has closed its investigation as announced on 11 May 2012 and ING has withdrawn its appeal at the General Court of the European Union that it filed in July 2012. For principal legal reasons the European Commission will continue with its appeal against the General Court ruling of March 2012. However, the outcome of this Appeal will not affect the EC approval of the 2012 Amended Restructuring Plan.

In July 2011, the Dutch ING Pensioners' Collective Action Foundation (Stichting Collectieve Actie Pensioengerechtigden ING Nederland), together with two trade unions (FNV Bondgenoten and CNV Dienstenbond) and a number of individual pensioners, instituted legal proceedings against ING's decision not to provide funding for indexing pensions insured with Stichting Pensioenfonds ING (the Dutch ING Pension Fund) per 1 January 2011. This claim was rejected by the Court on 9 November 2012. An appeal was lodged against this Court decision. In July 2011, also the Interest Group ING General Managers' Pensions (Belangenvereniging ING-Directiepensioenen), together with a number of individual retired Dutch General Managers of ING, instituted legal proceedings against ING's decision not to provide funding for indexing Dutch General Managers' pensions per 1 January 2011. This claim was rejected by the Court on 22 October 2012. An appeal was lodged against this Court decision. It is not feasible to predict the ultimate outcome of these legal proceedings. The ultimate outcome of these proceedings may result in liabilities and provisions for such liabilities which are different from the amounts recognised. At this moment it is not practicable to provide an estimate of the (potential) financial effect of such proceedings.

In April 2012, Stichting Pensioenfonds ING (the Dutch ING Pension Fund) formally announced to institute arbitration against ING's decision not to provide funding for indexing pensions insured with the Dutch ING Pension Fund per 1 January 2012. Arbitrators awarded 40% of this claim. As a result ING Group agreed to pay EUR 68 million plus interest to the pension fund. The outcome of the arbitration is effected in the 2012 Annual Accounts.

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

30 JOINT VENTURES

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

Most significant joint ventures

2012	**Interest held (%)**	**Assets**	**Liabilities**	**Income**	**Expenses**
KB Life Insurance Company Ltd [1,2]	**49**	**2,164**	**1,997**	**710**	**695**
ING-BOB Life Insurance Company Ltd [2]	**50**	**495**	**417**	**135**	**130**
ING Vysya Life Insurance Company Ltd [1,2]	**26**	**487**	**462**	**119**	**117**
Total		**3,146**	**2,876**	**964**	**942**

(1) Accounted for as joint venture because of joint control.
(2) Assets and liabilities are presented as held for sale. Reference is made to Note 10 'Assets and liabilities held for sale'.

Most significant joint ventures

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

(1) Accounted for as joint venture because of joint control.

31 RELATED PARTIES

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

Transactions with associates

	Associates	
	2012	2011
Assets	**48**	47

In 2012 and 2011 there were no transactions with joint ventures.

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

	ING Groep N.V.		ING Bank N.V.	
	2012	2011	**2012**	2011
Assets			**4,942**	13,211
Liabilities	**3,749**	2,617	**294**	1,888
Guarantees in favour of			**221**	250
Income received			**68**	338
Expenses paid	**123**	60	**176**	542

Assets from ING Bank N.V. mainly include short term deposits and private loans. Liabilities to ING Groep N.V. mainly include long term funding.

In 2012 EUR 1.9 billion (2011: EUR 1.8 billion) ING Bank mortgages were sold through the ING Insurance intermediary sales agents.

As at 31 December 2012, ING Insurance and ING Bank have a liquidity facility in place under which ING Insurance can borrow up to EUR 1,250 million (USD 1,649 million) (2011: EUR 500 million, (USD 659 million)) from ING Bank. The terms of this facility are at arm's length.

ING Bank provides various letters of credit directly and indirectly to ING Insurance. At 31 December 2012 and 31 December 2011 none of these Letters of Credit have been drawn.

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

In addition to transactions with ING Groep N.V. and ING Bank N.V., ING Insurance has EUR 304 million Assets and nil liabilities outstanding with its direct parent ING Topholding N.V. These assets and liabilities relate to the settlement of tax balances through ING Topholding N.V. as head of the fiscal unity, of which ING Insurance is part.

The equity and debt securities which were lent or sold in repurchase transactions as disclosed in Note 21 'Transfer of financial assets', relate for EUR 2.0 billion (2011: EUR 8.0 billion) to positions with ING Bank and the borrowed debt securities not recognised in the balance sheet, also disclosed in Note 3 'Available-for-sale investments', relate only to positions with ING Bank.

Key management personnel compensation

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

In 2012 and 2011, 'Management Boards' includes the Management Boards of ING Verzekeringen N.V. ('Insurance'), ING Insurance Eurasia N.V. ('Insurance EurAsia') and the Board of ING U.S., Inc. ('ING U.S.').

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

Notes to the consolidated annual accounts of ING Insurance continued

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

Key management personnel compensation (Executive Board and Management Board)

2012 amounts in thousands of euros	Executive Board of ING Groep N.V.	Management Boards [1,2]	Total
Fixed compensation			
– Base salary	2,572	4,897	7,469
– Pension costs	311	893	1,204
– Termination benefits		1,873	1,873
Variable compensation			
– Upfront cash		2,279	2,279
– Upfront shares [3]		143	143
– Deferred cash		215	215
– Deferred shares [3]		2,578	2,578
– Other		339	339
Total compensation	2,883	13,217	16,100

(1) Excluding members that are also members of the Executive Board of ING Groep N.V.
(2) Next to compensation in his capacity as Board member, one of the new Management Board members received a 'buy-out' for the compensation that he would have received had he not resigned from his former employer. The buy-out consists of a cash amount and shares with a total value of EUR 500.000 at the grant date, which vests in the years 2012-2015.
(3) Amount is determined based on the fair market value of the shares and the related vesting conditions if any.

In 2012, the Dutch Government imposed an additional tax charge of 16% on the income in excess of EUR 150,000 of each employee who is subject to Dutch income tax. The tax is charged to the company and does not affect the remuneration of involved staff. The tax imposed on ING for relevant members of the Executive Board and Management Boards amounts to EUR 0.9 million, which is not included in the figures in the table above.

The 2012 Management Boards compensation includes the full year costs of the Board of ING U.S., Inc., whereas the 2011 Management Boards compensation includes only 2 months reflecting the creation of the Board of ING U.S. as of 3 November 2011.

Key management personnel compensation (Executive Board and Management Board)

2011 amounts in thousands of euros	Executive Board of ING Groep N.V.	Management Boards [1]	Total
Fixed compensation			
– Base salary	2,666	2,560	5,226
– Pension costs	315	481	796
Variable compensation			
– Upfront cash		643	643
– Upfront shares [2]		341	341
– Deferred cash		511	511
– Deferred shares [2]		945	945
Total compensation	2,981	5,481	8,462

(1) Excluding members that are also members of the Executive Board of ING Groep N.V.
(2) Amount is determined based on the fair market value of the shares and the related vesting conditions if any.

In 2012, the total remuneration costs amounted to EUR 2.9 million (2011: EUR 3.0 million) for members and former members of the Executive Board, of these remuneration costs EUR 1.4 million (2011: EUR 1.5 million) was allocated to ING Insurance. The total remuneration costs amounted EUR 0.8 million (2011: EUR 0.9 million) for members and former members of the Supervisory Board, of these remuneration costs EUR 0.4 million (2011: EUR 0.4 million) was allocated to ING Insurance.

Notes to the consolidated annual accounts of ING Insurance continued

Key management personnel compensation (Supervisory Board)		
amounts in thousands of euros	**2012**	2011
Base salary	**806**	857
Total compensation	**806**	857

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

Loans and advances to key management personnel						
	Amount outstanding 31 December		Average interest rate		Repayments	
amounts in thousands of euros	**2012**	2011	**2012**	2011	**2012**	2011
Executive Board members	**2,338**	1,968	**3.3%**	3.6%		
Members of the Management Boards Insurance, Insurance EurAsia and the Board of ING U.S.	**480**	2,314	**3.1%**	3.4%	**60**	388
Supervisory board members		282		8.6%	**282**	
Total	**2,818**	4,564			**342**	388

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

Transactions with the Dutch State

Illiquid Assets Back-up Facility

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

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

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

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

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

The valuation method of the 20% Alt-A securities in the IFRS balance sheet is not impacted by the IABF. The methodology used to determine the fair value for these assets in the balance sheet under IFRS-EU is disclosed in Note 32 ‘Fair value of financial assets and liabilities’.

Notes to the consolidated annual accounts of ING Insurance continued

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

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

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

In November 2012, ING Insurance restructured the IABF to effectively delink ING Insurance US from the IABF as another step towards a planned IPO of ING Insurance US. ING Insurance US transferred its Dutch State receivable of approximately EUR 1.1 billion (USD 1.4 billion) to ING Bank, and at the same time transferred legal title to 80% of the Alt-A portfolio to ING Bank. As at 31 December 2012, ING Insurance US therefore no longer has a receivable from the Dutch State in connection with the IABF. The securities are now held in an ING Bank custody account for the benefit of the Dutch State (the portion for which the investment risk has been transferred to the Dutch State). Following the restructuring, ING Insurance US continues to own 20% of the Alt-A portfolio (the portion for which the economic ownership and investment risk remains for the risk of ING), but will going forward have the right to sell these securities, subject to a right of first refusal granted to ING Bank. ING has committed to the Dutch State it will not sell these securities to non-ING parties without the prior written consent of the Dutch state. The provisions of the IABF are otherwise unchanged for ING Group.

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. By decision of 18 November 2009, the European Commission formally approved the Restructuring Plan. The main elements of the Restructuring Plan as announced on 26 October 2009 are as follows:

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

ING announced in November 2012 that, together with the Dutch State, it had submitted significant amendments to the 2009 Restructuring Plan to the European Commission. The European Commission approved these amendments by Decision of 16 November 2012.

Amendments to the Restructuring Plan
The amendments to the 2009 Restructuring Plan as announced in November 2012, extend the time horizon and increase the flexibility for the completion of divestments and have adjusted other commitments in light of the market circumstances, economic climate and more stringent regulatory requirements.

Notes to the consolidated annual accounts of ING Insurance continued

Under the amendments announced, the ultimate dates for divesting the insurance and investment management businesses have been extended as follows:

- the divestment of more than 50% of ING's interest in its Asian Insurance/IM operations has to be completed by year-end 2013, with the remaining interest divested by year-end 2016;
- the divestment of at least 25% of ING's interest in ING Insurance/IM U.S. has to be completed by year-end 2013, more than 50% has to be divested by year-end 2014, with the remaining interest divested by year-end 2016;
- the divestment of more than 50% of ING's interest in Insurance/IM Europe has to be completed by year-end 2015, with the remaining interest divested by year-end 2018; and
- as ING has committed to eliminate double leverage, proceeds from the divestments will be used to that end, while ensuring adequate leverage ratios of the insurance holding companies.

Under the terms of the original Restructuring Plan, ING was required to divest WestlandUtrecht Bank. However, due to market circumstances and changing regulatory requirements, a divestment of WestlandUtrecht has not occurred. Under the amended terms of the Restructuring Plan, the commercial operations of WestlandUtrecht Bank will be combined with the retail banking activities of Nationale-Nederlanden, which is to be divested as part of Insurance/IM Europe. Of WestlandUtrecht Bank's EUR 36.4 billion Dutch mortgage portfolio, EUR 2.6 billion will be transferred to Nationale-Nederlanden Bank. ING Bank will retain the remaining EUR 33.8 billion mortgage portfolio and in relation to this will contribute EUR 350 million to the capital of Nationale-Nederlanden Bank. To service existing WestlandUtrecht Bank labelled mortgages, insurance policies and real estate finance agreements, part of WestlandUtrecht Bank will become a separate entity within ING Retail Banking Netherlands. Part of the employees of WestlandUtrecht Bank will transfer to Nationale-Nederlanden Bank. This transaction is expected to be completed in 2013. The integrated retail banking business will operate under the 'Nationale-Nederlanden' brand, with the goal of becoming a competitive retail bank in the Dutch market with its own funding capabilities and a broad distribution network. Nationale-Nederlanden Bank is expected to start in the course of 2013 and will offer a broad and coherent product line, with mortgages, savings, bank annuities ('banksparen'), investments and consumer credit products, combined with the core retail insurance products of Nationale-Nederlanden.

ING has committed to ensure that Nationale-Nederlanden Bank would reach certain targets for mortgage production and consumer credit until 31 December 2015 or until the date on which more than 50% of the Insurance/IM Europe operations has been divested, whichever date comes first. Furthermore, ING has agreed to a maximum ratio for mortgage production at ING Retail Banking Netherlands in relation to mortgage production of Nationale-Nederlanden Bank until year-end 2015.

The 2009 Restructuring Plan included restrictions on acquisitions and price leadership for certain products in EU markets. These restrictions will continue to apply until 18 November 2015 or until the date on which more than 50% of each of the Insurance/IM operations has been divested, whichever date comes first.

The price leadership restrictions in Europe will be amended to reflect specific conditions in various local markets. Under the amendments, the constraint no longer applies in the Netherlands, and ING Direct in the EU will refrain from offering more favourable prices than its best priced direct competitor among the ten financial institutions having the largest market share in the respective countries.

The calling or buy-back of Tier 2 capital and Tier 1 Hybrid Securities will continue to be proposed for authorisation to the European Commission on a case by case basis until ING has fully repaid the core Tier 1 securities to the Dutch State, but ultimately until 18 November 2014, whichever date comes first. Notwithstanding this restriction, ING was allowed to call the EUR 1.25 billion ING Verzekeringen N.V. Hybrid per 21 December 2012.

The amended Restructuring Plan announced was formally approved by the European Commission, by decision of 16 November 2012. As a result, the Commission closed its formal investigations as announced on 11 May 2012 and ING also withdrew its appeal at the General Court of the European Union, filed in July 2012. For principal legal reasons, the European Commission has continued with its appeal against the General Court ruling of March 2012. However, ING, the Dutch State and the European Commission agreed that any outcome of this procedure will not affect the approval of the amended Restructuring Plan as announced in November 2012.

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.

Notes to the consolidated annual accounts of ING Insurance continued

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 Illiquid Assets Back-up Facility is in place (whichever expires last). These arrangements require that:

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

32 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table presents the estimated fair values of ING Insurance's financial assets and liabilities. Certain balance sheet items are not included in the table, as they do not meet the definition of a financial asset or liability. The aggregation of the fair values presented below does not represent, and should not be construed as representing, the underlying value of ING Insurance.

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2012	2011	**2012**	2011
Financial assets				
Cash and cash equivalents	**5,389**	11,577	**5,389**	11,577
Financial assets at fair value through profit and loss:				
– trading assets	**586**	534	**586**	534
– investments for risk of policyholders	**98,765**	116,438	**98,765**	116,438
– non-trading derivatives	**5,107**	7,285	**5,107**	7,285
– designated as at fair value through profit and loss	**2,000**	2,616	**2,000**	2,616
Available-for-sale investments	**119,305**	133,604	**119,305**	133,604
Loans and advances to customers	**26,873**	33,385	**25,823**	32,928
Other assets [(1)]	**6,177**	7,819	**6,177**	7,819
	264,202	313,258	**263,152**	312,801
Financial liabilities				
Subordinated loans	**2,894**	4,098	**2,947**	4,367
Debt securities in issue	**2,082**	3,480	**1,910**	3,436
Other borrowed funds	**7,458**	7,312	**7,442**	7,307
Investment contracts for risk of company	**4,624**	6,717	**4,561**	6,259
Investment contracts for risk of policyholders	**8,067**	6,939	**8,067**	6,939
Financial liabilities at fair value through profit and loss:				
– non-trading derivatives	**3,258**	4,404	**3,258**	4,404
Other liabilities [(2)]	**8,133**	10,324	**8,133**	10,324
	36,516	43,274	**36,318**	43,036

(1) Other assets does not include (deferred) tax assets, property development and obtained from foreclosures and pension assets.
(2) Other liabilities does not include (deferred) tax liabilities, pension liabilities, insurance provisions, other provisions and other taxation and social security contributions.

Notes to the consolidated annual accounts of ING Insurance continued

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

The following methods and assumptions were used by ING Insurance to estimate the fair value of the financial instruments:

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

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

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

Debt securities
Fair values for debt securities are based on quoted market prices, where available. Quoted market prices may be obtained from an exchange, dealer, broker, industry group, pricing service or regulatory service. If quoted prices in an active market are not available, fair value is 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.

Loans and receivables
Reference is made to Loans and advances to customers below.

Loans and advances to customers
For loans and advances that are repriced frequently and have had no significant changes in credit risk, carrying amounts represent a reasonable estimate of fair values. The fair values of other loans are estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings.

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

Notes to the consolidated annual accounts of ING Insurance continued

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

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

Investment contracts
For investment contracts for risk of the 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 policyholders the fair value generally equals the fair value of the underlying assets. For other investment-type contracts, fair values are estimated based on the cash surrender values.

Financial liabilities at fair value through profit and loss
The fair values of securities in the trading portfolio and other liabilities at fair value through profit and loss are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated based on internal discounted cash flow valuation techniques using interest rates and credit spreads that apply to similar instruments. Reference is made to Financial assets at fair value through profit and loss above.

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

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

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

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

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

Notes to the consolidated annual accounts of ING Insurance continued

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

Methods applied in determining fair values of financial assets and liabilities

2012	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	43	24	519	586
Investments for risk of policyholders	92,632	5,983	150	98,765
Non-trading derivatives	19	5,031	57	5,107
Financial assets designated as at fair value through profit and loss	70	1,037	893	2,000
Available-for-sale investments	59,737	56,671	2,897	119,305
	152,501	68,746	4,516	225,763
Liabilities				
Non-trading derivatives	171	1,901	1,186	3,258
Investment contracts (for contracts carried at fair value)	3,716	4,339	12	8,067
	3,887	6,240	1,198	11,325

Methods applied in determining fair values of financial assets and liabilities

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

Level 1 – Quoted prices in active markets

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

Level 2 – Valuation technique supported by observable inputs

This category includes financial instruments whose fair value is determined using a valuation technique (e.g. a model), where inputs in the model are taken from an active market or are observable. If certain inputs in the model are unobservable the instrument is still classified in this category, provided that the impact of those unobservable inputs elements on the overall valuation is insignificant. Included in this category are items whose value is derived from quoted prices of similar instruments, but for which the prices are modified based on other market observable external data and items whose value is derived from quoted prices but for which there was insufficient evidence of an active market.

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

Notes to the consolidated annual accounts of ING Insurance continued

Changes in Level 3 Assets

2012	**Trading assets**	**Investment for risk of policy-holder**	**Non-trading derivatives**	**Financial assets designated as at fair value through profit and loss**	**Available-for-sale invest-ments**	**Total**
Opening balance	**403**	**141**	**165**	**1,423**	**3,473**	**5,605**
Amounts recognised in the profit and loss account during the year	**43**	**2**	**–91**	**–56**	**–74**	**–176**
Revaluation recognised in equity during the year					**–16**	**–16**
Purchase of assets	**6**	**83**	**19**	**123**	**218**	**449**
Sale of assets	**–4**	**–15**	**–11**	**–664**	**–80**	**–774**
Maturity/settlement					**–360**	**–360**
Transfers into Level 3	**107**	**67**			**199**	**373**
Transfers out of Level 3	**–39**	**–6**	**–23**		**–201**	**–269**
Changes in the composition of the group and other changes	**3**	**–116**		**84**	**–244**	**–273**
Exchange rate differences		**–6**	**–2**	**–17**	**–18**	**–43**
Closing balance	**519**	**150**	**57**	**893**	**2,897**	**4,516**

Main changes in fair value hierarchy in 2012
There were no significant transfers between Level 1 and 2.

Changes in Level 3 Assets

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

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

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

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

There were no significant transfers between Level 1 and 2.

Notes to the consolidated annual accounts of ING Insurance continued

Changes in Level 3 Liabilities

2012	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		1,316		12	1,328
Amounts recognised in the profit and loss account during the year		–54			–54
Issue of liabilities		–1		12	11
Early repayment of liabilities		–34		–6	–40
Transfers out of Level 3		–19		–6	–25
Exchange rate differences		–22			–22
Closing balance	0	1,186	0	12	1,198

Changes in Level 3 Liabilities

2011	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		1,142		17	1,159
Amounts recognised in the profit and loss account during the year		128			128
Issue of liabilities				7	7
Early repayment of liabilities		–2		–3	–5
Transfers out of Level 3				–9	–9
Changes in the composition of the group		–16			–16
Exchange rate differences		64			64
Closing balance	0	1,316	0	12	1,328

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

2012	Held at balance sheet date	Derecog-nised during the year	Total
Assets			
Trading assets	42	1	43
Investments for risk of policyholder	3	–1	2
Non-trading derivatives	–97	6	–91
Financial assets designated as at fair value through profit and loss	–14	–42	–56
Available-for-sale investments	–82	8	–74
	–148	–28	–176
Liabilities			
Non-trading derivatives	–58	4	–54
	–58	4	–54

Notes to the consolidated annual accounts of ING Insurance continued

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

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

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.

Asset backed security portfolio

Fair value hierarchy of certain ABS bonds

2012	Level 1	Level 2	Level 3	Total
US Subprime RMBS		733		733
US Alt-A RMBS		284		284
CDO/CLOs			129	129
CMBS		3,750		3,750
Total certain ABS	0	4,767	129	4,896

Fair value hierarchy of certain ABS bonds

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

Greece, Italy, Ireland, Portugal and Spain
Of the Government and Unsecured Financial institutions' bond exposure in Greece, Italy, Ireland, Portugal and Spain as disclosed in 3 'Available-for-sale investments', EUR 2.6 billion (2011: EUR 2.6 billion) is classified as available-for-sale and is measured at fair value (with the revaluation recognised in equity, taking into account impairments that are recognised in the profit and loss account). The table below provide the fair value hierarchy per year-end 2012 for the Greek, Italian, Irish, Portuguese and Spanish Government and Unsecured Financial institutions' bond exposure measured at fair value.

Notes to the consolidated annual accounts of ING Insurance continued

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

2012	Level 1	Level 2	Level 3	Total
Greece				
Government bonds available-for-sale	76			76
Italy				
Government bonds available-for-sale	1,347	30		1,377
Financial institutions available-for-sale	51			51
Ireland				
Government bonds available-for-sale	55			55
Financial institutions available-for-sale	15			15
Portugal				
Government bonds available-for-sale	7			7
Financial institutions available-for-sale	18	22		40
Spain				
Government bonds available-for-sale	872			872
Financial institutions available-for-sale	96			96
Total	2,537	52	0	2,589

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

2011	Level 1	Level 2	Level 3	Total
Greece				
Government bonds available-for-sale		104		104
Italy				
Government bonds available-for-sale	1,207			1,207
Financial institutions available-for-sale	83			83
Ireland				
Government bonds available-for-sale	43			43
Financial institutions available-for-sale	15			15
Portugal				
Government bonds available-for-sale	95			95
Financial institutions available-for-sale	30	17		47
Spain				
Government bonds available–for-sale	866			866
Financial institutions available-for-sale	163			163
Total	2,502	121	0	2,623

Classification of bonds in Level 2 is mainly a result of low trading liquidity in the relevant markets.

Notes to the consolidated annual accounts of ING Insurance continued

33 GROSS PREMIUM INCOME

Gross premium income

	2012	2011	2010
Gross premium income from life insurance policies	**18,544**	18,584	19,566
Gross premium income from non-life insurance policies	**1,733**	1,695	1,713
	20,277	20,279	21,279

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
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Direct gross premiums written	**1,709**	1,672	1,690	**17,530**	17,553	18,403	**19,239**	19,225	20,093
Reinsurance assumed gross premiums written	**24**	23	23	**1,014**	1,031	1,163	**1,038**	1,054	1,186
Total gross premiums written	**1,733**	1,695	1,713	**18,544**	18,584	19,566	**20,277**	20,279	21,279
Reinsurance ceded	**–40**	–39	–62	**–1,642**	–1,664	–1,821	**–1,682**	–1,703	–1,883
	1,693	1,656	1,651	**16,902**	16,920	17,745	**18,595**	18,576	19,396

Effect of reinsurance on non-life premiums earned

	2012	2011	2010
Direct gross premiums earned	**1,731**	1,699	1,718
Reinsurance gross assumed premiums earned	**24**	23	23
Total gross premiums earned	**1,755**	1,722	1,741
Reinsurance ceded	**–40**	–39	–62
	1,715	1,683	1,679

See Note 40 ‘Underwriting expenditure’ for disclosure on reinsurance ceded.

34 INVESTMENT INCOME

Investment income	2012	2011	2010
Income from real estate investments	**54**	53	54
Dividend income	**204**	228	179
	258	281	233
Income from investments in debt securities	**4,887**	4,994	4,915
Income from loans:			
– unsecured loans	**234**	282	270
– mortgage loans	**829**	822	834
– policy loans	**98**	100	108
– other	**293**	274	–115
Income from investments in debt securities and loans	**6,341**	6,472	6,012
Realised gains/losses on disposal of debt securities		22	–11
Impairments of available-for-sale debt securities	**–45**	–750	–587
Reversal of impairments of available-for-sale debt securities	**8**	5	
Realised gains/losses and impairments of debt securities	**–37**	–723	–598
Realised gains/losses on disposal of equity securities	**443**	379	157
Impairments of available-for-sale equity securities	**–143**	–173	–37
Realised gains/losses and impairments of equity securities	**300**	206	120
Change in fair value of real estate investments	**–48**	1	–51
Investment income	**6,814**	6,237	5,716

In 2012, an impairment of nil (2011: EUR 390 million) was recognised on Greek government bonds and an impairment of nil (2011: EUR 189 million) was recognised on subordinated debt from Irish banks. Both are included in Impairments of available-for-sale debt securities. Reference is made to the ‘Risk management’ section for further information on these impairments.

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

Impairments and Reversals of impairments on investments per segment		Impairments			Reversals of impairments	
	2012	2011	2010	**2012**	2011	2010
Insurance Benelux	**–155**	–410	–53			
Insurance Central & Rest of Europe (CRE)		–338	–18			
Insurance United States (US)	**–31**	–166	–553	**8**	5	
Corporate Line Insurance	**–2**	–9				
	–188	–923	–624	**8**	5	0

35 RESULT ON DISPOSALS OF GROUP COMPANIES

The result on disposal of the ING Insurance business in Malaysia (2011: Latin American operations) is not included but in 'Result on disposals of group companies' but in 'Result on disposal of discontinued operations'. Reference is made to Note 23 'Discontinued operations'.

Result on disposal of group companies in 2011	2011
Other	–4

Notes to the consolidated annual accounts of ING Insurance continued

Result on disposal of group companies in 2010

	2010
Other	–3

Reference is made to Note 28 ‘Companies acquired and companies disposed’ for more details.

36 COMMISSION INCOME

Gross fee and commission income

	2012	2011	2010
Insurance broking	403	366	348
Asset management fees	1,390	1,359	1,369
Brokerage and advisory fees	177	205	211
Other	129	474	240
	2,099	2,404	2,168

Asset management fees related to the management of investments held for the risk of policyholders of EUR 521 million (2011: EUR 486 million; 2010: EUR 358 million) are included in Commission Income.

Fee and commission expenses

	2012	2011	2010
Insurance broking			
Management fees	33	101	212
Brokerage and advisory fees	315	285	307
Other	303	597	265
	651	983	784

37 VALUATION RESULTS ON NON-TRADING DERIVATIVES

Valuation results on non-trading derivatives

	2012	2011	2010
Change in fair value of derivatives relating to:			
– fair value hedges	18	–73	–69
– cash flow hedges (ineffective portion)	–11	–10	–19
– other non-trading derivatives	–1,894	703	–677
Net result on non-trading derivatives	–1,887	620	–765
Change in fair value of assets and liabilities (hedged items)	–26	58	66
Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading)	–27	102	91
Net valuation results	–1,940	780	–608

Included in the Valuation results on non-trading derivatives are the fair value movements on derivatives used to economically hedge exposures, but for which no hedge accounting is applied. These derivatives hedge exposures in Insurance contract liabilities. The fair value movements on the derivatives are influenced by changes in the market conditions, such as stock prices, interest rates and currency exchange rates. The change in fair value of the derivatives is largely offset by changes in Insurance contract liabilities, which are included in Underwriting expenditure. Reference is made to Note 40 'Underwriting expenditure'.

Valuation results on non-trading derivatives are reflected in the Consolidated statement of cash flows in the line item 'Result before tax - Adjusted for: other'.

Notes to the consolidated annual accounts of ING Insurance continued

38 NET TRADING INCOME

Net trading income	2012	2011	2010
Securities trading results	**91**	37	180
Foreign exchange transactions results	**21**	–13	–263
Other	**–33**	26	–65
	79	50	–148

There were no trading gains and losses relating to trading securities still held as at 31 December 2012, 2011 and 2010.

39 OTHER INCOME

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

40 UNDERWRITING EXPENDITURE

Underwriting expenditure	2012	2011	2010
Gross underwriting expenditure:			
– before effect of investment result for risk of policyholder	**24,465**	27,507	27,299
– effect of investment result for risk of policyholder	**11,246**	–186	10,120
	35,711	27,321	37,419
Investment result for risk of policyholders	**–11,246**	186	–10,120
Reinsurance recoveries	**–1,833**	–1,760	–1,620
Underwriting expenditure	**22,632**	25,747	25,679

The investment income and valuation results regarding investments for risk of policyholders is EUR 11,246 million (2011: EUR –186 million; 2010: EUR 10,120 million). This amount is not recognised in ‘Investment income’ nor ‘Valuation results on assets and liabilities designated as at fair value through profit and loss’ but are in Underwriting expenditure. As a result it is shown together with the equal amount of related change in insurance provisions for risk of policyholders.

Notes to the consolidated annual accounts of ING Insurance continued

Underwriting expenditure by class

	2012	2011	2010
Expenditure from life underwriting			
Reinsurance and retrocession premiums	**1,642**	1,664	1,822
Gross benefits	**25,410**	23,257	21,701
Reinsurance recoveries	**–1,898**	–1,751	–1,612
Change in life insurance provisions	**–5,317**	–816	–632
Costs of acquiring insurance business	**592**	1,265	2,150
Other underwriting expenditure	**621**	499	464
Profit sharing and rebates	**102**	216	325
	21,152	24,334	24,218
Expenditure from non-life underwriting			
Reinsurance and retrocession premiums	**40**	39	61
Gross claims	**1,103**	1,086	1,021
Reinsurance recoveries	**65**	–9	–8
Changes in the provision for unearned premiums	**–22**	–27	–27
Changes in the claims provision	**109**	5	44
Costs of acquiring insurance business	**263**	261	274
Other underwriting expenditure		–2	
	1,558	1,353	1,365
Expenditure from investment contracts			
Costs of acquiring investment contracts	**2**	3	5
Other changes in investment contract liabilities	**–80**	57	91
	–78	60	96
	22,632	25,747	25,679

Profit sharing and rebates

	2012	2011	2010
Distributions on account of interest or underwriting results	**–28**	21	9
Bonuses added to policies	**67**	108	159
Deferred profit sharing expense	**63**	87	157
	102	216	325

The total Cost of acquiring insurance business (life and non-life) and investment contracts amounted to EUR 857 million (2011: EUR 1,529 million; 2010: EUR 2,429 million). This includes amortisation and unlocking of DAC of EUR 1,066 million (2011: EUR 1,702 million; 2010: EUR 2,697 million) and the net amount of commissions paid of EUR 1,465 million (2011: EUR 1,414 million; 2010: EUR 1,294 million) and commissions capitalised in DAC of EUR 1,674 million (2011: EUR 1,587 million; 2010 EUR 1,562 million).

The total amount of commission paid and commission payable amounted to EUR 1,590 million (2011: EUR 1,634 million; 2010: EUR 1,633 million). This includes the commissions recognised in Costs of acquiring insurance business of EUR 1,465 million (2011: EUR 1,414 million; 2010 EUR 1,294 million) referred to above and commissions recognised in Other underwriting expenditure of EUR 125 million (2011: EUR 220 million; 2010: EUR 339 million). Other underwriting expenditure also includes reinsurance commissions received of EUR 14 million (2011: EUR 152 million; 2010: EUR 156 million).

In 2012, ‘Change in life insurance provisions’ includes an amount related to variable annuity assumption changes in the United States of approximately EUR –104 million. This charge relates to lapse-rate assumption refinements following an annual review of policyholder behaviour assumptions.

Notes to the consolidated annual accounts of ING Insurance continued

In 2011, ING has conducted a comprehensive review of its assumptions for the Insurance US Closed Block Variable Annuity (VA) business. The review showed that current US policyholder behaviour for Closed Block VA policies sold predominantly between 2003 and 2009 diverges from earlier assumptions made by ING, particularly given the ongoing volatility and challenging market circumstances. The assumptions for the US Closed Block VA were updated for lapses, mortality, annuitisation, and utilisation rates, with the most significant revision coming from the adjustments of lapse assumptions. The revisions bring the assumptions more in line with US policyholder experience and reflect to a much greater degree the market volatility of recent years. In conjunction, hedging is adjusted to reflect the revised assumptions. The assumption changes resulted in a charge of EUR 1,099 million, which is reflected in Underwriting expenditure and in the segment Insurance US Closed Block VA. This charge affects the deferred acquisition costs (amortisation and unlocking) for EUR 488 million and the insurance provision (effect of changes in other assumptions for EUR 611 million). Reference is made to Note 9 ‘Deferred acquisition costs’ and Note 16 ‘Insurance and Investment contracts, reinsurance contracts’. The impact of the assumption adjustments includes a charge to restore the reserve adequacy to the 50% confidence level for the Insurance US Closed Block VA segment. Reference is made to Note 46 ‘Segments’.

In 2011, ING has completed a separate annual review of the policyholder behaviour assumptions for the VA Japan business, which has not resulted in material adjustments.

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

Other underwriting expenditure from life underwriting in 2010 includes a EUR 975 million DAC write-off as explained in Note 46 ‘Segments’.

ING Insurance transferred part of its life insurance business to Scottish Re in 2004 by means of a co-insurance contract. A loss amounting to EUR 160 million was recognised in Underwriting expenditure in 2004 on this transaction. This loss represented the reduction of the related deferred acquisition costs. In addition, an amount of EUR 240 million is being amortised over the life of the underlying business, starting in 2005 and gradually decreasing in subsequent years as the business tails off. The amount amortised in 2012 was EUR 13 million (2011: EUR 14 million; 2010: EUR 17 million). The cumulative amortisation as at 31 December 2012 was EUR 161 million (2011: EUR 151 million; 2010: EUR 132 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 US group reinsurance business to Reinsurance Group of America Inc. in 2010 by means of a reinsurance agreement. The transaction resulted in EUR 70 million ceding commission which is required to be recorded as a deferred gain and amortised over the life of the underlying business, starting in 2010 and gradually decreasing in subsequent years as the business tails off. The amount amortised in 2012 was EUR 1 million (2011: EUR 16 million; 2010: EUR 52 million). The cumulative amortisation as at 31 December 2012 was EUR 70 million (2011: EUR 69 million; 2010: EUR 52 million).

41 INTANGIBLE AMORTISATION AND OTHER IMPAIRMENTS

Intangible amortisation and (reversals of) other impairments

	2012	2011	2010
Property and equipment	**1**	1	1
Goodwill	**56**		637
Software and other intangible assets	**2**	34	3
(Reversals of) other impairments	**59**	35	641
Amortisation of other intangible assets	**18**	14	15
	77	49	656

In 2012, a goodwill impairment/write off of EUR 56 million was recognised. In 2010 a goodwill impairment of EUR 637 million was recognised. Reference is made to Note 8 ‘Intangible assets’.

Impairment on Loans and advances to customers are presented under Investment income. Reference is made to the ‘Risk management’ section for further information on impairments.

Notes to the consolidated annual accounts of ING Insurance continued

42 STAFF EXPENSES

Staff expenses

	2012	2011	2010
Salaries	1,385	1,348	1,369
Pension and other staff related benefit costs	58	66	97
Social security costs	141	132	150
Share-based compensation arrangements [1]	55	51	34
External employees	205	138	121
Education	18	17	8
Other staff costs	27	–16	29
	1,889	1,736	1,808

[1] In 2011, the increase in Share-based compensation arrangements can be explained by ING's implementation of a global deferral plan as well as regulatory developments which require payment of variable remuneration in stock in lieu of cash.

In 2012, the Dutch Government imposed an additional tax charge of 16% on the income in excess of EUR 150,000 of each employee who is subject to Dutch income tax. The tax is charged to ING Insurance and does not affect the remuneration of involved staff. The tax imposed on ING Insurance for relevant employees amounts to EUR 5.8 million, which is included in the figures in the table above.

Number of employees

	Netherlands			International			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Continuing operations – average number of employees at full time equivalent basis	6,868	7,305	8,335	12,713	13,510	13,370	19,581	20,815	21,705
Discontinued operations - average number of employees at full time equivalent basis				6,112	12,429	13,148	6,112	12,429	13,148
Total average number of employees at full time equivalent basis	6,868	7,305	8,335	18,825	25,939	26,518	25,693	33,244	34,853

Pension and other staff-related benefit costs

	Pension benefits			Post-employment benefits other than pensions			Other			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
Current service cost	102	105	102	6	5		26	–1	–5	134	109	97
Past service cost		1								0	1	0
Interest cost	299	303	284	3	3	4				302	306	288
Expected return on assets	–309	–308	–295							–309	–308	–295
Amortisation of unrecognised past service cost		1			–1	–5				0	0	–5
Amortisation of unrecognised actuarial gains/losses	94	37	42	–1	–4	–9				93	33	33
Effect of curtailment or settlement	–133	–64	–3							–133	–64	–3
Other	–10	–9	–15				–23	–2	–3	–33	–11	–18
Defined benefit plans	43	66	115	8	3	–10	3	–3	–8	54	66	97
Defined contribution plans										4		
										58	66	97

In 2012, a curtailment was recognised due to a change to a new pension scheme. Reference is made to Note 18 'Other liabilities'.

Remuneration of senior management, Executive Board and Supervisory Board
Reference is made to Note 31 'Related parties'.

Stock option and share plans

ING Insurance's parent, ING Groep N.V., has granted option rights on ING Groep N.V. shares and conditional rights on depositary receipts (share awards) for ING Group shares to a number of senior executives (members of the Management Board, general managers and other officers nominated by the Management Board) and to a considerable number of employees of ING Insurance. The purpose of the option and share schemes, is to attract, retain and motivate senior executives and staff.

In 2012, ING granted three types of share awards, deferred shares, performance shares and upfront shares. The entitlement to the share awards was granted conditionally. If the participant remains in employment for an uninterrupted period between the grant date and the vesting date, the entitlement becomes unconditional. In addition to the employment condition, the performance shares contain a performance condition. The number of ING depositary receipts that would ultimately be granted at the end of a performance period is dependent on ING's performance over that period. Upfront and deferred shares, with retention periods as soon as it becomes unconditional, were awarded to the Management Board members of ING Insurance Eurasia N.V., as well as Identified staff. ING has the authority to apply an hold back to awarded but unvested shares and a claw-back to vested shares.

In 2012 no share awards (2011: nil; 2010: nil) were granted to the members of the Executive Board of ING Groep N.V., 509,553 share awards (2011: 25,370; 2010: nil) were granted to the Management Boards of ING Insurance, Insurance EurAsia and ING U.S. To senior management and other employees of ING Insurance 9,506,061 share awards (2011: 8,819,873; 2010: 5,816,613) were granted.

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

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

ING Group holds its own shares in order to fulfil its obligations with regard to the existing stock option plan. As at 31 December 2012, 26,429,948 own shares (2011: 42,126,329; 2010: 45,213,891) were held in connection with the option plan compared with 85,193,177 options outstanding (2011: 108,138,551; 2010: 124,836,694). In December 2010 ING Groep N.V. announced that it will no longer rebalance its 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 portfolio will be used to fund the obligations arising from exercise and vesting. Once all shares in the portfolio are used ING will fund these obligations by issuing new shares (subject to approval by the Executive Board and the Supervisory Board.

The obligations with regard to the share plans will in the future be funded either by cash, newly issued shares or remaining shares from the portfolio of own shares at the discretion of the holder.

Changes in option rights outstanding

	Options outstanding (in number)			Weighted average exercise price (in euros)		
	2012	2011	2010	**2012**	2011	2010
Opening balance	**44,189,864**	49,162,987	48,941,322	**14.71**	14.97	16.36
Granted			8,182,454			7.36
Exercised or transferred	**–1,993,691**	2,170,169	–652,948	**3.42**	21.49	8.35
Forfeited	**–1,021,065**	–1,259,217	–2,068,947	**10.62**	12.68	12.77
Expired	**–7,353,470**	–5,884,075	–5,238,894	**18.40**	20.06	19.19
Closing balance	**33,821,638**	44,189,864	49,162,987	**14.68**	14.71	14.97

As per 31 December 2012 total options outstanding consists of 29,804,428 options (2011: 39,333,056; 2010: 43,819,111) relating to equity-settled share-based payment arrangements and 4,017,210 options (2011: 4,856,808; 2010: 5,343,876) relating to cash-settled share-based payment arrangements.

The weighted average share price at the date of exercise for options exercised in 2012 is EUR 6.15 (2011: EUR 8.09; 2010: EUR 7.46).

Notes to the consolidated annual accounts of ING Insurance continued

Changes in option rights non-vested

	Options non-vested (in number)			Weighted average grant date fair value (in euros)		
	2012	2011	2010	**2012**	2011	2010
Opening balance	**14,164,245**	21,552,537	21,473,193	**2.61**	3.01	3.40
Granted			8,182,454			3.27
Vested or transferred	**–7,333,710**	–6,580,861	–6,549,537	**2.05**	3.88	5.41
Forfeited	**–649,910**	–807,431	–1,553,573	**2.74**	3.03	3.18
Closing balance	**6,180,625**	14,164,245	21,552,537	**3.27**	2.61	3.01

Summary of stock options outstanding and exercisable

2012 Range of exercise price in euros	**Options outstanding as at 31 December 2012**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options exercisable as at 31 December 2012**	**Weighted average remaining contractual life**	**Weighted average exercise price**
0.00 – 5.00	**4,491,078**	**6.17**	**2.90**	**4,491,078**	**6.17**	**2.90**
5.00 – 10.00	**8,364,153**	**5.43**	**7.80**	**2,183,528**	**0.34**	**9.06**
10.00 – 15.00	**2,774,702**	**1.27**	**14.31**	**2,774,702**	**1.27**	**14.31**
15.00 – 20.00	**9,725,616**	**3.73**	**17.26**	**9,725,616**	**3.73**	**17.26**
20.00 – 25.00	**4,004,382**	**4.17**	**24.58**	**4,004,382**	**4.17**	**24.58**
25.00 – 30.00	**4,461,707**	**3.23**	**25.17**	**4,461,707**	**3.23**	**25.17**
	33,821,638			**27,641,013**		

Summary of stock options outstanding and exercisable

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

Summary of stock options outstanding and exercisable

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

As at 31 December 2012, the aggregate intrinsic value of options outstanding and exercisable are EUR 19 million and EUR 19 million, respectively (2011: EUR 18 and nil respectively and 2010: EUR 33 million and nil respectively).

As at 31 December 2012, unrecognised compensation costs related to stock options amounted to EUR 1 million (2011: EUR 10 million; 2010: EUR 27 million). These costs are expected to be recognised over a weighted average period of 0.2 years (2011: 1.1 years; 2010: 1.9 years).

Notes to the consolidated annual accounts of ING Insurance continued

The fair value of options granted is recognised as an expense under staff expenses and is allocated over the vesting period of the options. The fair values of the option awards have been determined by using a Monte Carlo simulation model. This model takes the risk free interest rate into account (2.0% to 4.6%), as well as the expected life of the options granted (from 5 to 9 years), the exercise price, the current share price (EUR 2.90 - EUR 26.05), the expected volatility of the certificates of ING Groep N.V. shares (25% – 84%) and the expected dividends yield (0.94% – 8.99%).

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

43 INTEREST EXPENSES

Interest expenses mainly consist of interest on the subordinated loans.

In 2012, total interest income and total interest expense for items not valued at fair value through profit and loss were EUR 6,341 million and EUR –467 million respectively (2011: EUR 6,472 million and EUR –526 million respectively). Net interest income of EUR 5,874 million is presented in the following lines in the profit and loss account.

Total net interest income

	2012	2011	2010
Investment income 34	**6,341**	6,472	6,012
Other interest expenses	**–467**	–526	–419
	5,874	5,946	5,593

44 OTHER OPERATING EXPENSES

Other operating expenses

	2012	2011	2010
Depreciation of property and equipment	**55**	53	53
Amortisation of software	**60**	50	34
Computer costs	**292**	258	223
Office expenses	**218**	236	220
Travel and accommodation expenses	**40**	53	55
Advertising and public relations	**66**	68	73
External advisory fees	**365**	384	309
Addition/(releases) of provision for reorganisations and relocations	**357**	135	98
Other	**452**	477	595
	1,905	1,714	1,660

Other operating expenses include lease and sublease payments for the amount of EUR 11 million (2011: EUR 2 million; 2010: nil) in respect of operating leases in which ING Insurance is the lessee. No individual operating lease has terms and conditions that materially affect the amount, timing or certainty of the consolidated cash flows of ING Insurance.

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

45 TAXATION

Profit and loss account

Taxation on continuing operations by type

		Netherlands			International			Total	
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Current tax	**–161**	40	106	**160**	–48	–202	**–1**	–8	–96
Deferred tax	**–165**	–44	–89	**–103**	–100	–6	**–268**	–144	–95
	–326	–4	17	**57**	–148	–208	**–269**	–152	–191

The tax charge in the Netherlands decreased with EUR 322 million to EUR –326 million (2011: EUR –4 million), due to lower profits. A significant part of the profit in the Netherlands was non-taxable due to tax exempt divestments.

Notes to the consolidated annual accounts of ING Insurance continued

Reconciliation of the weighted average statutory income tax rate to ING Insurance's effective income tax rate			
	2012	2011	2010
Result before tax from continuing operations	**–209**	–611	–2,145
Weighted average statutory tax rate	**–39.1%**	41.2%	36.2%
Weighted average statutory tax amount	**82**	–252	–775
Associates exemption	**–161**	–121	–199
Other income not subject to tax	**–132**	–54	–8
Expenses not deductible for tax purposes	**24**	46	58
Impact on deferred tax from change in tax rates	**11**	2	1
Deferred tax benefit from previously unrecognised amounts	**–6**		
Current tax benefit from previously unrecognised amounts	**–7**		–7
Write-off/reversal of deferred tax assets	**–78**	217	753
Adjustments to prior periods	**–2**	10	–14
Effective tax amount	**–269**	–152	–191
Effective tax rate	**128.3%**	24.8%	8.9%

The weighted average statutory tax rate in 2012 differs significantly and compared with 2011 even reversed. This is mainly a result of the composition of the result before tax from continuing operations in 2012 and 2011. In 2012 relative more profits were taxable in countries with high rates while relative more losses were incurred in countries with lower tax rates (as compared with 2011).

The weighted average statutory tax rate in 2011 compared with 2010 does not differ significantly.

The effective tax rate in 2012 was very high (favourable in a tax loss situation) than the negative weighted average statutory tax rate. This is mainly caused by non-taxable income and a reversal of a write-off of deferred tax assets.

The effective tax rate in 2011 was lower than the weighted average statutory tax rate. This was mainly caused by the write off of deferred tax assets which exceeded the non-taxable income.

The effective tax rate in 2010 was lower than the weighted average statutory tax rate. This was caused by a write-off of deferred tax assets (mainly in the United States) and the non-deductible expenses which exceeded the non-taxable income and prior year corrections significantly.

Adjustment to prior periods in 2012 relates to marginal corrections only.

Adjustment to prior periods in 2011 related to final tax assessments and other marginal corrections.

Adjustment to prior periods in 2010 related to a tax settlement.

Comprehensive income

Income tax related to components of other comprehensive income			
	2012	2011	2010
Unrealised revaluations	**–1,900**	–1,148	–1,190
Realised gains/losses transferred to profit and loss (reclassifications from equity to profit and loss)	**–36**	–102	–9
Changes in cash flow hedge reserve	**–236**	–467	–218
Transfer to insurance liabilities/DAC	**911**	847	719
Exchange rate differences	**–78**	–3	13
Total income tax related to components of other comprehensive income	**–1,339**	–873	–685

46 SEGMENTS

ING Insurance's segments relate to the internal segmentation by business lines. As at 31 December 2012, ING Insurance identifies the following segments:

Segments of ING Insurance
Insurance Benelux
Insurance Central & Rest of Europe (CRE)
Insurance United States (US)
Insurance US Closed Block VA
ING Investment Management (IM)
Corporate Line Insurance

As disclosed in Note 23 'Discontinued operations' as of 30 June 2012 the segment Insurance Asia/Pacific ceased to exist.

The Management Board of ING Insurance Eurasia N.V. and the Board of ING U.S., Inc. 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 Management Boards.

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

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

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

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

Segment	Main source of income
Insurance Benelux	Income from life insurance, non-life insurance and retirement services in the Benelux.
Insurance CRE	Income from life insurance, non-life insurance and retirement services in Central and Rest of Europe.
Insurance United States (US)	Income from life insurance and retirement services in the United States.
Insurance US Closed Block VA	Consists of ING's Closed Block Variable Annuity business in the United States, which has been closed to new business since early 2010 and which is now being managed in run-off.
ING IM	Income from investment management activities.

In addition to these segments, ING Insurance reconciles the total segment results to the total result using the Corporate Line Insurance. The Corporate Line Insurance contains items related to capital management, run-off portfolios, Corporate Reinsurance and remaining activities in Latin America.

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

Notes to the consolidated annual accounts of ING Insurance continued

Segments

	2012	2011	2010
Underlying income:			
– Gross premium income	**20,277**	20,279	21,279
– Commission income	**1,448**	1,421	1,377
– Total investment and other income	**5,035**	7,373	5,399
Total underlying income	**26,760**	29,073	28,056
Underlying expenditure:			
– Underwriting expenditure	**22,574**	25,747	25,680
– Operating expenses	**3,353**	3,082	3,159
– Other interest expenses	**467**	529	419
– Other impairments	**19**	15	19
Total underlying expenses	**26,413**	29,373	29,277
Underlying result before taxation	**347**	–300	–1,221
Taxation	**–158**	–93	–92
Minority interest	**29**	14	25
Underlying net result	**476**	–221	–1,154

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

2012	**Income**	**Expenses**	**Net result**
Underlying	**26,760**	**26,413**	**476**
Divestments	**1**	**13**	**–6**
Special items		**544**	**–439**
IFRS-EU (continuing operations)	**26,761**	**26,970**	**31**
Total net result from discontinued operations	**9,140**	**8,026**	**908**
IFRS-EU (continuing and discontinued operations)	**35,901**	**34,996**	**939**

Special items in 2012, includes costs mainly related to the strategic reorganisation measures of approximately EUR 207 million, the separation and IPO preparation of EUR 221 million, which is partly offset by a pension curtailment of EUR 87 million following the new Dutch employee pension scheme announced in 2012.

Reference is made to Note 23 'Discontinued operations' for information on discontinued operations.

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

2011	Income	Expenses	Net result
Underlying	29,073	29,373	–221
Divestments	–4	5	–9
Special items	92	394	–243
IFRS-EU (continuing operations)	29,161	29,772	–473
Total net result from discontinued operations	11,080	9,252	1,673
IFRS-EU (continuing and discontinued operations)	40,241	39,024	1,200

Divestments in 2011 reflects the results on the sale of IIM Australia and Pacific Antai Life Insurance Company Ltd.

Special items in 2011 includes mainly, an adjustment of the Illiquid Assets Back-up Facility based on higher prepayment behaviour in the underlying Alt-A securities, the result on the repurchase of subordinated loans executed in December 2011 as disclosed in Note 39 'Other income' and Note 13 'Subordinated loans', and restructuring expenses.

Reference is made to Note 23 'Discontinued operations' for information on discontinued operations.

Notes to the consolidated annual accounts of ING Insurance continued

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

2010	Income	Expenses	Net result
Underlying	28,056	29,277	–1,154
Divestments	23	28	–7
Special items	–1	918	–818
IFRS-EU (continuing operations)	28,077	30,222	–1,979
Total net result from discontinued operations	9,725	9,178	405
IFRS-EU (continuing and discontinued operations)	37,803	39,401	–1,574

Divestments in 2010 mainly includes the sale of three US independent retail broker-dealer units.

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

Reference is made to Note 23 ’Discontinued operations’ for information on discontinued operations.

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

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

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

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

As of the fourth quarter of 2010, the Closed Block Variable Annuity (VA) segment in the US is reported and analysed separately from the other US business in the internal management reporting. Therefore as of 1 October 2010 ING reports the Insurance US Closed Block VA segment as a separate segment to improve transparency and ongoing business. ING Group’s accounting policy for reserve adequacy as set out in the Accounting policies for the consolidated annual accounts of ING Group requires each segment to be adequate at the 50% confidence level. The separation of the Legacy VA business into a separate segment triggered a charge in the fourth quarter of 2010 to bring reserve adequacy on the new Insurance US Closed Block VA segment to the 50% level. This charge is reflected as a DAC write-off of EUR 975 million before tax. For 2011 the impact of the assumption adjustments includes a charge of EUR 177 million to restore the reserve adequacy of the Insurance US Closed Block VA segment line to the 50% level at 31 December 2011. Reference is made to Note 40 'Underwriting expenditure'.

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

Notes to the consolidated annual accounts of ING Insurance continued

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

A net reserve inadequacy exists using a prudent (90%) confidence level for the segment Insurance US Closed Block VA. This inadequacy 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.

Segments

2012	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	ING IM	Corporate Line Insurance	Total
Investment margin	604	59	1,087	7	–1		1,757
Fees and premium based revenues	593	430	1,188	100	824		3,135
Technical margin	177	175	42	21			414
Income non-modelled life business	20	20					40
Life & ING IM operating income	1,394	684	2,316	128	823	0	5,345
Administrative expenses	601	285	882	99	661		2,529
DAC amortisation and trail commissions	192	221	732	151	2		1,299
Life & ING IM expenses	793	506	1,614	250	664	0	3,827
Life & ING IM operating result	601	178	702	–122	159	0	1,518
Non-life operating result	82	6					89
Corporate Line operating result						–476	–476
Operating result	683	184	702	–122	159	–476	1,130
Gains/losses and impairments	92	–35	36	16	1	9	119
Revaluations	–316	22	161		40	–34	–126
Market & other impacts	–530	–1	29	–274			–776
Underlying result before tax	–71	170	928	–379	200	–501	347
Taxation	–109	42	283	–267	56	–163	–158
Minority interests	12	9			8		29
Underlying net result	25	120	645	–112	136	–338	476
Divestments	–19					13	–6
Special Items	–279	–24	–65		–4	–67	–439
Net result (continuing operations)	–273	96	580	–112	132	–391	31

Notes to the consolidated annual accounts of ING Insurance continued

Segments

2011	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	ING IM	Corporate Line Insurance	Total
Investment margin	683	72	892	28	2		1,677
Fees and premium based revenues	584	462	1,064	168	783		3,061
Technical margin	315	169	77	28			589
Income non-modelled life business	36	9					45
Life & ING IM operating income	1,618	712	2,033	224	785	0	5,372
Administrative expenses	593	308	742	81	594		2,318
DAC amortisation and trail commissions	213	202	625	123	3		1,166
Life & ING IM expenses	806	510	1,367	205	597	0	3,485
Life & ING IM operating result	812	201	666	20	187	0	1,887
Non-life operating result	179	5					184
Corporate Line operating result						–387	–387
Operating result	991	206	666	20	187	–387	1,683
Gains/losses and impairments	–47	–404	–171	2	5	6	–609
Revaluations	62	–1	159	1	6	–21	206
Market & other impacts	–250		–36	–1,295			–1,581
Underlying result before tax	756	–198	618	–1,273	198	–402	–301
Taxation	74	20	–22	–221	71	–16	–93
Minority interests	4	10					14
Underlying net result	678	–229	641	–1,052	127	–386	–221
Divestments						–9	–9
Special Items	–104	–77	–65		–8	11	–243
Net result (continuing operations)	574	–306	576	–1,052	119	–384	–473

Notes to the consolidated annual accounts of ING Insurance continued

Segments

2010	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	ING IM	Corporate Line Insurance	Total
Investment margin	471	77	827	–11	–1		1,363
Fees and premium based revenues	578	501	1,060	121	741		3,001
Technical margin	243	149	201	9			602
Income non-modelled life business	40	16					56
Life & ING IM operating income	1,332	744	2,089	119	740	0	5,024
Administrative expenses	568	262	904	77	611		2,422
DAC amortisation and trail commissions	230	197	620	–7	3		1,043
Life & ING IM expenses	798	459	1,524	70	614	0	3,465
Life & ING IM operating result	535	285	565	49	126	0	1,560
Non-life operating result	156	7					163
Corporate Line operating result						–524	–524
Operating result	691	292	565	49	126	–524	1,199
Gains/losses and impairments	14	–29	–568	22	3	5	–553
Revaluations	60		490	3	–3	–106	444
Market & other impacts	24	–10	–177	–2,149			–2,312
Underlying result before tax	789	254	310	–2,075	126	–625	–1,221
Taxation	134	63	–155	–57	52	–130	–93
Minority interests	15	10					25
Underlying net result	640	180	465	–2,018	74	–495	–1,154
Divestments	4	–4	–12			6	–7
Special Items	–33	–46	–66		–34	–639	–818
Net result (continuing operations)	611	130	386	–2,018	40	–1,128	–1,979

Interest income and interest expenses breakdown by segments

2012	**Insurance Benelux**	**Insurance CRE**	**Insurance US**	**Insurance US Closed Block VA**	**ING IM**	**Corporate Line Insurance**	**Total**
Interest income	**2,419**	**345**	**3,298**	**133**	**31**	**116**	**6,341**
Interest expense	**123**	**1**	**35**		**4**	**303**	**467**
	2,296	**344**	**3,262**	**133**	**27**	**–188**	**5,874**

Interest income and interest expenses breakdown by segments

2011	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	ING IM	Corporate Line Insurance	Total
Interest income	2,655	359	3,224	205	10	19	6,472
Interest expense	228	1	45		7	248	529
	2,427	358	3,179	205	3	–229	5,943

Interest income and interest expenses breakdown by segments

2010	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	ING IM	Corporate Line Insurance	Total
Interest income	2,610	363	3,390	28	10	–377	6,024
Interest expense	151		76	5	5	182	419
	2,459	363	3,314	23	5	–559	5,605

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

Notes to the consolidated annual accounts of ING Insurance continued

Total assets and Total liabilities by segment

	2012		2011		2010	
	Total assets	**Total liabilities**	Total assets	Total liabilities	Total assets	Total liabilities
Insurance Benelux	**98,699**	**86,393**	95,928	83,790	92,476	83,518
Insurance Central and Rest of Europe	**13,074**	**11,725**	11,729	10,724	12,671	11,288
Insurance US	**121,145**	**108,777**	118,329	106,696	114,217	102,780
Insurance US Closed Block VA	**39,476**	**37,272**	41,362	38,771	42,477	40,254
Insurance Latin America [(1)]					3,162	1,557
Insurance Asia/Pacific [(1)]	**59,673**	**53,711**	62,281	56,712	57,029	52,332
ING IM	**1,378**	**505**	1,385	605	2,033	1,184
Corporate Line Insurance	**51,194**	**23,574**	55,722	29,674	46,635	24,960
Total Insurance	**384,639**	**321,957**	386,736	326,972	370,700	317,873
Eliminations	**–44,776**	**–9,610**	–51,349	–15,122	–45,041	–12,484
Total	**339,863**	**312,347**	335,387	311,850	325,659	305,389

[(1)] Assets and Liabilities from discontinued operations are included in the segment in which it was originally included.

47 INFORMATION ON GEOGRAPHICAL AREAS

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

Geographical areas

2012	**Netherlands**	**Belgium**	**Rest of Europe**	**North America**	**Latin America**	**Asia**	**Australia**	**Eliminations**	**Total**
Total income	**7,927**	**1,251**	**2,579**	**15,216**				**–212**	**26,761**
Total assets	**143,188**	**11,496**	**13,759**	**174,516**		**66,865**	**1,513**	**–71,474**	**339,863**

Geographical areas

2011	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Eliminations	Total
Total income	12,219	1,297	2,477	15,793				–2,625	29,161
Total assets	146,558	10,892	12,938	172,542		70,476	1,713	–79,732	335,387

Geographical areas

2010	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Eliminations	Total
Total income	10,861	1,686	2,707	15,109				–2,286	28,077
Total assets	146,726	11,253	13,600	168,758	3,162	63,047	1,911	–82,799	325,659

48 NET CASH FLOW FROM INVESTING ACTIVITIES

Information on the impact of companies acquired or disposed is presented in Note 28 'Companies acquired and companies disposed'.

Notes to the consolidated annual accounts of ING Insurance continued

49 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

Interest and dividend received and paid

	2012	2011	2010
Interest received	**6,538**	8,038	7,441
Interest paid	**–474**	–988	–1,072
	6,064	7,050	6,369
Dividend received	**260**	388	313

50 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

	2012	2011	2010
Cash and bank balances	**2,980**	3,230	4,057
Short term deposits	**2,409**	8,347	4,589
Cash and cash equivalents classified as Assets held for sale	**1,328**		28
Cash and cash equivalents at end of year	**6,717**	11,577	8,674

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

Risk management ING Insurance

amounts in millions of euros, unless stated otherwise

ING INSURANCE

RISK MANAGEMENT GOVERNANCE

ING is engaged in selling a broad range of life and non-life insurance products. Risks from these products arise with respect to the adequacy of insurance premium rate levels and provisions for insurance liabilities, earnings and capital position, as well as uncertainty as to the future returns on investments of the insurance premiums. Financial Risks include investment risk, asset and liability management and surplus and capital issues. Insurance product risks include insurance risks (actuarial and underwriting) and interest rate sensitivity. Compliance risk, legal risk, reputation risk and operational risk are classified as Non-Financial Risks.

The Management Board Insurance EurAsia (MBE) consists of 8 members, including the members of the ING Group Executive Board, and is responsible for managing risks associated with the insurance activities in Europe and Asia. The Board US Incorporated consists of 6 members, including the members of the ING Group Executive Board, and is responsible for managing risks associated with the insurance activities in the United States (ING Insurance US.

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

In 2011, ING has completed the divestment of its Latin American pensions, life insurance and investment management operations. This transaction was the first major step in the divestment of ING's insurance and investment management activities. In 2012, ING Insurance and investment management activities in Asia and its reinsured Japan SPVA businesses in Corporate Reinsurance are classified as held for sale and as discontinued operations. In the remaining section of ING Insurance EurAsia, the risks of the discontinued operations in Asia have been removed from the figures in 2011 and 2012.

Governance

Risk governance ensures a robust and responsive governance structure that adequately manages the risks ING is exposed to and effectively responds to adversity so as to preserve ING's financial position as determined by the risk appetite.

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

Ongoing changes in the regulatory environment

Amidst the current and on-going crisis, it is inevitable that regulation will seek more certainty from undertakings. Regulation will impact insurers in many ways which will require adaptation and alignment with internal views. Inter alia, regulation will seek to ensure undertakings maintain capital adequacy. Regulation will also provide impediments to risk-based pricing in the form of anti-discrimination restrictions whereby certain risk factors will not be allowed for risk-based pricing and provisioning.

ING Risk Management will take these developments into account preparing for the new regulatory environment. The involvement in industry associations such as the CRO Forum, CFO Forum and Pan European Insurance Forum (PEIF) keeps ING close to these developments and enables responsive action in this regard.

- The most important regulatory focus for the insurance industry is the continued development by the European Union of the Solvency II capital adequacy framework. Solvency II is intended to be the European, economic, risk-based and market-consistent regime whereby capital requirements are directly dependent on an insurer's assets and liabilities. However, some of the proposed measures currently under discussion are considered unduly conservative and deviate from economic principles. It is therefore very important that the Solvency II framework, as originally envisaged, will become market-based, avoid pro-cyclicality and adequately reflect the position of insurance undertakings during market volatility. The EU politicians and regulators drafting the framework should therefore ensure that the measures to be implemented are robust enough throughout the cycle. ING Insurance EurAsia is working actively with relevant stakeholder in the insurance industry to advise EU politicians and regulators to come up with concrete proposals that realise these objectives;
- The insurance business is affected by regulatory action, for instance regulations affecting taxes, pension regulation and customer protection. In the first quarter, the European Court of Justice ruled that price differentiation based on gender for any insurance products sold in the European Union is not allowed from 21 December 2012 onwards. This will only impact new business and exclude repricing and extensions. ING Insurance EurAsia will adapt to these impediments such that ING Insurance EurAsia will continue to provide protection offerings to the current, prospective and future policyholders;
- State insurance regulators in the United States and the National Association of Insurance Commissioners (NAIC) regularly re-examine existing US laws and regulations applicable to insurance companies and their products. The NAIC adopted the Valuation Manual for Principles Based Reserving of Life Insurance and Annuity products at their December 2012 meeting. The Manual now must be adopted by 42 states prior to becoming effective. The NAIC also adopted the Risk Management and Own Risk and Solvency Assessment Model Act (the 'ORSA Model Act') in 2012. This Act requires companies to do an ORSA by 1 January 2015.

IFRS reserve adequacy test

As per 31 December 2012, the reserves for ING Insurance remained adequate above the prudent 90% confidence level, and all business lines exceeded the 90% confidence level with the exception of the US Closed Blocked Variable Annuities (VA), which improved from EUR –3.2 billion at year-end 2011 to EUR –1.7 billion at year-end 2012, driven by assumption and model changes as well as market performance during the year. That improvement was offset by a decline at Insurance Benelux as a result of derisking and low interest rates as well as new mortality tables in the Netherlands.

If the aggregate reserves for a business line fall below the 50% confidence level, the shortfall must be recognised immediately in the profit and loss (P&L) account. Such a charge may be triggered in Asia as ING divests its business units in the region, because a reserve inadequacy in Japan is currently compensated by a surplus in other units. The reserve inadequacy for the Japanese insurance business, including the VA guarantees reinsured by ING Reinsurance, was approximately EUR 0.4 billion at the 50% confidence level at 31 December 2012. This is comprised of an inadequacy of approximately EUR 0.9 billion for the closed block VA, offset by a sufficiency of EUR 0.5 billion for the corporate-owned life insurance business. The nature and timing of any P&L charge from such reserve inadequacy depends on the closing of other divestments in Asia as well as various options currently under investigation for ING Life Japan. Further announcements will be made if and when appropriate.

New mortality tables in The Netherlands

The Dutch Bureau of Statistics (CBS) published their bi-annual update of mortality projections in the Netherlands, which are used by the Dutch insurance businesses. The update had no impact on the IFRS P&L, but is reflected in the IFRS reserve adequacy test and the capital ratio (IGD ratio) for ING Insurance. The impact on the IGD ratio was approximately 4 percentage points. Nationale-Nederlanden established an additional provision for longevity more than 15 years ago to cover the risk related to increasing life expectancy in the group pension business. Upon renewal, group pension contracts are recalculated and, to date, any required increase in the provision for insurance contracts due to mortality has been offset against the longevity provision.

ING INSURANCE EURASIA

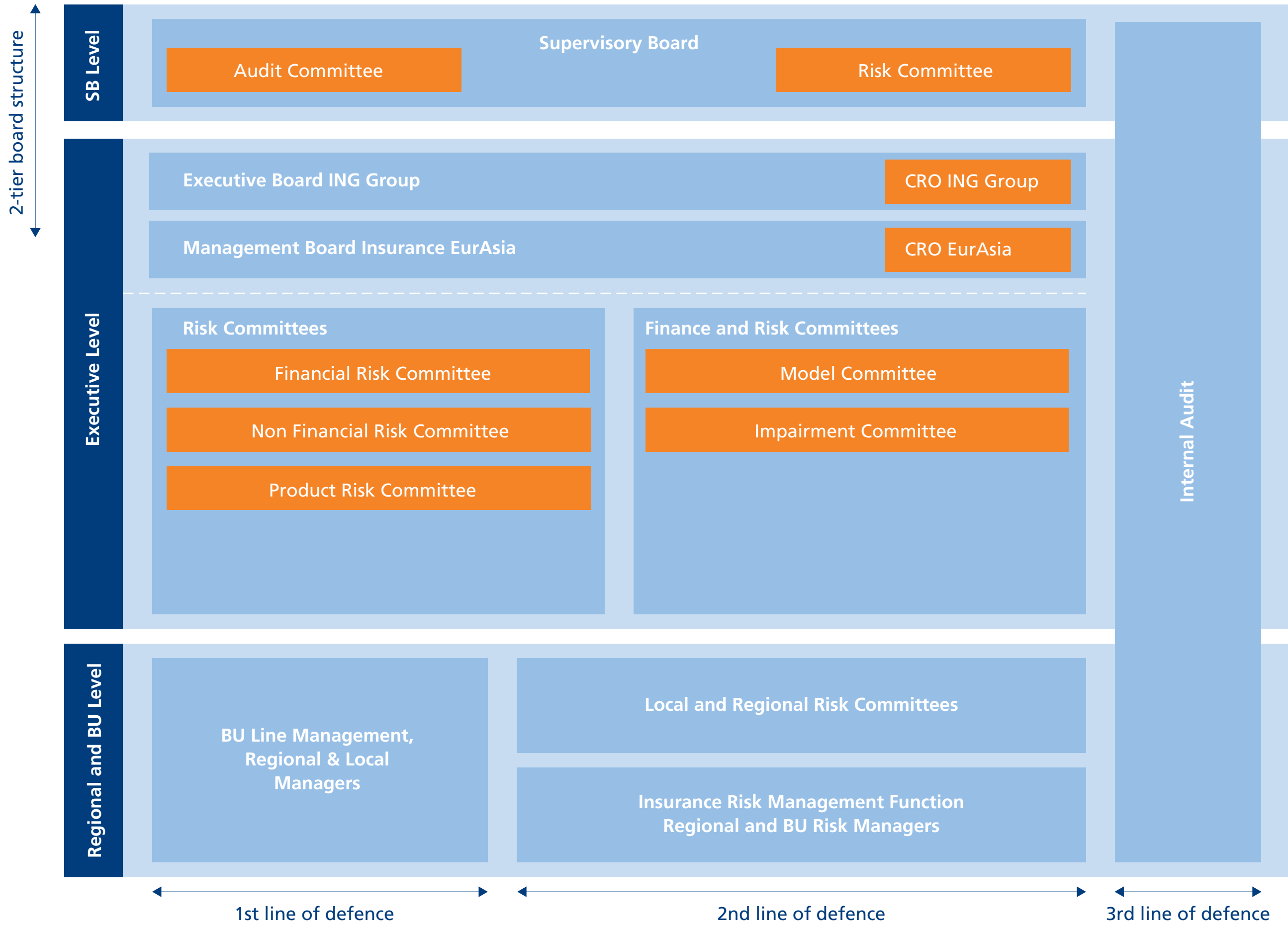
MISSION AND OBJECTIVES

Risk is at the heart of the insurance business model. Adding value to clients and shareholders by appropriately pooling and diversifying risks is the core function. Insurance risks are borne by accepting premiums from policyholders which in turn are invested, thereby generating return potential and market risks. Risk Management is the basis for creating value for policyholders and shareholders. The willingness to take risks and ability to appropriately manage the risks we accept and those we do not accept is of paramount importance.

ING's approach to risk management is facilitated by a risk appetite framework that establishes the risks the company wishes to acquire, avoid, retain and/or remove in its pursuit of its strategic objectives. The risk appetite framework combined with the risk measurement framework is the basis for our day to day risk management execution. Business units report regularly on their risk profile.

RISK GOVERNANCE

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



ING Board level risk oversight

ING Insurance EurAsia has a two-tier board structure consisting of the MBE, including the Executive Board members of ING Group and the Supervisory Board Insurance EurAsia.

Risk management continued ING Insurance EurAsia

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

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

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

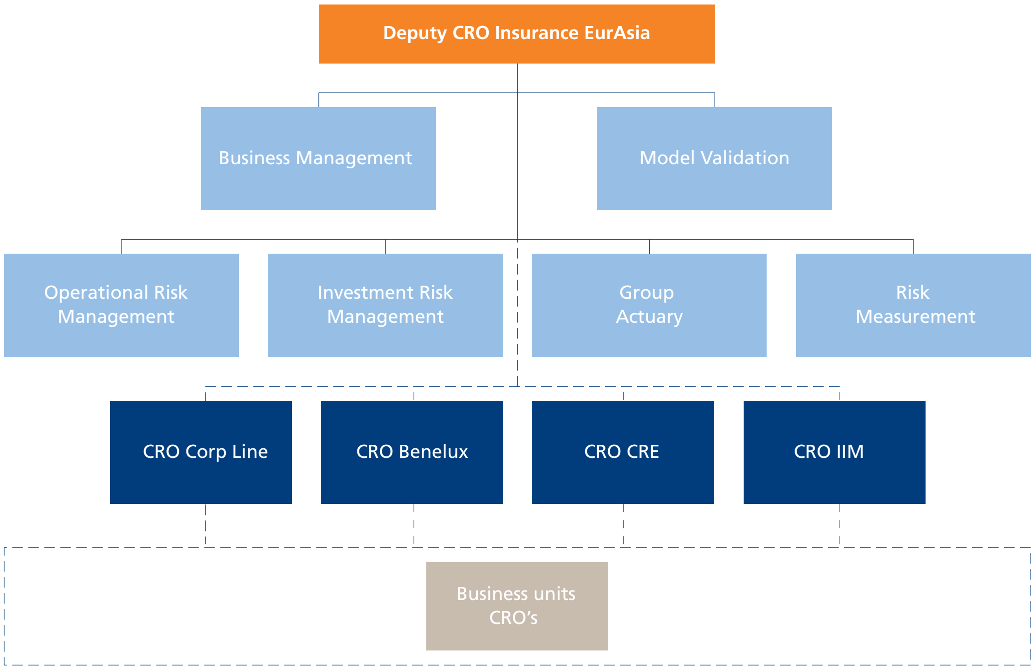
As part of the integration of risk management into the strategic planning process, the MBE annually issues a Planning Letter which provides the organisation with the corporate strategic planning, and addresses key risk issues. Based on this letter the business lines develop their own business plans,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

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

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

The CRO delegates day-to-day Risk Management within ING Insurance EurAsia to the Deputy CRO. The Deputy CRO department consists of several risk functions that support the overall Risk Management function. Doug Caldwell joined as CRO of ING Insurance EurAsia as of December 2012. A new reporting structure will become effective in 2013.

Risk management continued ING Insurance EurAsia



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

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

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

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

Risk management continued ING Insurance EurAsia

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

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

RISK APPETITE FRAMEWORK
Our risk appetite determines what risk our companies wish to acquire, to avoid, to retain and/or to remove. It defines our attitude to risk we would like to and are able to take in the near future and consists of risk preferences, our risk tolerances, our risk limits and controls. The risk appetite is determined for each of our business units. The risk appetite framework combined with our risk measurement framework is the basis for our day to day risk management execution. Business units report regularly on their risk profile.

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

The risk appetite, tolerance, and limit structure includes the 'Available Financial Resources over Economic Capital' ratio (AFR/EC), leverage ratios, IFRS earnings sensitivities, local capital sensitivities, and concentration risks. The AFR/EC ratio is defined as the Available Financial Resources (AFR) over the amount of capital required for the current net asset value to absorb unexpected losses in a scenario based on a 99.5% confidence level with a one year time horizon. The confidence interval and horizon are aligned to Solvency II.

Risk Monitoring
ING Insurance EurAsia uses various tools to monitor its risk exposures – ensuring we remain within our risk appetite. A robust risk appetite combined with our governance frameworks ensures timely response to address any exposures that breach our risk appetite. Below we list the main risk controls that are in place to monitor risk and allow management to take risk mitigating actions or revisit our risk appetite to ensure it still lies within our risk capacity:

- Financial risks are reported to the Risk Committee of ING Insurance EurAsia at each level of the organisation through Financial Risk Dashboards. The risk committee monitors the exposures versus the tolerances and limits and can decide to take mitigating actions or waivers. Waivers need to be asked upfront. Capital ratios are reported to the Management Board through the Capital Adequacy Report;
- Investment risks are reported at group level to the Risk Committee of ING Insurance EurAsia through the Investment Risk Dashboard and the Liquidity Risk Report. The Risk Committee monitors the exposures versus the tolerances and limits and can decide to take mitigating actions or waivers. Waivers need to be asked upfront;
- Furthermore, the investment mandate process, the New Investment Class Approval and Review Process (NICARP), policies and procedures on investment risk are monitored by the Financial Risk Committee;
- Underwriting risk is monitored mostly through the product approval process (PARP) at business line and business unit level. Adequacy of our technical reserves is monitored and reported at all levels of the organisation;
- The non-financial risks are monitored through the non-financial risk dashboard (NFRD) process at all levels in the organisation. The NFRD provides management at all organisational levels with information about key operational, compliance and legal risks and incidents.

Model Risk
Model governance and validation should ensure that the models that are used are valid for their intended use. Model validation is reporting quarterly on their findings to the Finance & Risk Committee. All models in scope are classified as according to their materiality based on internal classification.

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

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

Discontinued operations
In 2012, ING Insurance and investment management activities in Asia Pacific and its reinsured Japan SPVA businesses in Corporate Reinsurance are classified as held for sale and as discontinued operations. Risks in the discontinued operations have and will be actively managed according to ING best practices. The main risk in Asia Pacific remains interest rate risk. This is mainly present in South Korea and management continues to take actions to reduce this risk.

Sales agreements have been reached for Malaysia, Thailand, Hong Kong/Macau and India insurance operations. For Malaysia, the sale was completed in December.

The remaining part of the ING Insurance EurAsia risk management paragraph will exclude the discontinued operations. The 2011 comparative numbers have been restated accordingly.

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

Model disclosure
ING quantifies the impact of the following types of risk in its EC model:
- Market Risk – Most asset are individually (re)valuated under different economic scenarios. The rest of the assets (mortgages) and the financial component of the liabilities are replicated by the business units using a finite set of standard financial instruments. The replication is based on stochastic cash flows produced by the local actuarial systems using a set of economic scenarios. The quality of the replication is monitored by several statistical criteria, including R-squared, and benchmarked against market value sensitivities;
- Credit default Risk – Calculated on portfolios which contain credit or transfer risk, including investment portfolios. The EC is calculated based on the following seven drivers: Probability of Default (measure of the standalone creditworthiness of individual debtors), Exposure at Default (estimated size of the financial obligation at the moment of default in the future), Loss Given Default (estimated recovery value of the underlying collateral or guarantees received (if any) and the unsecured part), Industry of the debtor, Country of the debtor, Remaining tenor of the underlying transactions and Type of Assets;
- Insurance Risk – Calculated by the business unit for all sub-risks for Life, Morbidity and P&C Risk;
- Business Risk – Calculated by the business unit for Persistency, Expense and Premium-rerating Risk;
- Operational Risk – Calculated by a corporate risk model for all business units, in alignment with Solvency II Standard Formula.

Risk management continued ING Insurance EurAsia

EC Calculation and aggregation

For the EC calculation the risk system (ECAPS) uses a sufficient number of scenarios to simulate market risks and credit default risk. A dependency structure is used to reflect correlations between risk drivers when generating the economic scenarios. The scenarios are calibrated based on the historical time series of the market risk drivers using relevant available historical data. Volatilities and correlations are calibrated to represent the distribution on a quarterly frequency. For each of the scenarios the market value of assets and liabilities and the change in value of the Market Value Surplus (MVS) is recalculated. Sorting the results and selecting the 99.5% worst change in MVS result provides the Economic Capital for the given level of aggregation.

The EC numbers for business and insurance risk are calculated in local systems based on industry data, experience studies and expert judgement. These EC numbers are aggregated with the EC for market risk and credit default risk, taking into account diversification. Operational risk capital is treated as an add-on and therefore not part of the diversification between risk types.

For EC calculation ING Insurance EurAsia uses a one-year time horizon. The Economic Capital model will continue to be updated to reflect most recent market data, developments in best practices, and regulations such as Solvency II.

Risk profile

The following table presents the reconciliation from the EC 2011 for ING Insurance EurAsia as reported in the Annual Report 2011, to the comparable basis for ING Insurance EurAsia 2012. This reflects changes in scope, models and methodology. All risk figures disclosed in the remaining part of ING Insurance EurAsia will be on comparable basis to 2012.

Economic Capital 2011 reconciliation

amounts in billions of euros	2011
As reported for ING Insurance EurAsia in 2011	10.3
Exclude ING Insurance Asia Pacific discontinued operation	–3.8
ING Insurance EurAsia excluding discontinued operations	6.5
Change in models and methodology	–0.9
ING Insurance EurAsia 2011 excluding discontinued operation, on a basis comparable to 2012	5.6

The exclusion of ING Insurance Asia Pacific entities relates to all business units in Asia Pacific, ING's Insurance and investment management businesses and the reinsured Japan SPVA businesses in corporate reinsurance that have been classified as discontinued operations and that were considered in 2011 EC. Reference is made to Note 23 'Discontinued operations'.

In 2012, ING Insurance EurAsia revisited and refined Economic Capital methodologies. This resulted in an overall decrease of EC of EUR 0.9 billion as per year end 2011. This is mainly driven by changes in market risk methodology. In 2011 the impact of several future model changes was anticipated and the changes were fully implemented in 2012. The main changes leading to a lower market risk EC were driven by lower than anticipated contributions of spread and equity risk. Furthermore the methodology to capture equity and interest rate option hedges was refined, leading to a lower equity and interest rate risk EC. Simultaneously, EC increased for business risk which was updated to better capture risk for expense risk and persistency. The tables below start with the restated figures for EurAsia after these model changes.

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

Economic Capital break-down ING Insurance EurAsia excluding discontinued operations (99.5%) by business line

	2012	2011
Insurance Benelux	**4,324**	4,331
Insurance Central & Rest of Europe	**1,082**	808
Corporate Line Insurance EurAsia [(1)]	**462**	457
Total Insurance EurAsia excluding discontinued operation	**5,868**	5,596

(1) Corporate Line Insurance EurAsia includes funding activities at ING Insurance EurAsia level, Capital Management transactions and corporate reinsurance.

While the figures above are shown by business line, the diversification across ING Insurance EurAsia businesses is calculated across business units. The increase in Central and Rest of Europe was mainly due to a change in mass lapse assumptions driven by Solvency II. Total diversification across ING Insurance EurAsia's business units and the Corporate Line Insurance is 28% (2011: 31%).

Risk management continued ING Insurance EurAsia

Economic Capital for ING Insurance EurAsia increased from 2011 to 2012 primarily due to increases in insurance and business risk, partly offset by significant de-risking activities in the Benelux and overall lower market valuations leading to a lower market risk. The decrease in credit default risk due to a methodology change was offset by a lower diversification of this risk with other risk categories. The Economic Capital assigned to Corporate Line Insurance EurAsia primarily relates to foreign exchange translation risk of the market value surplus of the business units in non-euro countries to the euro.

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

Economic Capital break-down ING Insurance EurAsia excluding discontinued operations (99.5%) by risk category

	2012	2011
Insurance risk	1,921	1,642
Market risk	3,153	3,404
Credit default risk	357	557
Operational risk	391	344
Business risk	2,337	2,118
Diversification across risk types	–2,291	–2,469
Total insurance operations EurAsia excluding discontinued operation	5,868	5,596

INSURANCE RISK

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

Model disclosure

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

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

Economic capital

Economic Capital ING Insurance EurAsia excluding discontinued operations (99.5% undiversified) by risk category

	2012	2011
Mortality	1,296	1,119
Morbidity	283	263
P&C	342	260
Total Insurance Risk	1,921	1,642

The mortality risk EC increased because of a mortality table update in the Netherlands and lower interest rates which increased the value of the longevity risk. The P&C risk mainly increased due to an improved implementation of the expected exposure with respect to new business within one year.

Risk management continued ING Insurance EurAsia

Sensitivities

IFRS Earnings sensitivities for Insurance risks excluding discontinued business

	2012	2011
Mortality	**–28**	–21
Morbidity	**–99**	–99
P&C	**–82**	–75

Overall exposure to insurance risks did not change significantly during 2012. Annual review of actuarial assumptions for Insurance risk is reflected in the numbers presented in the IFRS Earnings sensitivities above.

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

Risk not mitigated by diversification is managed through concentration and exposure limits and through reinsurance and/or securitisations:

- Tolerance limits for non-life insurance risks are set by line of business for catastrophic events and individual risk;
- Tolerance limits for life insurance risks are set per insured life and significant mortality events affecting multiple lives such as pandemics;
- Reinsurance is used to manage tolerance levels. Reinsurance creates credit which is managed in line with the ING Insurance EurAsia reinsurance credit risk policy;
- Catastrophic losses resulting from events such as terrorism are considered to be uninsurable. ING participates in industry pools in various countries to mitigate this risk.

BUSINESS RISK

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

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

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

Economic Capital

Economic Capital ING Insurance EurAsia excluding discontinued operations (99.5% undiversified) by risk category

	2012	2011
Business risk	**2,337**	2,118

Economic Capital increased mainly due to an increase in persistency risk and to a lesser degree a higher expense risk, as a result of further alignment to the Solvency II regulatory framework.

MARKET RISK

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

Risk management continued ING Insurance EurAsia

Model disclosure

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

	Description	Key Drivers
Interest Rate	Impact of interest rate changes on the value of assets and liabilities. AFR & IFRS earnings sensitivities: – Measured by the impact of a 30% upwards and downwards shock relative to the ten year swap rate. Minimum shock is floored at 50 basis points and capped at maximum 150 basis points. Shocks are applied to forward rates up to the last available tenor of the interest rate curve	IFRS Earnings: Guaranteed separate account pension business in the Netherlands. AFR & EC: Embedded options in the guaranteed separate account pension business in the Netherlands.
Equity	Impact of changes in equity prices which impacts direct equity exposure and loss of fee income from unit linked, pension and fund business. AFR & IFRS earnings sensitivities: – Measured by the impact of a 25% upwards and downwards movement in equity prices	IFRS Earnings, AFR & EC: Direct equity exposure and embedded options in guaranteed separate account pension business in the Netherlands
FX	Impact of losses related to changes in exchange rates. AFR & IFRS earnings sensitivities: – Measured by the impact of a 10% up and down movement of currencies compared to the euro	IFRS Earnings, AFR & EC: Translation risk of IFRS Earnings and AFR from non-euro businesses
Implied Volatility (Equity & Interest Rate)	Impact of losses on assets and liabilities due to movements in the volatility implied from market option prices. AFR & IFRS earnings sensitivities: – For interest rate measured by the impact of a relative increase of 30% in implied volatilities – For Equity measured by the impact of a relative increase in implied volatilities based on tenor: 80% for tenors less than 1 year, up 30% for tenors between 1and 3 years, up 20% for tenors between 3-7 years and up 10% for tenors of 7 years and above.	IFRS Earnings, AFR & EC: Embedded options in: – guaranteed separate account pension business in the Netherlands
Credit Spread	Impact of an increase in credit spreads on investments in fixed income securities offset by movements in the liquidity premium on the liabilities. AFR & IFRS earnings sensitivities: – Measured by the impact of a relative increase based on multiplying duration by a rating based shock (e.g. single A shock is 110 basis points). – AAA and AA rated government bonds and home government bonds in local currency are excluded, exception only applicable to Greek bonds. – Shocks for structured credit are 50% higher than for corporate and government bonds. – Liquidity premium is shocked by 50 basis points up to a certain tenor depending on the currency (e.g. EURO 15 years, USD 30 years). In order to avoid double counting, only Credit Spread risk for AFR is measured.	IFRS: Impaired assets in Greece AFR & EC: Debt securities in all regions. Liquidity premium offset primarily in the Benelux because liquidity premiums are positively correlated with credit spreads
Real Estate Price Risk	Impact on the value of Real Estate assets because of a change in earnings related to Real Estate activities and/or a change in required investor yield. AFR & IFRS earnings sensitivities: – For AFR this is measured by the impact of a 15% drop in real estate prices for all real estate holdings. – For IFRS Earnings this is measured by the impact of a 15% drop in real estate prices only for the minority holdings and direct for all real estate revalued through P&L. Other holdings will be included in case of possible impairments caused by the drop in prices.	IFRS Earnings, AFR & EC: Real estate holdings in the Benelux

Risk management continued ING Insurance EurAsia

Economic Capital

Economic Capital ING Insurance EurAsia excluding discontinued operations (99.5% undiversified) by risk category

	2012	2011
Market risk	**3,152**	3,404

Economic capital reduced due to a higher offset of the Liquidity Premium in a credit spread up scenario due to an increased duration of our liabilities. Furthermore a better matching of assets and liabilities resulted in lower interest rate and interest rate implied volatility risk. These decreases in Economic Capital were partly offset by reduced positions in equity put options.

Sensitivities

Sensitivities for market risks excluding discontinued operations

	AFR **2012**	IFRS Earnings **2012**	AFR 2011	IFRS Earnings 2011
Interest Rate Up	**97**	**–61**	306	–91
Interest Rate Down	**–59**	**103**	–310	314
Equity Up	**674**	**354**	708	133
Equity Down	**–596**	**–425**	–158	124
Real Estate	**–780**	**–762**	–802	–778
FX	**–199**	**–34**	–189	–21
Credit Spread	**336**	**–3**	332	–26
Implied Volatility	**–104**	**14**	–153	–16

The Available Financial Resources are currently mainly sensitive to declining equity and real estate prices. Compared to 2011 the downward interest rate sensitivity was reduced by hedges put in place in the Benelux. The downward equity sensitivity increased compared to 2011 as a result of reduced positions in equity put options.

The IFRS earnings are largely sensitive to interest rate movements and a decline in real estate and equity prices. During 2012 the sensitivities for real estate risk remained fairly stable. The interest rates sensitivities compared to 2011 are primarily influenced by the additional hedges put in place in the Benelux. The equity sensitivities have increased compared to 2012 as equity prices have increased and hedges expired and were not renewed during 2012.

During a period of declining interest rates, profitability may suffer as a result of a decrease in the spread between interest rates earned on assets and interest rates credited to insurance policyholders and annuity contract owners. An extended period of declining interest rates may cause ING Insurance EurAsia to change the long term view of the interest rates that can be earned on the investments.

REAL ESTATE

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

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

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

Risk management continued ING Insurance EurAsia

Real Estate Exposure Profile by sector type excluding discontinued operations

Sector	Revalued through P&L	Not revalued through P&L	Revalued through P&L	Not revalued through P&L
	2012	**2012**	2011	2011
Residential	**123**	**898**	109	967
Office	**732**	**539**	886	605
Retail	**1,462**	**371**	1,596	379
Industrial	**406**		440	
Other	**156**	**591**	212	518
Total	**2,879**	**2,399**	3,243	2,469

As at 31 December 2012, ING Insurance EurAsia has EUR 3.2 billion of real estate related investments (excluding leverage). ING Insurance EurAsia's real estate exposure (i.e. including leverage) is EUR 5.3 billion of which EUR 2.9 billion is recognised at fair value through P&L and EUR 2.4 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 434 million, mainly as a result of negative fair value changes (EUR 172 million), disposals (EUR 130 million), sale of ING Insurance Malaysia (EUR 113 million) and other decreases such as impairments (EUR 19 million).

CREDIT RISK

The main credit risk for ING Insurance EurAsia stems from the bond portfolio. This risk is measured through the credit spread risk economic capital that is part of the market risk methodology. The spread risk captures differences in risk (and diversification) between rating classes and regions. For corporate bonds, the concentration risk on individual issuers is also managed with rating based issuer & lending limits that prevent large exposures in one (group of related) single name(s). An outright loss given default limit serves as the final backstop for corporate exposures. Government exposures are separately monitored. The credit risk profile is monitored and reported in the Investment Risk Dashboard.

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

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

The economic capital for credit default risk on residential mortgages, term loans (including private placements) as well as the credit default risk on OTC derivatives, money market lending and reinsurance is measured by looking at each issuer’s probability of default (PD) and stressed loss given default (LGD).

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

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

Risk management continued ING Insurance EurAsia

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

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

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

Economic Capital

Economic Capital ING Insurance EurAsia excluding discontinued operations (99.5% undiversified) by risk category

	2012	2011
Credit default risk	**357**	557

The drop in credit default risk is mainly from aligning the ING Insurance EurAsia's model with Solvency II guidelines. Note that the lower Economic Capital of the updated credit default model is offset by a lower diversification benefits with other risks.

Sensitivities

IFRS Earnings sensitivities for Insurance Credit Risks excluding discontinued operations

	2012	2011
Credit Default	**–79**	–129

Risk Profile
ING Insurance EurAsia's goal is to maintain well diversified investment grade portfolio while avoiding large risk concentrations. ING Insurance EurAsia diversifies and limits the credit portfolio with regard to rating classes, industries and geography. The risk of the traded fixed income portfolio is (mainly) measured through the Spread Risk model as well as the Interest Risk model. The risk of the non-traded fixed income and money market products is (mainly) measured with the Credit Default model. The specific risks are contained through the mandate restrictions, the combined Group issuer and lending concentration limit framework and the separate pre-settlement and money market limit frameworks. Please note that for all of the following tables, the figures exclude all ING intercompany exposures and include volume effects.

Risk developments in 2012

Monitoring exposures and Eurozone developments
The problems in the Eurozone have been a top priority for risk management throughout 2012, and will continue to be a top priority in 2013. ING Insurance EurAsia closely monitors the exposures in debt securities, lending and credit derivatives in the involved countries, and regularly assesses whether the positions still fit with its risk appetite. This assessment is supported by internal stress tests.

Throughout 2012 ING Insurance EurAsia has reduced its positions in especially ABS securities and governments bonds for some of the weaker countries as a result of these risk analyses.

Risk management continued ING Insurance EurAsia

Several European countries have been downgraded in 2012. But there have also been some positive developments related to the Eurozone crisis. Financial markets rallied due to amongst others the Long-term Refinancing Operations from the ECB and better than expected economic data. Credit spreads for some of the involved countries tightened significantly. On 21 February 2012 a new common understanding on key terms of a voluntary exchange of privately held Greek government bonds was reached. In March 2012 the Treaty of Stability, Coordination and Governance ('Fiscal Treaty') was signed by 25 EU member states. The treaty encourages greater long term fiscal responsibility on the part of the individual member states and bolsters market confidence in the Euro and European sovereign debt. In the summer of 2012 the chairman of the ECB announced that ECB would take any appropriate action that was deemed necessary to ensure the stability of the Euro. These measures helped to calm down the situation at the global financial markets and government bond rates of peripheral countries decreased to more manageable levels.

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

Greece, Italy, Ireland, Portugal, Spain and Cyprus

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

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

During 2012, ING Insurance EurAsia further improved the scope and the presentation of the disclosures of exposure on Greece, Italy, Ireland, Portugal, Spain and Cyprus. Furthermore, certain definitions have been improved and/or aligned. Comparative figures as per 31 December 2011 have been amended for ABS exposure. In total these restatements did not have a material impact on ING Insurance's exposure on Greece, Italy, Ireland, Portugal, Spain and Cyprus.

On 21 July 2011 a Private Sector Involvement to support Greece was announced. This initiative involved a voluntary exchange of existing Greek government bonds together with a Buyback Facility. In the first quarter of 2012, on 12 March 2012, the agreement under the Private Sector Initiative ('PSI') to exchange Greek Government bonds into new instruments was executed. Under this exchange, ING received new listed Greek Government bonds, listed European Financial Stability Facility ('EFSF') notes and listed short-term EFSF notes. Furthermore, ING received listed GDP-linked securities issued by Greece.

The table below provides information on ING Insurance EurAsia's exposure with regard to Greece, Italy, Ireland, Portugal and Spain. Unless otherwise indicated, the amounts represent exposure values and exposures are included based on the country of residence. Cyprus is not included in the table below as ING Insurance EurAsia has no credit risk linked to this country.

Risk management continued ING Insurance EurAsia

Greece, Italy, Ireland, Portugal and Spain - Total risk exposures (1)

2012	Greece	Italy	Ireland	Portugal	Spain	Total
Residential mortgages and other consumer lending	12				19	31
Corporate Lending		50	25			75
Financial Institutions Lending					254	254
Government Lending						
Total Lending	12	50	25	0	273	360
RMBS	30	330	198	110	351	1,019
CMBS						
Other ABS		32	175		136	343
Corporate Bonds		316	258	27	183	784
Covered Bonds		18	15		507	540
Financial Institutions' Bonds (unsecured)		52	36	38	82	208
Government Bonds	36	1,345	53	5	967	2,406
Total Debt Securities	66	2,093	735	180	2,226	5,300
Real Estate	21	275		217	342	855
Total risk exposure	99	2,418	760	397	2,841	6,515

(1) The exposures reported are credit, market and real estate exposures based on source systems and measurement criteria that can differ from those of similar exposures reported in Note 3 'Available-for-sale Investments' of the Annual Accounts.

Greece, Italy, Ireland, Portugal and Spain - Total risk exposures (1)

2011	Greece	Italy	Ireland	Portugal	Spain	Total
Residential mortgages and other consumer lending	11				19	30
Corporate Lending		50	80			130
Financial Institutions Lending	5				347	352
Government Lending						0
Total Lending	16	50	80	0	366	512
RMBS		451	476	130	410	1,467
CMBS						0
Other ABS		67	255		90	412
Corporate Bonds		371	265	26	175	837
Covered Bonds		18	15		675	708
Financial institutions Bonds (unsecured)		55	40	105	178	378
Government Bonds	104	1,425	53	178	984	2,744
Total Debt Securities	104	2,387	1,104	439	2,512	6,546
Real Estate	36	327		228	427	1,018
Total risk exposure	156	2,764	1,184	667	3,305	8,076

(1) The exposures reported are credit, market and real estate exposures based on source systems and measurement criteria that can differ from those of similar exposures reported in Note 3 'Available-for-sale Investments' of the Annual Accounts.

Total exposure to the GIIPS countries was reduced by EUR 1,561 million in 2012. ING Insurance EurAsia reduced its exposure in debt securities with RMBS position diminishing by EUR 448 million, mainly in Ireland by EUR 278 million, and governments bonds going down by EUR 337 million, mainly in Portugal by EUR 173 million. Its lending portfolio decreased by EUR 152 million, driven by Financial Institutions lending by EUR 98 million, mainly in Spain by EUR 93 million, and corporate lending with a decrease of EUR 55 million in Ireland.

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

Risk management continued ING Insurance EurAsia

Risk classes

Risk Classes: ING Insurance EurAsia portfolio excluding discontinued operations , as % of total outstandings (1)			
		2012	2011
1	(AAA)	**33.8%**	41.5%
2-4	(AA)	**22.8%**	13.1%
5-7	(A)	**16.3%**	19.2%
8-10	(BBB)	**11.3%**	8.9%
11-13	(BB)	**4.8%**	5.3%
14-16	(B)	**1.1%**	0.8%
17-22	(CCC and Problem Grade)	**0.4%**	0.4%
	Unrated	**9.5%**	10.8%
		100.0%	100.0%

(1) Based on lending, pre-settlement, money market and investment activities. The ratings reflect probabilities of default and are based on ultimate parent. Collateral is not taken into consideration.

The changes in the ING Insurance EurAsia rating class distribution over 2012, as reflected in the table above, were mainly caused by the following events: in January 2012, S&P downgraded 9 European sovereigns, among which France and Austria (from AAA to AA+), Spain (from AA- to A) and Italy (from A to BBB+). Spain was later further downgraded to BBB+ (in April) and in October, to BBB-. In addition, EUR 750 million (historical cost value) of equities was sold in 2012 as an active derisking measure by Insurance Benelux and reinvested in high-quality (mainly sovereign) bonds. The above-mentioned changes explain the decreases in the AAA and A buckets, and the significant increases in the AA and BBB buckets. Part of the decrease in the AAA bucket by the above-mentioned downgrades was offset by derisking measures (such as the above-mentioned reduction of equity exposure) which led to (re)investments in highly-rated sovereigns such as Germany, the Netherlands, Finland (all AAA).

Risk Concentration: ING Insurance EurAsia portfolio excluding discontinued operations, by economic sector (1)		
	2012	2011
Central Governments	**48.2%**	44.1%
Non-Bank Financial Institutions (2)	**17.5%**	20.4%
Commercial Banks	**10.5%**	10.2%
Private Individuals	**7.6%**	8.1%
Real Estate	**3.5%**	3.2%
Utilities	**1.8%**	1.9%
Natural Resources	**1.2%**	0.9%
Automotive	**1.2%**	1.3%
Other	**8.5%**	9.9%
Total	**100.0%**	100.0%

(1) Based on lending, pre-settlement, money market and investment activities.
(2) Non-Bank Financial Institutions include (per 31 December 2012) EUR 6.5 billion of securitisations (mainly RMBS and ABS).

The main changes in 2012 are the increase in central governments exposure as a result of derisking into higher-rated governments, and the decrease of exposure on non-bank financial institutions.

Risk management continued ING Insurance EurAsia

Largest economic exposures: ING Insurance EurAsia portfolio excluding discontinued operations, by geographic area [1]		
	2012	2011
Netherlands	**30.1%**	31.6%
Germany	**17.1%**	15.8%
France	**9.7%**	10.4%
Belgium	**6.2%**	5.4%
United Kingdom	**6.2%**	6.6%
Austria	**4.6%**	4.0%
Spain	**3.5%**	4.3%
Italy	**3.1%**	3.9%
Rest of Europe [2]	**12.4%**	12.7%
Americas	**5.9%**	4.1%
Asia/Pacific	**1.1%**	1.0%
Rest of World	**0.1%**	0.2%
Total	**100.0%**	100.0%

[1] Country is based on the country of incorporation of the ultimate parents of issuers/borrowers, all types of issuers/borrowers are included.
[2] Other GIIPS countries (31 December 2012 compared with 31 December 2011): Ireland (1.1%, from 1.7%), Portugal (0.2%, from 0.5%), Greece (0.3%, from 0.2%).

From a geographic perspective the main changes are driven by derisking activities through sales and redemptions (GIIPS countries, Netherlands) and re-allocating to low-risk investments (Germany, Austria, Finland). For the Netherlands this contains swapping credit into sovereign exposure. New investments were done in Americas.

Security lending and repo business

ING Insurance EurAsia entities can enter into securities transactions. These transactions can take many legal forms. Repurchase and reverse repurchase agreements and securities borrowing and lending agreements are the most common. The amount of marketable securities that ING Insurance EurAsia lent/sold/repoed under these securities transactions at 31 December 2012 was EUR 2.8 billion (2011: EUR 7.8 billion). The corresponding amount of marketable securities held as collateral under these securities transactions at 31 December 2012 was EUR 3.3 billion (2011: EUR 8.4 billion). The reduced volume can be explained by the adoption of a lower maximum (cap) for these securities transactions for the Dutch insurance entities, combined with stricter collateral criteria for security lending, which led to less demand.

These amounts include pledge of securities posted as collateral, securities received as collateral under a transfer of title and cash received as collateral. As a general rule, the securities that have been received as collateral under these transactions are eligible to be resold or pledged in other (similar) transactions when there is a transfer of title. ING is obliged to return equivalent securities in such cases to its counterparties and ING receives equivalent securities from its counterparties.

Credit and Counterparty Risk Mitigation

ING Insurance EurAsia uses different credit risk mitigation techniques. For OTC derivatives, the use of ISDA Master Agreements accompanied with Credit Support Annexes is an important example. For retail lending portfolio's - mortgages on the house and pledges of insurance policies or investment accounts of clients are important elements of credit risk mitigation. Other forms of credit risk mitigation include reinsurance collateral.

The table below shows the covers values for ING Insurance EurAsia, with the exception of covers received for derivatives and securities lending/ (reverse) repo's.

Covers Values ING Insurance EurAsia excluding discontinued operations [1]

Asset categories	Total outstanding amount	Mortgages [2]	Other covers	Total covers
				2012
Investment	61,057		1	1
Residential Mortgage	5,399	4,560		4,560
Lending	2,081		75	75
Other	3,687			
Grand Total	72,224	4,560	76	4,636

[1] This excludes collateralisation of derivative exposures and for security lending/ (reverse) repo's activities.
[2] The cover value for mortgages includes a haircut in case of a forced sale. The value of this haircut is equal to the value of the haircut applied to the 2011 cover values in the table below.

Risk management continued ING Insurance EurAsia

Covers Values ING Insurance EurAsia excluding discontinued operations [1]

Asset categories	Total outstanding amount	Mortgages [2]	Other covers	Total covers
				2011
Investment	58,120		7	7
Residential Mortgage	5,530	4,402		4,402
Lending	2,485		118	118
Other	3,301			
Grand Total	69,436	4,402	125	4,527

(1) This excludes collateralisation of derivative exposures and for security lending/ (reverse) repo's activities.
(2) The cover value for mortgages includes a haircut in case of a forced sale. The value of this haircut is equal to the value of the haircut applied to the 2012 cover values in the previous table (2012 cover values).

Impairments and provisions

The credit portfolio is under constant review. For bonds and other fixed income securities, criteria for impairing include, but are not limited to, expected and actual credit losses, resulting from e.g. failure to pay, market information about expected and actual credit losses and other evidence that the issuer cannot meet its payment obligations. For equities, a significant or longer-term decrease of the market value below cost price is taken into account as indicator for impairment.
With regard to loans, all loans with past due financial obligations of more than 90 days are automatically reclassified as impaired. For the wholesale lending portfolios there are generally reasons for declaring a loan impaired prior to being 90 days past due. These include, but are not limited to, ING Insurance EurAsia's assessment of the customer's perceived inability to meet its financial obligations, or the customer filing for bankruptcy or bankruptcy protection. In some cases, a material breach of financial covenants will also trigger a reclassification of a loan to the impaired category. ING Insurance EurAsia identifies those loans as impaired loans when it is likely that the principal and interest amounts contractually due will not be collected in accordance with the contractual terms of the loan agreements, based on current information and events. A formal analysis takes place quarterly to determine the provisions for possible bad debts, using a bottom-up approach. For retail loans, collective provisions are formed (at portfolio level) based on historical loss experience corrected for actual circumstances. In addition, specific provisions can be formed at the individual loan level. Conclusions are discussed in the Impairment Committee, which advises the Management Board on specific provisioning levels.

In 2012, impairments on bonds and ABS totalled EUR 16 million, mainly related to one issuer.

The below table reflects provisions related to personal loans and mortgages (almost all of the provisions are related to Insurance Benelux).

Provisions: ING Insurance EurAsia portfolio excluding discontinued operations

	2012	2011
Opening balance	80.4	71.0
Write-offs	–24.1	–11.7
Recoveries	0.4	1.9
Increase/(decrease) in loan loss provision	12.1	19.7
Exchange differences		–0.3
Other changes		–0.2
Closing balance	68.8	80.4

Retail mortgage loan portfolio's: past-due obligations and problem loans

The following table illustrates the amount of loans in (payment) arrears for the retail mortgage loan portfolio.

Aging analysis (past due but not impaired) outstandings excluding discontinued operations [1]

	2012	2011
Past due for 1–30 days	98	74
Past due for 31–60 days	23	19
Past due for 61–90 days	10	13
Past due for more than 90 days	24	20
Total	155	126

(1) Based on residential mortgages only.

In 2012, EUR 66 million of the total retail mortgage loan portfolios was classified as a problem loan (Q4 2011: EUR 60 million) which is a combination of rating and past dues.

LIQUIDITY RISK

Liquidity risk refers to the risk that a company is unable to settle financial obligations when they fall due. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all commitments when due. ING Insurance EurAsia identifies two related liquidity risks: funding liquidity risk and market liquidity risk. Funding liquidity risk is the – primary – risk that ING Insurance EurAsia will not have the funds to meet its financial obligations when due. Market liquidity risk is the – secondary – risk that an asset cannot be sold without significant losses. The inter relation with funding liquidity stems from the fact that when payments are due, and not enough cash is available, investment positions need to be converted into cash. When Market liquidity is low, this would lead to a loss.

Similar to other market risks, liquidity risk falls under the supervision of the Risk Committee. ING Insurance EurAsia maintains a liquidity policy that defines liquidity limits in line with risk tolerances. The Liquidity Management Principles include the following:

- Interbank funding markets should be used to provide liquidity for day-to-day cash management purposes;
- A portion of assets must be invested in unencumbered marketable securities that can be used for collateralised borrowing or asset sales;
- Strategic asset allocation should reflect the expected and contingent liquidity needs of liabilities; and
- Adequate and up-to-date contingency liquidity plans should be in place to enable management to act effectively and efficiently in times of crisis.

ING Insurance EurAsia defines three levels of Liquidity Management. Short-term liquidity, or cash management covers the day-to-day cash requirements under normal business conditions and targets funding liquidity risk. Long-term liquidity management considers business conditions, in which market liquidity risk materialises. Stress liquidity management looks at the company's ability to respond to a potential crisis situation. Two types of crisis liquidity events can be distinguished: a market event and an ING Insurance EurAsia specific event. These events can be short-term or long-term and can both occur on a local, regional or global scale. Depending on the type of event, the policy also defines the composition of the crisis teams.

Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios. The liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested.

Under the terms of our Over-The-Counter Derivative International Swaps and Derivatives Association, Inc. ('ISDA') Agreements, we may receive from, or deliver to, counterparties, collateral to assure that all terms of the ISDA Agreements will be met with regard to the Credit Support Annex ('CSA'). Currently the amount received exceeds the amount delivered. Analysis show this balance will remain positive under stressed scenarios.

OPERATIONAL RISK

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the risk of reputational loss, as well as legal risk whereas strategic risks are not included. Operational risk also includes IT risk.

For Operational Risk ING Insurance EurAsia has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks. The framework is based on the elements of the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission). The Operational Risk capital calculation is described in the Economic capital section.

The Operational risk function works with the Operational Risk Management (ORM) Scorecard process to evaluate yearly the embedding level of the ORM Framework in each business. Policies and minimum standards governing the framework are kept in the policy house.

Risk appetite is defined as the risk level management is prepared to tolerate. The operational risk appetite levels are set by the management team of ING Insurance EurAsia. Via Non-Financial Risk Committees (NFRC's) it is ensured that responsible line managers mitigate the risks that are not within the risk appetite. Incidents and operational risks are tracked and reported on a quarterly basis to management in the Non-Financial Risk Dashboard.

Integrated risk assessments are performed at least once a year to determine the completeness of the risks in scope and the level of the risks. Mitigating actions are taken on those risks that are identified as risks beyond the risk appetite level. Status of the mitigating actions is tracked.

To ensure an independent Operational Risk function and the possibility for the Operational Risk officers to be impartial and objective when advising business management on Operational Risk in their Business Unit and Region, a dual reporting line, directly to Chief Risk Officer of their business and functionally to the next higher level Operational Risk Officer, is in place. The head of Operational Risk ultimately reports directly to the Deputy Chief Risk Officer.

Risk management continued ING Insurance EurAsia

Economic Capital

Economic Capital ING Insurance EurAsia (99.5% undiversified) excluding discontinued operations by risk category	2012	2011
Operational risk	**391**	344

COMPLIANCE RISK

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

ING Insurance EurAsia separates Compliance Risk into four conduct-related integrity risk areas: client conduct, personal conduct, organisational conduct as well as conduct required because of laws and regulations in the financial services industry. In addition to effective reporting systems, ING Insurance EurAsia has a Whistleblower procedure which encourages staff to speak up if they know of or suspect a breach of external regulations or internal policies or Business Principles.

ING Insurance EurAsia has a policy not to enter into new relationships with clients from internationally sanctioned countries and processes remain in place to discontinue existing relationships involving these countries.

ING Insurance EurAsia performs a due diligence process when developing products and invests considerably in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception by both the public at large and governmental authorities of acceptable market practices might influence client expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations, reported incidents and regulatory activity. As part of ING Insurance EurAsia's customer centric commitment, Compliance Risk Management and the business work closely together to optimise both products and services to meet the customers' needs.

ING Insurance EurAsia Compliance Risk Management has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting compliance risks. The Compliance function works with the ORM Scorecard process to evaluate yearly the level in which the Compliance Risk Management Framework is embedded in each business.

To ensure an independent compliance function and the possibility for the Compliance Officers to be impartial and objective when advising business management on Compliance Risk in their Business Unit and Region, a dual reporting line, directly to General Management of their business and functionally to the next higher level Compliance Officer, is in place.

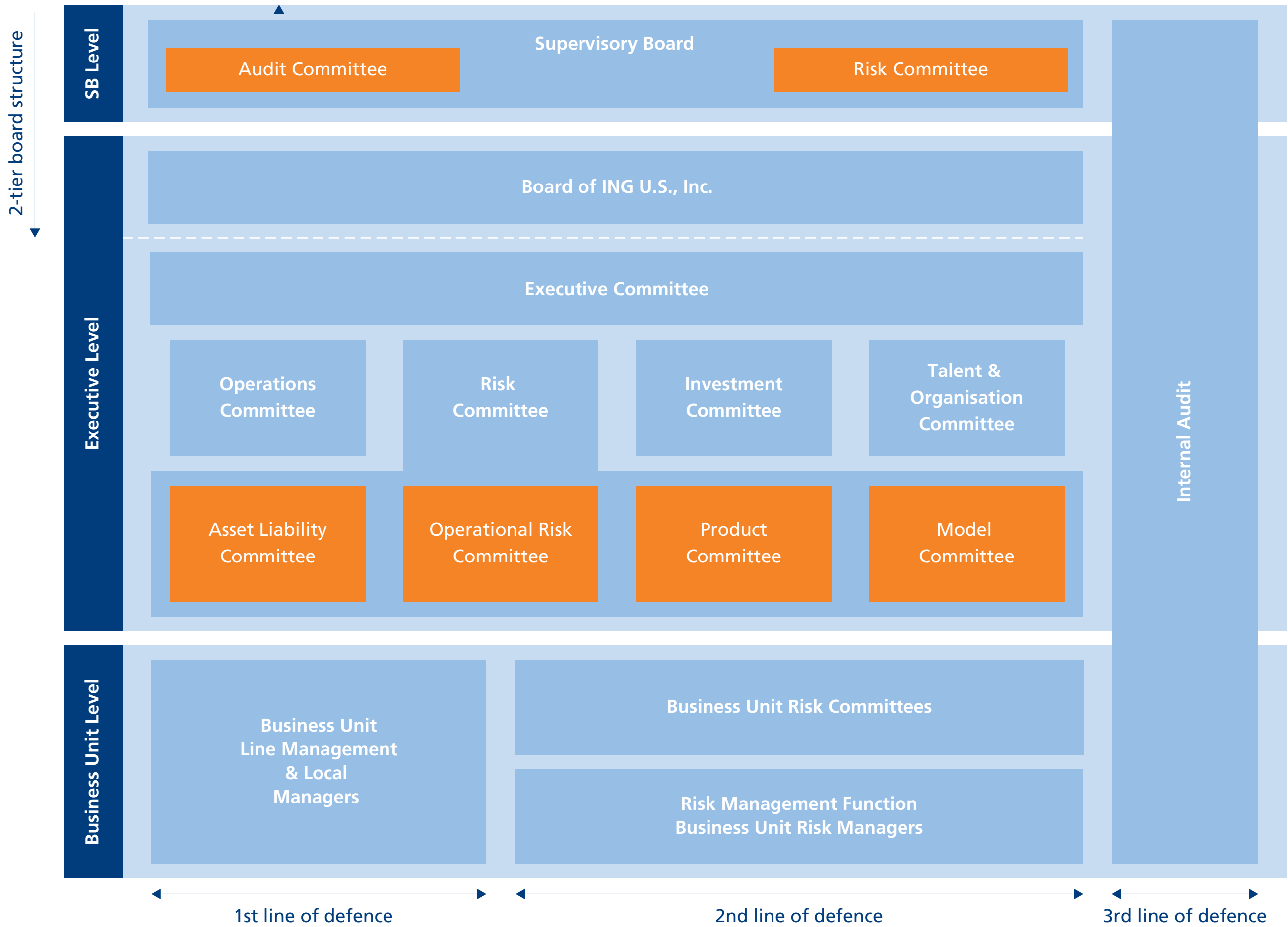
Risk management continued ING Insurance US

ING INSURANCE US
Risk management of ING Insurance US includes risk management of the business lines Insurance US, Insurance US Closed Block VA and certain US based operations of ING IM and Corporate Line Insurance. Legally this business is directly or indirectly part of the legal entity ING U.S., Inc. ('ING.U.S.'). To the extent possible risk management has been organised in line with the anticipated stand-alone future of ING U.S. following an initial public offering ('IPO'). Until the IPO Group exercises an overview role through the Supervisory Board, the Executive Board and through participation in certain Committees.

MISSION AND OBJECTIVES
As a financial services company active in investments, insurance and retirement, ING U.S. is exposed to a variety of risks. The mission of risk management in ING U.S. is to fully integrate risk management into daily business activities and strategic planning. This is achieved by providing value added insights on risk issues to drive informed decision-making that maximises the value of ING U.S.

The following principles support this objective:
- Maintaining functional independence;
- Facilitating transparent communication to internal and external stakeholders on risk management and value creation;
- Providing formal checkpoints to facilitate adherence to internal and external compliance requirements;
- Monitoring products and portfolios to ensure they are appropriately approved and managed;
- Maintaining transparency of the risk profile of ING U.S., manage to avoid surprises;
- Keeping delegated authorities consistent with the overall ING U.S. strategy and risk appetite.

RISK GOVERNANCE
The risk governance for ING U.S. is based on the 'three lines of defence' framework which facilitates the management of risk in line with the risk appetite as defined by the Board of ING U.S., Inc. and ratified by the Supervisory Board. Risk governance is implemented through the multi-tiered structure described below. This structure facilitates communication and provides appropriate forums in which to raise issues, to make decisions and to enforce limits / controls.



Board level risk oversight
ING U.S. has a two-tier board structure consisting of the Board of ING U.S., Inc. and the Supervisory Board.

Risk management continued ING Insurance US

The Supervisory Board is responsible for overseeing the policies of the Board of ING U.S., Inc., the general course of affairs of the Company and its businesses. For Risk Management purposes the Supervisory Board is assisted by two sub-committees:

- The Audit Committee assists in reviewing and assessing ING U.S.'s major risks and the operation of internal risk management and control systems, as well as policies and procedures regarding compliance and its applicable laws and regulations;
- The Risk Committee assists in matters related to risk governance, risk policies and risk appetite setting.

To the extent that the committees do not determine otherwise, the Chief Risk Officer (CRO) attends the meetings of both committees. The Board of ING U.S., Inc. is responsible for managing the risks associated with the activities of ING U.S. The responsibilities of Management ING U.S. include ensuring the risk management and control systems are effective and ING U.S. complies with relevant legislation and regulations. The Board of ING U.S., Inc. reports and discusses these issues on a regular basis with the Supervisory Board, and reports to the Audit Committee on a quarterly basis on ING U.S.'s risk profile versus its risk appetite.

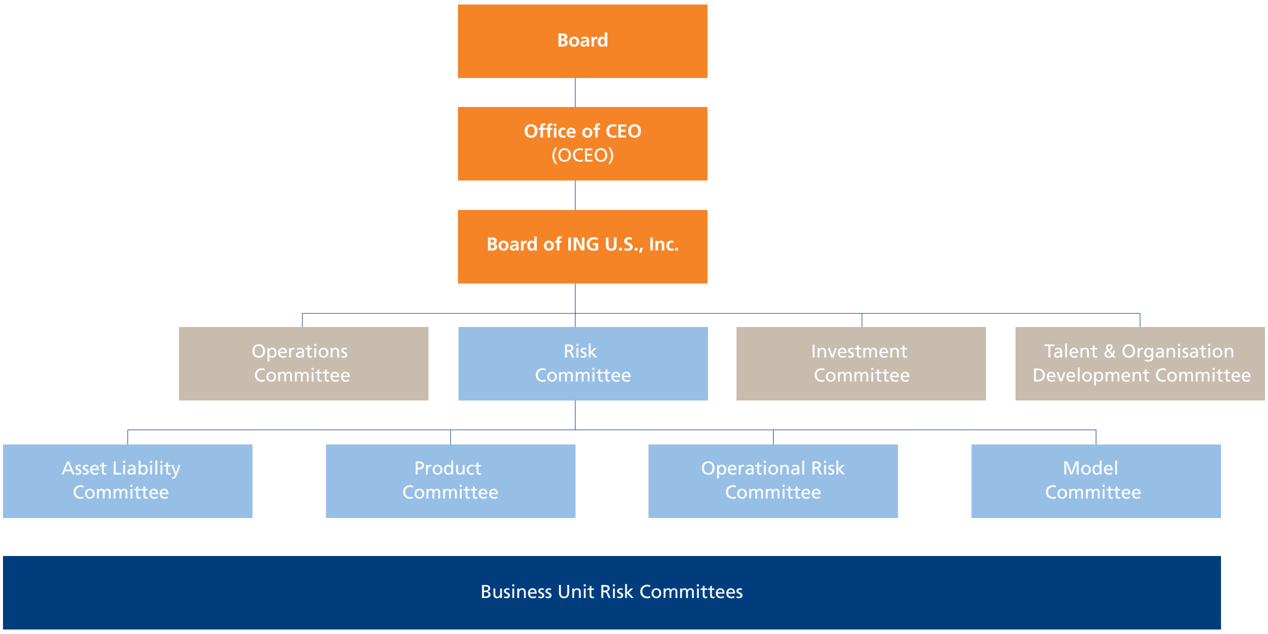
As part of the integration of risk management into the annual strategic planning process, the Board of ING U.S., Inc. issues a Planning Letter which provides the organisation's strategic plan, and addresses key risk issues. Based on this letter the business units develop their business plans, including qualitative and quantitative assessment of the risks involved. As part of the process strategic limits and risk appetite levels are explicitly discussed. Based on the business plans the Management Board formulates the Strategic Plan which is submitted to the Supervisory Board for approval.

Executive Level
The Board of ING U.S., Inc. has delegated certain tasks to the Finance and Risk Committee. The primary responsibility of the committee is to align finance and risk decisions that have an impact on internal and/or external reporting.

On a more detailed level for risk related issues the Board of ING U.S., Inc. relies on the Executive Committee which has delegated risk related tasks to the following committees:

- Risk Committee
  - Advises the Board of ING U.S., Inc. on all financial and non-financial risks.
  - Approves risk policies, determines risk appetite and monitors limits and tolerances.
  - Assists the EC by focusing on ING U.S. risk management and capital issues, and partners with the US Investment Committee to review/monitor investment related issues.
- Investment Committee
  - Assist the EC in the oversight of investment related issues for ING U.S.
  - Determine and monitor investment policies and guidelines for ING U.S. entities,
  - Review and approve the Strategic Asset Allocation targets of the business units and recommend changes to company policies and investment guidelines that address General Account investments, or other investments for which the company is at risk
- Risk committees are established at the ING U.S. and business unit levels. The Risk Committee has a number of sub-committees focussing on different risk areas:
  - Asset Liability Committee
    - Reviews methods and techniques for calculating Asset Liability Management risk, advises about limits, monitors breaches in the risk limits, and considers remediation.
    - Addresses balance sheet management, statutory capital requirements, and liquidity needs and recommends to the US Risk Committee.
  - Model Committee
    - Oversees all models and model validation risk issues across ING U.S.
    - Approves assumption, model, methodology changes and updates for all corporate models, and business unit models above the established thresholds.
    - Recommends model policies and guidance to the US Risk Committee.
  - Operational Risk Committee
    - Oversees all non-financial risk across ING U.S. - operational, compliance, legal and reputation risk.
    - Recommends action on reported risks and what risks ING U.S. is willing to accept.
  - Product Committee
    - Oversees insurance product risk issues across ING U.S.
    - Provides guidance and best practices through the product development and approval process.

Risk management continued ING Insurance US

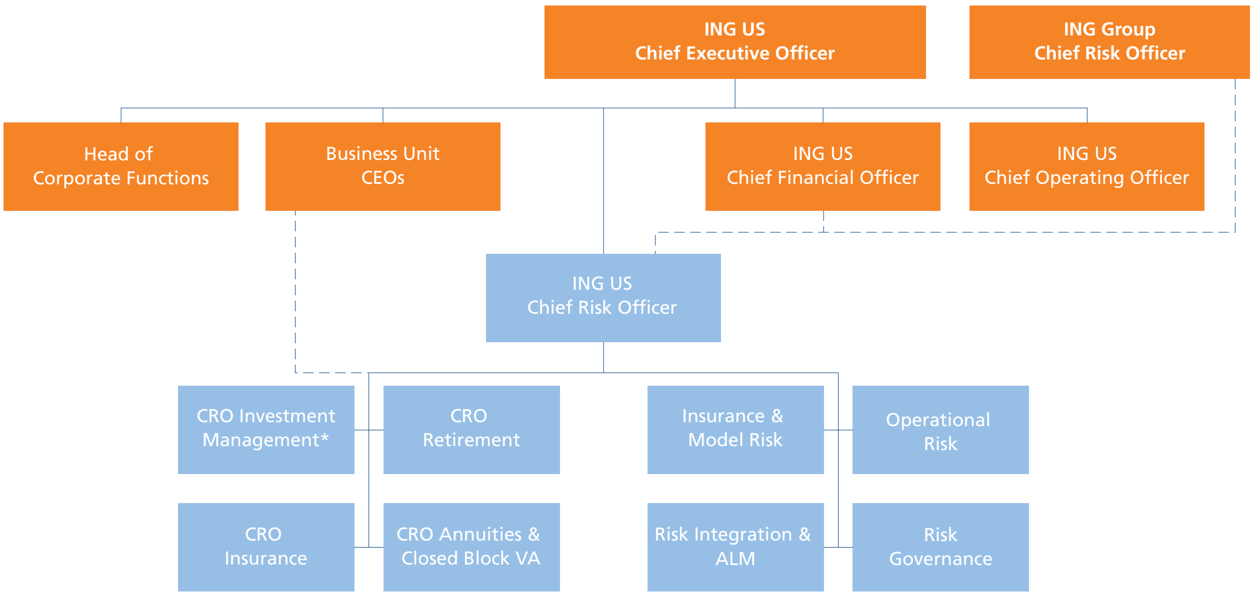


Risk Management Function

The ING Group CRO has delegated the day-to-day Risk Management within ING U.S. to the ING U.S. Chief Risk Officer (CRO). The ING U.S. CRO directly reports to the ING U.S. CEO and functionally reports to the ING Group CRO. The ING U.S. Chief Risk Officer bears primary and overall responsibility for the risk management function within ING U.S., which identifies, measures, monitors and reports risk within ING U.S. The risk function maintains and updates the policy framework, develops and maintains risk methodologies and advises on the risk tolerance and risk profile. The CRO makes sure both the Supervisory Board and Board of ING U.S., Inc. are well informed and understand ING U.S.'s risk position at all times.

The ING U.S. CRO's department consists of corporate and business unit risk functions that support the ING U.S.'s risk management activities. The business unit CROs report to the ING U.S. CRO. The Corporate Enterprise Risk Management (ERM) function addresses all risks facing ING U.S. It is an independent function that enables a clear separation of duties between Risk, Finance and Investment. ERM facilitates information flow across the enterprise by providing formal checkpoints and forums where risk issues are discussed and informed decisions made. ERM enables risk measurement and analysis into corporate decision-making.

Risk management continued ING Insurance US



* Includes Capital Markets Risk

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

Reserve adequacy
US ERM ensures that the total insurance liabilities of ING U.S. 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 using current best estimate assumptions and inclusion of a risk margin for prudency. 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.

Policies
ING has a framework of risk policies, procedures, guidance notes, and practice notes in place to create consistency throughout the organisation and to define minimum requirements for corporate areas and business units. The governance framework of the business units aligns with this framework and meets local (regulatory) requirements. Senior Management is responsible for ensuring that policies, procedures and standards are implemented and followed. Policies, procedures, guidance and practice notes are regularly reviewed and updated via the relevant risk committees to reflect changes in markets, products, guidance and best practices.

Model governance
Model governance is achieved through the ING U.S. Model Committee. This committee provides oversight for models and assumptions owned or managed within the corporate functions and acts as an escalation point for models or related changes that have a financial impact over a set materiality threshold.

RISK FRAMEWORK
In order to manage the risk on a day-to-day basis and balance value, earnings and capital decisions, ING U.S. has implemented a risk limit framework. The risk limit framework follows a top down approach.

	Description
Risk Appetite	A qualitative measure defining the playing field ING U.S. wants to act in. Driven by ING U.S.'s financial and rating targets, local capital requirements, and business strategy.
Risk Tolerance	A quantitative boundary intended to limit the risks taken, driven by the risk appetite.
Risk Limits	Limit setting to a granular level for business units throughout the organisation.

Risk management continued ING Insurance US

Risk exposures are managed by ING U.S. according to the following risk metrics, and limits are set on these metrics that are consistent with the organisation's risk tolerance. These risk metrics are computed on the basis of market and non-market sensitivities of two primary financial quantities:

- US Regulatory Capital Requirements - Defined as a multiple of the minimum capital required by the National Association of Insurance Commissioners (NAIC) with consideration of the capital requirements deemed appropriate to maintain the ratings level issued to the operating companies by various rating agencies along with additional requirements for the Cayman Islands based subsidiary Security Life of Denver International (SLDI) (more detail is described in the Regulatory Capital section below); and
- IFRS Earnings;

The risk limit framework described above operates within ING Group's risk limit framework. ING U.S. is in the process of implementing additional risk metrics including one based on U. S. GAAP earnings and another that is a variation on the U.S. regulatory capital sensitivities described herein. ING U.S. also is considering the expansion of its risk limit framework to include various stress scenarios.

Financial Risks
For financial risks, the risk tolerance is translated to risk limits assuming moderate stress scenarios.

- US Regulatory Capital Requirements sensitivities – The sensitivity, under moderately adverse market and credit stress scenarios, of the excess of available statutory capital above the level targeted by ING U.S. and described in the Regulatory Capital section below;
- IFRS Earnings sensitivities – The sensitivity, under moderately adverse market and credit stress scenarios, of realised before tax earnings of the insurance operations over a 12-month period.

Other limit structures exist at both the corporate and business unit level. Examples include, but are not limited to, the following:

- Issuer concentration limits;
- Mortality concentration limits;
- Catastrophe and mortality exposure retention;
- Minimum liquidity requirements;
- Investment and derivatives guidelines and limits.

Financial Risk Dashboard
The Financial Risk Dashboard (FRD) is a quarterly report that is discussed at the Risk Committee of the Board of ING U.S., Inc. and the Finance and Risk Committee. The FRD provides a quarterly overview of the main financial risk metrics (IFRS earnings and Regulatory Capital sensitivities) compared with the limits set by management in alignment with the risk appetite.

Non-Financial Risks
To ensure robust non-financial risk management, which also reflects the risk tolerance levels, ING U.S. monitors the full implementation of ING U.S.'s risk policies, minimum standards and implementation guidelines, and business units demonstrate that appropriate steps have been taken to control their operational and compliance risk. ING U.S. applies scorecards to measure the quality of internal controls within a business unit. Scoring is based on the ability to demonstrate that the required risk management processes are in place and effective within the business units.

Non-Financial Risk Dashboard
The Non-Financial Risk Dashboard (NFRD) is a quarterly report that is discussed at the meetings of the Supervisory Board, Board of ING U.S., Inc. and ING U.S. management bodies. The NFRD provides management at all organisational levels with information on their key operational, compliance and legal risks. The NFRD is based on defined risk tolerance and a clear description of the risks and responses enabling management to prioritise and to manage operational, compliance and legal risks.

Stress Testing
ING U.S. complements its regular risk reporting process with (ad hoc) stress tests. Stress testing examines the effect of exceptional but plausible scenarios on the capital position for ING U.S.. Stress testing can be initiated internally or on certain request from external constituents.

Risk management continued ING Insurance US

RISK TYPE DESCRIPTION
ING U.S. measures the following main types of risks that are associated with its business:

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

INSURANCE RISK
Insurance risks are comprised of actuarial and underwriting risks such as mortality, longevity, and morbidity, which result from the pricing and acceptance of insurance contracts.

The table below shows the main risk categories for insurance risks within ING U.S.. IFRS Earnings sensitivities are defined on a shock scenario at the 90% confidence level.

	Description	Key Drivers
Mortality	Within mortality risk there are two main parts: – Positive mortality risk exists when more insureds die than expected, leading to higher claims than expected. – Negative mortality risk exists when insureds live longer than expected, leading to higher claims than expected (moderate shocks are not material to the P&L).	The largest earnings sensitivity to positive mortality risk arises in Insurance Solutions .
Morbidity	Morbidity or Health insurance covers insurance indemnifying or reimbursing losses (e.g. loss of income) caused by illness or disability, or for expenses of medical treatment necessitated by illness or disability. Morbidity risk comprises the risk of variability of size, frequency and time to payment of future claims, development of outstanding claims and allocated loss adjustment expenses (ALAE) for morbidity product lines over the remaining contract period.	Earnings sensitivity to morbidity risk (e.g. sickness, disability, accidental death, workers' compensation, medical insurance) is present in the Employee Benefits business.

Sensitivities
Mortality and morbidity sensitivities are calculated on a diversified basis assuming a normal distribution and a specified mortality/morbidity scenario for calibration. The largest contribution to the mortality sensitivity comes from the Individual Life business while the morbidity sensitivity comes from the Employee Benefit business.

IFRS Earnings Sensitivities for Insurance Risks

	US Excl. CB-VA		CB-VA	
	2012	2011	**2012**	2011
Mortality	**–23**	–19	**–1**	–7
Morbidity	**–49**	–49		

Mitigation
In general, insurance risks cannot be hedged (easily) in the financial markets and tend to be mitigated by diversification across large portfolios. Therefore, they are managed at the contract level through standard underwriting policies, product design requirements, independent product approval processes, and risk limitations related to insurance policy terms and conditions agreed with the client.

Risk management continued ING Insurance US

Risk not mitigated by diversification is managed with concentration and exposure limits and through reinsurance and/or securitisations:

- Tolerance limits for life insurance risk are set per insured life and significant mortality and morbidity events affecting multiple lives such as pandemics;
- Reinsurance is used to manage risk exposure and exposure to reinsurers is managed according to the ING U.S. reinsurance credit risk policy;
- ING U.S. is currently reviewing our mortality concentration limits in order to better assess our need to obtain protection from catastrophic losses resulting from events such as terrorism.

BUSINESS RISK

Business risk for insurance is the risk insurance operations accept as consequence of choosing to be in the business. In practice this can be defined as the exposure to the possibility that experience differs from expectations with respect to expenses, the run-off of existing business (persistency/renewals), future premium rerating, etc. The calculation of Business Risk Capital is specified by the regulatory capital methodology prescribed by the National Association of Insurance Commissioners (NAIC).

MARKET RISK

ING U.S. is exposed to market risk to the extent to which the market value of surpluses can be adversely impacted due to movements in financial markets. Changes in financial market prices impact the market value of ING U.S.'s asset portfolio, including derivatives as well as the calculated market value of the insurance liabilities.

The sensitivities shown are calculated at the business unit level and cover US domiciled insurance entities. The sensitivities are based on moderately adverse shocks to underlying risk factors as described in the following table:

	Description	Key Drivers
Interest Rate	– Impact on assets and liabilities due to movements of interest rates – Measured by the impact of a 1% upwards and downwards parallel shift of US Treasury curve	Sensitivities of various guarantees (e.g. minimum interest rate guarantees, and guaranteed living benefits). CB-VA and GMIRs of insurance products
Equity	– Impact of a drop in equity prices which impacts direct equity exposure and loss of fee income from variable and equity linked – Measured by the impact of a 25% drop in equity prices	Separate account and equity indexed business, and direct equity exposure
Credit (Default and Spread risk)	– Impact that credit default risk can have on credit impairment levels in a '1 in 10' scenario (using '1 in 10' 1-year default rates by rating category, combined with stressed 'Loss Given Default' assumptions); plus impact that a '1-in-10' increase in credit spreads levels can have on previously impaired structured assets (re-impairment risk) and on CDS transactions that are carried at market value	General account business
FX	– Impact of losses related to changes in foreign currency exchange rates. – Measured by the worst case impact of a 10% up and down movement for each currency	
Real Estate	– Impact of losses related to changes in real estate – Measured by impact of all real estate down 15%	

Sensitivities

The stress events are described above. The ING U.S. earnings sensitivities are dominated by credit, equity and interest rate exposure.

ING U.S. has no significant earnings sensitivity to Foreign Exchange Rates as ING U.S. is managed on a local currency basis and therefore there is no translation risk to the Group reporting currency included in the sensitivities. ING US also has no significant earnings exposure to non-US currencies. From the ING Group perspective, there may be translation risk between ING U.S. USD based operations and ING Group EUR basis.

ING U.S. earnings sensitivities to market risk factors are shown in the tables below. Taking into account diversification between risk factors, ING U.S. (excluding CBVA) is exposed to a EUR 0.9 billion decrease in expected IFRS Earnings within the context of the market and non-market sensitivity analysis. At 31 December 2011, ING U.S. (excluding CBVA) was exposed to a EUR 1.0 billion in expected IFRS Earnings within the context of the market and non-market sensitivity analysis. The changes from 2011 to 2012 are the result of many factors including:

- Changes in credit exposures, as discussed in the Credit Risk Section below, leading to a reduction in default risk and an increase in spread risk;
- Sales of Limited Partnership assets, reducing earnings sensitivity to equities;
- Changes in hedge positions, leading to a reduced exposure to interest rates.

Risk management continued ING Insurance US

IFRS Earnings Sensitivities for Market Risks [1,2]		
	US Excl. CB-VA	
	2012	2011
Interest Rate Up	**58**	72
Interest Rate Down	**–77**	–146
Equity	**–244**	–293
Credit – Default	**–283**	–355
Credit – Spread	**–236**	–188

[1] FX and real estate sensitivities do not have a material impact.
[2] Sensitivities are calculated at business unit level.

Estimated CB-VA Immediate Earnings Sensitivities at 31 December 2012 Immediate Change in Equity Market						
	–25%	**–15%**	**–5%**	**+5%**	**+15%**	**+25%**
Earnings sensitivity before RAT Policy Impact	**1,150**	**700**	**250**	**–100**	**–350**	**–550**
RAT Policy Impact (RAT50)	**0**	**0**	**0**	**0**	**0**	**0**
Total Estimated Earnings Sensitivity	**1,150**	**700**	**250**	**–100**	**–350**	**–550**
RAT 50 Sufficiency	**100**	**300**	**550**	**750**	**850**	**1,000**

The table above exhibits the sensitivity of CBVA earnings to immediate changes in equity markets. For example, as of 31 December 2012 it is estimated that if equity markets were to immediately increase by 25%, CBVA would be exposed to an immediate EUR 0.55 billion decrease in IFRS earnings. This immediate sensitivity is not directly comparable to the 12 month sensitivities shown in the preceding table.

Mitigation

ING U.S. manages its risk exposure through contractual adjustment mechanisms such as changes to credited rates, the contractual terms related to new business, adjusting its capital structure within regulatory constraints, and, where deemed appropriate, hedging various exposures.

Real Estate

ING U.S. has a small exposure to direct real estate, which is composed primarily of Home Office real estate and real estate from foreclosed loans.

Real Estate Exposure		
	2012	2011
Total	**123**	125

CREDIT RISK

ING U.S. credit exposure arises from the investment of insurance premiums in assets subject to credit risk, largely in the form of unsecured bond investments, investments in private placements and commercial mortgages, as well as in structured finance products. In addition, ING U.S. is exposed to credit counterparty risk exposure in derivatives transactions, sell/repurchase transactions, securities lending/borrowing and in reinsurance contracts.

Within ING U.S., the goal is to maintain a low-risk, well diversified credit risk portfolio that meets or exceeds market based benchmark returns. ING U.S. has a policy of maintaining a high-quality investment grade fixed income portfolio while avoiding large risk concentrations. The emphasis is on managing total exposure and concentration risk by means of portfolio level risk limits and concentration limits for countries, individual borrowers and borrower groups. Counterparty credit risk is mitigated by only transacting with counterparties that meet minimum credit quality standards as well as by requesting collateral for all larger exposures.

Risk management continued ING Insurance US

The table below shows the main risk categories for credit risk within ING U.S.:

	Description	Key Drivers
Issuer or Investment Risk	– Risk related to the impact of a credit default or rating migration, plus the risk that a change in general credit spread levels can have on the market value of these instruments – Measured at original cost (purchase price) less any prepayments or amortisations and excluding any accrued and unpaid interest or the effects of any impairment.	Investments in public bonds, commercial paper, securitisations and other publicly traded securities
Lending Risk	– Risk related to certain illiquid investments made by ING U.S. – Measured at original cost (purchase price) less any prepayments or amortisations and excluding any accrued and unpaid interest or the effects of any impairment.	Privately placed bonds and commercial mortgage loans in the United States.
Pre Settlement Risk	– Risk of a counterparty defaulting on a transaction before settlement and ING U.S. having to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. – Measured as the replacement value (mark-to-market) plus a potential future volatility concept, using a 3-7 year historical time horizon and a 97.5% (1.96 standard deviations) confidence level.	Options, swaps, and securities financing transactions used for hedging purposes

Risk Profile

Risk classes

The exposure to the investment grade rating qualities increased in 2012 and the exposure to the below investment grade rating qualities decreased, pointing at an improvement in the overall quality of the credit risk portfolio. The 17–22 category largely consists of unrated exposures. The exposure to assets actually rated CCC or below has further reduced in 2012 and is only 2% of the portfolio per 31 December 2012.

Risk Classes: ING U.S. portfolio, as % of total outstanding (1)

	ING U.S.	
	2012	2011
1 (AAA)	**15.0%**	16.5%
2–4 (AA)	**15.0%**	13.7%
5–7 (A)	**27.5%**	25.3%
8–10 (BBB)	**26.2%**	24.0%
11–13 (BB)	**3.5%**	3.8%
14–16 (B)	**3.5%**	3.9%
17–22 (CCC and Problem Grade)	**9.3%**	12.8%
Total	**100.0%**	100.0%

(1) Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities. The ratings reflect probabilities of default and do not take collateral into consideration and are based on ultimate parent.

The risk concentration per sector remains very similar to 2011, with the largest change shown for Non-Bank Financial institutions which decreased by 3.3%. This category largely consists of special purpose vehicles that issue RMBS, ABS and CMBS securities. Net sales of these assets resulted in the reported reduction.

Risk management continued ING Insurance US

Risk concentration: ING U.S. portfolio, by economic sector [1]

	ING U.S.	
	2012	2011
Non-Bank Financial Institutions	**35.3%**	38.6%
Real Estate	**8.3%**	8.5%
Central Governments	**7.3%**	8.2%
Natural Resources	**7.1%**	6.9%
Utilities	**6.1%**	6.0%
Commercial Banks	**4.5%**	4.4%
Food, Beverages & Personal Care	**4.1%**	3.6%
Chemicals, Health & Pharmaceuticals	**3.5%**	3.1%
Private Individuals	**2.5%**	2.2%
Telecom	**2.2%**	2.2%
General Industries	**1.7%**	2.1%
Other	**17.4%**	14.2%
	100.0%	100.0%

[1] Economic sectors below 2% are not shown separately but grouped in 'Other'.

ING U.S. largely invests in financial instruments issued in the United States, as required by regulation. The decrease in exposures to the Netherlands is related to the transfer of the note reflecting the obligations of the Dutch Government related to the Alt-A RMBS sales transaction in 2009 to ING Group. Bonds and private placements issued by Western European corporations reduced in 2012 from 9.3% per 31 December 2011 to 8.2% per 31 December 2012. It still accounts for the majority of the non-US exposure.

Largest economic exposures: ING U.S. portfolio, by geographic area [1]

	ING U.S.	
	2012	2011
United States	**79.6%**	77.4%
Netherlands	**3.9%**	5.7%
Rest of Europe	**8.2%**	9.3%
Rest of Americas	**5.1%**	4.4%
Asia/Pacific	**3.1%**	3.0%
Rest of World	**0.1%**	0.2%
Total	**100.0%**	100.0%

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

Securities Lending Business

As part of its securities financing business, ING U.S. 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 ING U.S. provided as collateral under these types of agreements was EUR 0.5 billion per 31 December 2012 and EUR 0.8 billion per 31 December 2011. The change is caused by reduced liquidity requirements.

Mitigation

Credit Risk in ING U.S. portfolio is partially mitigated by collateral it has received.

- The entire block of commercial mortgages (EUR 6.6 billion per 31 December 2012) is collateralised with mortgages on real estate properties. The weighted average loan to (most recent) value of this portfolio was 55% per 31 December 2012 which is unchanged from December 2011;
- The EUR 11 billion private placement portfolio is partially collateralised with assets pledged to the consortium of lenders. Also, financial covenants that have been agreed with the different borrowers protect us structurally against any kind of subordination. At least 80% of the assets in this portfolio is either structurally unsubordinatable (i.e. implicitly secured), and another 10-20% explicitly secured;
- The policy loan portfolio (EUR 1.7 billion per 31 December 2012) is fully collateralised by the cash value of the underlying insurance policies;
- The gross counterparty risk exposure to reinsurance companies (EUR 5.7 billion per 30 September 2012) is largely collateralised with assets held in trust (EUR 2.5 billion), letters of credit (EUR 2.0 billion), or funds withheld (EUR 1.1 billion). Please note however that some exposures are over collateralised and that there is a total of EUR 1.6 billion of uncollateralised reinsurance counterparty risk exposure;
- Exposure to financial institutions related to OTC derivative-transactions is largely collateralised, in line with ISDA Master Agreements accompanied by Collateral Support Agreements that have been signed with these counterparties. As per 31 December 2012, ING U.S. was holding net collateral of EUR 0.55 billion supporting a market value exposure of EUR 0.70 billion;
- Exposures related to Securities Lending, Reverse Repo, and exchange traded instruments are also collateralised.

Problem Loans

Problem loans are defined as commercial mortgage loans that are 60 days or more in arrears, as that is the point where there is a probability that the full principal and interest may not collected. ING U.S. does not have any material problem loans. As soon as commercial mortgage loans become non-performing, the collateral is typically liquidated or the loan is sold.

Impaired loans and provisions

ING U.S. mainly has bond investments. The amount of impaired loans in its portfolio is very small and limited to commercial mortgage loans.

LIQUIDITY RISK

Liquidity risk refers to the risk that a company is unable to settle financial obligations when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions. As with other market risks, liquidity risk falls under the supervision of the Risk Committee function. Under the volatile market circumstances in 2012, funding and liquidity risk remains an important topic on the agenda of senior management and the Risk Committee that needs continuous monitoring and management. External market and regulatory developments and internal financial developments are closely monitored. Regular stress testing and measurement of early warning indicators are, among others, used to provide additional management information.

ING U.S. defines two levels of liquidity management. Short-term liquidity, or cash management covers the day-to-day cash requirements under normally expected or likely business conditions. Long-term liquidity management takes into consideration various expected and adverse business conditions, which might result in the inability of realising the current market values of the assets. The assets might only be sold at a further distressed price simply due to the lack of liquidity. Stress liquidity management looks at the company's ability to respond to a potential crisis situation. The day-to-day and ongoing cash management allows for a more proactive response to potential liquidity problems in distressed markets. Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in a base case and under several stressed scenarios. Liquidity risk is evaluated separately by legal entity because of certain regulatory restrictions on the transfer of assets between legal entities.

ING U.S. principal available sources of liquidity are product charges, investment income, proceeds from the maturity and sale of investments, proceeds from debt issuance and borrowing facilities, repurchase agreements, contract deposits and securities lending. Primary uses of these funds are payments of policyholder benefits commissions and operating expenses, interest credits, investment purchases, derivative collateral requirements and contract maturities, withdrawals and surrenders. ING U.S. liquidity risk metrics indicate that liquidity resources would be sufficient to meet expected liquidity uses under the scenarios tested.

Under the terms of ING U.S. Over-The-Counter Derivative International Swaps and Derivatives Association, Inc. ('ISDA') Agreements, ING U.S. may receive from, or deliver to, counterparties, collateral to assure that all terms of the ISDA Agreements will be met with regard to the Credit Support Annex ('CSA'). The terms of the CSA call for ING U.S. to pay interest on any cash received equal to the federal funds rate ('Federal Funds Rate'). As of 31 December 2012, EUR 675 million of net cash collateral related to derivative contracts was being held. As of 31 December 2012, ING U.S. delivered EUR 25 million and EUR 9 million of cash collateral related to derivative contracts and credit facilities, respectively. As of 31 December 2011, EUR 585 million of net cash collateral related to derivative contracts was being held. As of 31 December 2011, ING U.S. delivered EUR 31 million and EUR 9 million of cash collateral related to derivative contracts and credit facilities, respectively. As of 31 December 2010, EUR 10 million of net cash collateral related to derivative contracts was being held. As of 31 December 2010, ING U.S. delivered EUR 39 million and EUR 9 million of cash collateral related to derivative contracts and credit facilities, respectively. The collateral held and delivered is included in Payables under securities loan agreements, including collateral held and Short-term investments under securities loan agreements, including collateral delivered, respectively, on the Consolidated Balance Sheets. In addition, as of 31 December 2012, 2011 and 2010, ING U.S. delivered securities as collateral of EUR 0.8 billion, EUR 1.0 billion and EUR 0.8 billion, respectively, which was included in Securities pledged on the Consolidated Balance Sheets. Collateral requirements are monitored on a daily basis and incorporate changes in market values of both the derivatives contract as well as the collateral pledged. Market value fluctuations are due to changes in interest rates, spreads and other risk factors.

OPERATIONAL RISK
Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the risk of reputation loss, as well as legal risk whereas strategic risks are not included. Operational risk also includes IT risk.

For Operational risk, ING U.S. follows the ING Group framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks. The ING framework is based on the elements of the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission).

The Operational risk function works with the ING Operational Risk Management (ORM) Scorecard process to evaluate yearly the embedding level of the Operational Risk Management Framework in each business. Policies and minimum standards governing the framework are kept in the policy house. During 2011 Operational Risk started with the implementation of an ING U.S. policy house in preparing for a stand-alone public organisation.

Risk appetite is defined as the risk level management is prepared to tolerate. The operational risk appetite levels are set by ING Group in the form of a risk footprint. Via Operational Risk Committees (ORCs) it is ensured that responsible line managers mitigate the risks that are not within the risk appetite. Incidents and operational risks are tracked and on a quarterly basis reported to management in the Non-Financial Risk Dashboard.

Integrated risk assessments are performed on an ongoing basis across the organisation. Mitigating actions are taken for those risks that are identified as risks beyond the risk appetite level. Status of the mitigating actions is formally tracked.

To ensure an independent Operational risk function and the possibility for the Operational risk officers to be impartial and objective when advising business management on Operational Risk, a dual reporting line, directly to ING U.S. Chief Risk Officer and functionally to the next higher level ING Group Operational Risk Officer, is in place. The head of Operational risk ultimately reports directly to the ING U.S. Chief Risk Officer.

COMPLIANCE RISK
The ING U.S. Compliance program and function are aligned with ING Group's Compliance Risk Management Charter and Framework and the related processes described elsewhere in this Report.

The Scope of the Compliance function
The ING U.S. Compliance function focuses primarily on managing the risks arising from laws, regulations and standards which are specific to the financial services industry. The Compliance function seeks to actively educate and support the business in managing compliance risks including anti-money laundering, preventing terrorist financing, conflicts of interest, sales practices, trading conduct and protection of customer interests.

The Compliance function
In ING U.S., the Compliance function is an independent control and risk management department. The ING U.S. Chief Compliance & Ethics Officer reports directly to the ING U.S. Chief Legal Officer, who is a member of the Board of ING U.S., Inc. The ING U.S. Chief Compliance & Ethics Officer also has a functional reporting line to the ING Group Chief Compliance Officer.

Compliance Risk Management Framework
ING U.S. adheres to the ING Group Compliance Framework, which consists of three key components: the Compliance Risk Management process, an Advisory component and the Scorecard. ING U.S. Compliance executes a regular process of identifying, assessing, mitigating, monitoring and reporting compliance risks. The Compliance function works with Operational Risk Management's annual evaluation process, assessing the implementation of compliance program elements within each business line and across the enterprise.

ING U.S. also maintains the Whistleblower process on behalf of the broader organisation. The process is designed to encourage staff to speak up, without fear of reprisal, if they know of or suspect a breach of laws, regulations or internal policies. ING U.S. also maintains a domestic 'hotline' operated by a third-party vendor that is available to all employees to report suspected misconduct, and reporting employees may elect to remain anonymous in doing so.

Main Compliance developments in 2012
- Policies & Procedures: ING U.S. Compliance reviewed and prepared drafts of an updated Code of Business Conduct and Ethics, along with new or refreshed Corporate Compliance Policies tailored to the US business and regulatory regime. These are expected to be issued and implemented in conjunction with the planned separation of ING U.S. businesses;
- Technology Enhancements: ING U.S. Compliance enhanced technology and tools to improve compliance risk management in the areas of anti-money laundering, position reporting and personal trading;
- Enterprise Functions: ING U.S. Compliance implemented certain enterprise-wide compliance processes to support functions across business lines, including advertising review, inspections and compliance training;
- Extra-territorial Laws: The UK Bribery Act was effective 1 July 2011 and is deemed applicable to ING's business globally. Accordingly, the ING Group Gifts, Entertainment and Anti-Bribery Policy was amended to comply with the UK Bribery Act, and ING U.S. will adopt and implement policies that align with the regulatory and Group requirements;
- Employee Compliance Training: Continuous education and awareness training was provided through the ING Learning Center, with four required Corporate Responsibilities Courses for all ING U.S. employees, in addition to targeted courses where deemed necessary.

REGULATORY CAPITAL
For the capital adequacy assessment of ING U.S. domiciled regulated insurance businesses, available capital is measured under US statutory accounting principles and required capital is measured under the US regulatory Risk Based Capital (RBC) methodology defined by the National Association of Insurance Commissioners (NAIC). Commonly in the US an insurer's financial strength and ability to meet policyholder obligations is measured in terms of the amount of statutory capital held in relation to the 'Company Action Level' RBC defined by the NAIC framework. Note that the level of capital required by rating agencies to maintain an acceptable claims paying ability rating is well above the regulatory minimum defined by Company Action Level RBC. Consequently, ING U.S. manages its available capital primarily with respect to capital metrics that are aligned with the models of the various rating agencies.

The relevant capital requirements of the ING U.S. business units consist of statutory Risk Based Capital requirements (RBC) for its US domiciled business, along with additional requirements for the Cayman Islands based subsidiary Security Life of Denver International (SLDI). ING U.S. targets a RBC ratio of 425% for its US-domiciled business.

The asset target for the variable annuity (VA) business within SLDI is based on Actuarial Guideline 43 (AG 43), a reserve standard written by the US National Association of Insurance Commissioners. AG 43 prescribes reserves based on applying standardised economic scenarios under the Conditional Tail Expectation (CTE) approach, a scenario testing methodology. For rating agency purposes, ING U.S. targets assets satisfying the CTE requirement in excess of the 95% confidence level.

As of 31 December 2012, US regulatory capital was at USD 7.9 billion producing an RBC ratio of 526%.

Regulatory Capital Sensitivities
ING U.S. calculates regulatory capital sensitivities on the Risk-Based Capital model in order to provide insights into how the amount of available capital in excess of regulatory required capital changes with an increase or a decrease in different market risk factors under moderate stress scenarios that correspond approximately with a 1-in-10 year event. Regulatory capital sensitivities are calculated in aggregate for the US domiciled regulated insurance entities, and include the effects of the sensitivities on the capital of SLDI.

The sensitivities shown are calculated at the business unit level and cover US domiciled insurance entities. The sensitivities are based on moderate shocks to the following underlying risk factors:
- Interest rates;
- Equity;
- Credit (credit default and credit spread risk);
- Foreign exchange;
- Real estate.

Risk management continued ING Insurance US

The shock scenarios applied for regulatory capital sensitivities are the same as those shown in the Market Risk section for Earnings at Risk. The regulatory capital sensitivity in aggregate is calculated by combining the joint impact of the various market stress events calculated by taking into account the correlations between risk types.

Sensitivities
The table below presents market risk sensitivity figures before diversification between risks.

Regulatory Capital Sensitivities[1,2]

	US Excl. CB-VA		CB-VA	
	2012	2011	**2012**	2011
Interest Rate Up	**–23**	2	**258**	24
Interest Rate Down	**–24**	–50	**–246**	–226
Equity	**–82**	–149	**–129**	–17
Credit - Default	**–240**	–272	**–6**	–8
Credit - Spread [3]	**–462**	–475	**–19**	–21
Mortality [4]	**–19**	–15	**–1**	–4
Morbidity [4]	**–32**	–32		

[1] FX and real estate sensitivities do not have a material impact.
[2] Sensitivities are calculated at business unit level and cover US domiciled insurance entities.
[3] Includes changes in liabilities anticipated with an increase on spreads.
[4] Mortality and morbidity sensitivities are calculated on a diversified basis assuming a normal distribution and a specified mortality/morbidity scenario for calibration.

The changes from 2011 to 2012 are the result of many factors including:
- Changes in credit exposures, as discussed in the Credit Risk section above, leading to a reduction in default risk;
- Sales of Limited Partnership assets, reducing US ex CBVA sensitivity to equities;
- Introduction of Stable Value hedging program, leading to reduced exposure to interest rates in US ex CBVA;
- Model and assumption refinements in CBVA, leading to an increase in equity sensitivity.

Taking into account diversification between risk factors, ING U.S. (excluding CB-VA) is exposed to a EUR 0.9 billion decrease in regulatory capital and CB-VA is exposed to a EUR 0.4 billion decrease in regulatory capital within the context of the market and non-market sensitivity analysis. As of 31 December 2011, the comparable amounts were EUR 1.0 billion and EUR 0.3 billion, respectively.

MODEL RISK
The US has a rigorous Model Risk Governance framework that is operative at each Business Unit level as well as within the ING U.S. Corporate area. Through this framework all model, methodology and assumption changes are reviewed and approved by a BU Chief Risk Officer or by the US Chief Risk Officer. The US CRO has ultimate authority for Model Risk Governance. Beginning in 2012, the US has targeted 3Q as the quarter to make our routine experience updates. We will also target 3Q for any other planned model, methodology and assumption updates. Below is a summary of the significant model and assumption changes for 4Q 2012 that were approved by the US Model Committee:
- The QRM system was approved as a replacement for ECAPS for use in the calculation of Economic Capital and FAS107 disclosure items;
- A new methodology was approved to generate EC and Market Consistent scenarios;
- Several business units made updates to statutory values as a result of changes in reserve valuation interest rates or changes in their cash flow testing models. The valuation interest rate updates are required by law.

INSURANCE INVESTMENTS
The Insurance Investments business consists of certain parts of ING Insurance that will not be part of the divestment of the Latin American, Eurasian and US business. In the course of the divestment process of these businesses the composition of the Insurance Investments portfolio may change. Furthermore, at some stage parts of the Insurance Investments portfolio itself may be divested or closed down. In some cases this can take many years. Currently the most important parts of this portfolio are:
- Financing activities of ING Insurance and some of its sub holdings;
- Certain activities related to prior divestments, such as legal claims in Mexico and the ownership of a Mexican mortgage company;
- ING's stake in the Brazilian SulAmerica joint venture;
- The run-off of former non-life and reinsurance activities.

Insurance Investments businesses are managed by the Head of Insurance Investments and supported by the Finance and Risk functions of ING Group. The largest asset is the Brazilian SulAmerica joint venture with a balance sheet value of EUR 366 million (in 2011 EUR 394 million). Winding down financing activities is delegated to ING Group Capital Management.

Capital management

amounts in millions of euros, unless stated otherwise

OBJECTIVES

ING Group Capital Management (Capital Management) is responsible for the sufficient capitalisation of ING Group entities at all times in order to manage the risk associated with ING's business activities. This involves the management, planning and allocation of capital within ING Group. ING's Corporate Treasury is part of Capital Management. It executes the necessary capital market transactions, term (capital) funding and risk management transactions. Capital Management monitors and plans capital adequacy on a consolidated basis at three levels: ING Group, ING Insurance and ING Bank. Capital Management takes into account the metrics and requirements of regulators (Insurance Group Directive (IGD) Solvency I, Tier 1 and BIS ratios and limits for hybrid capital), rating agencies (leverage ratios, Adjusted Equity) and internal models such as the economic capital and market value balance sheet approach for parts of ING Insurance including Available Financial Resources (AFR).

ING applies the following main capital definitions:

- Insurance Group Directive capital (ING Insurance) – This regulatory concept is defined as shareholders' equity plus hybrid capital, prudential filters and certain adjustments. IGD capital is calculated in accordance with method 3 'method based on accounting consolidation' of the Dutch Act on Financial Supervision. In this method the solvency margin is calculated on the basis of the consolidated accounts and is the difference of (i) the assets eligible for the inclusion in the calculation of the solvency margin based on the consolidated data; and (ii) the minimum amount of the solvency margin calculated on the basis of the consolidated data. In applying this method a solvency deficit of an insurance subsidiary, if any, is taken into account, as well as regulatory adjustments of the Dutch insurance subsidiaries based on the Dutch Act on Financial Supervision. See 'Capital Base' disclosures in this section. This capital definition is applied in comparing IGD capital to EU required capital base. In 2012 the IGD ratio was positively impacted by the adoption of the Ultimate Forward Rate Curve for the valuation of insurance liabilities in the Netherlands.
- AFR (ING Insurance EurAsia excluding discontinued operations) –This is a before tax market value concept, defined for the insurance operations of ING Insurance EurAsia as the market value of assets (MVA) less the market value of liabilities (MVL) on the balance sheet. The liabilities do not include perpetual hybrid capital which is included in AFR. The AFR valuation of ING Insurance EurAsia includes an adjustment for liquidity premium. The AFR for third party pension funds is set equal to the statutory net equity. AFR is used as the measure of available capital in comparison with Economic Capital employed.
- EC, or Economic Capital (ING Insurance EurAsia excluding discontinued operations), is the before tax required capital for the insurance operations of ING Insurance EurAsia, based on a 99.5% confidence interval on a one-year horizon. This interval is aligned with the Solvency II capital requirement. The EC for third party pension funds is based on sectoral rules.
- Risk Based Capital (Domestic ING US Insurance only). In the US, regulators have well developed capital adequacy models and stress tests that reflect the unique characteristics of the US insurance industry. US domiciled insurance legal entities are required to hold minimum capital levels by state insurance regulators. The level of capital required by rating agencies to maintain an acceptable claims paying ability rating is well above these levels. The Domestic US Insurance business manages its statutory surplus primarily with respect to capital metrics that are aligned with the models of the various ratings agencies.
- Financial Leverage (ING Insurance). Financial Leverage is the sum of hybrid capital, sub-debt and net financial debt.

DEVELOPMENTS

In 2012 Capital Management's main focus remained the strengthening of the capital position of ING Group, ING Bank and ING Insurance. ING's capital is well placed to deal with the uncertain financial environment, increasing regulatory requirements and the ambition to repay the remaining outstanding Core Tier 1 securities.

In April 2012, in preparation of the planned insurance and investment management divestments, ING Group has completed three separate exchange offers and consent solicitations on a total of three series of senior securities of ING Verzekeringen N.V. with a total nominal value of EUR 2.6 billion. The objective of the transaction was to remove potential ambiguity that the planned divestments may create with regard to these ING Verzekeringen N.V. securities, predominantly with regard to the Change of Control clauses which may be triggered at the time of a substantial asset disposal. The difference between the book value of the currently outstanding securities and the fair value of the newly issued securities was recognised in the profit and loss account upon completion of the exchange.

In November 2012, ING repaid EUR 750 million of the Core Tier 1 securities issued in November 2008 at a 50% premium. Nevertheless ING maintained a strong capital position, driven mainly by strong capital generation at ING Bank.

In December 2012 ING Verzekeringen N.V. redeemed a EUR 1.25 billion hybrid security. This security had a Change of Control clause that would be triggered by the divestment of Insurance Asia.

Capital management continued

POLICIES

The activities of Capital Management are executed on the basis of established policies, guidelines and procedures. For the Corporate Treasury there are additional policies and limits that guide the management of the balance sheets and the execution of capital market transactions.

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 ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process. Following the annual budgeting process, each year a capital plan is prepared for the Group as a whole and each of its material businesses. This plan is updated on a quarterly basis and it is assessed to what extent additional management actions are required. At all times maintaining sufficient financial flexibility should be preserved to meet important financial objectives. At the foundation of the capital plan are ING's risk appetite statements that determine target setting. These constraints are being cascaded to the different businesses in line with our risk management strategy.

Important inputs to the capital planning and management process are provided by stress testing that is performed on a regular basis. These stress tests focus on topical issues and the sensitivity of the Group's capital position to certain risks. These analyses provide input that help to steer strategic direction. Setting policies for recovery planning and resolution are a natural extension of ING's capital management policies and follow ING's risk management framework seamlessly.

A key priority of Capital Management is to ensure 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 2012, ING Group, ING Bank and ING Insurance were adequately capitalised.

Capital position of ING Insurance

	2012	2011
Shareholder's equity (parent)	27,299	23,475
Hybrids issued by ING Group [1]	2,438	2,604
Hybrids issued by ING Insurance [2]	476	1,726
Required regulatory adjustments	–6,891	–6,399
IGD capital	23,322	21,406
EU required capital base	9,523	9,515
IGD Solvency I ratio [3]	245%	225%

[1] Hybrids issued by ING Group at notional value.
[2] Hybrids issued by ING Insurance at notional value capped at 25% of EU required capital.
[3] The actual required regulatory adjustments for IGD capital and the EU required capital may be different from the estimate since the statutory results are not final until filed with the regulators.

ING Insurance continues to aim that 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 financial debt) of ING Insurance is appropriate relative to the capital base. The financial leverage decreased in 2012 mainly due to the divestment of the Insurance business in Malaysia.

Capital management continued

Capital base and financial leverage of ING Insurance		
	2012	2011
Shareholder's equity (parent)	**27,299**	23,475
Revaluation reserve debt securities	**–9,282**	–4,379
Revaluation reserve crediting to life policyholders	**5,673**	3,492
Revaluation reserve cash flow hedge	**–3,548**	–2,883
Goodwill	**–351**	–786
Minority interests	**217**	62
Capital base	**20,007**	18,981
Group hybrid capital [(1)]	**2,451**	2,617
Insurance hybrid capital [(2)]	**496**	1,751
Total hybrids	**2,947**	4,368
External debt issued by ING Verzekeringen N.V.	**694**	2,855
External debt issued by US Holding companies	**2,307**	930
Other net financial debt [(3)]	**2,767**	1,686
Total financial debt	**5,768**	5,471

(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 liabilities of the holding companies, mainly ING Verzekeringen N.V. and US Insurance Holdings.

For ING Insurance in total, the capital base for financial leverage purposes is fully based on IFRS accounting, whereas the IGD capital is corrected for some regulatory adjustments. The table below provides a reconciliation.

Reconciliation between IGD capital and Capital base		
	2012	2011
IGD Capital	**23,322**	21,406
Hybrids issued by ING Group	**–2,438**	–2,604
Hybrids issued by ING Insurance	**–476**	–1,726
Revaluation reserve debt securities	**–9,282**	–4,379
Revaluation reserve crediting to life policyholders	**5,673**	3,493
Required regulatory adjustments	**3,208**	2,791
Capital base	**20,007**	18,981

For ING Insurance EurAsia, Available Financial Resources (AFR) continues to be important, especially as an evolving proxy for the Own Funds derivation from our internal model under Solvency II. The following table presents the reconciliation from the 2011 AFR and EC for ING Insurance EurAsia as reported in the Annual Report 2011, to the comparable basis for ING Insurance EurAsia 2012. This reflects changes in scope and methodology. For the remainder of this paragraph AFR and EC on a comparable basis to 2012 are used.

AFR and EC 2011 reconciliation		
amounts in billions of euros	AFR	EC
As reported for ING Insurance EurAsia in 2011 [(1)]	17.3	10.3
Exclude ING Insurance Asia Pacific discontinued business	–6.9	–3.8
ING Insurance EurAsia excluding discontinued business	10.4	6.5
Change in models and methodology		–0.9
ING Insurance EurAsia 2011 excluding discontinued business, on a basis comparable to 2012	10.4	5.6

(1) EC as reported in the 'Risk management' section of the 2011 Annual Report.

The exclusion of ING Insurance Asia Pacific entities relates to all business units in Asia Pacific, Insurance and investment management businesses and the reinsured Japan VA guarantees to ING Re (Netherlands) N.V. that have been classified as discontinued operations and that were considered in 2011 AFR and EC amounts. Reference is made to Note 23 'Discontinued operations'.

Capital management continued

AFR and EC positions

	2012	2011
AFR	9.6	10.4
EC	5.9	5.6
Excess AFR over EC	3.7	4.8
AFR-EC ratio	163%	186%

The AFR-EC ratio for ING Insurance EurAsia decreased in 2012 as a result of higher EC and lower AFR. EC for ING Insurance EurAsia increased in 2012 primarily due to increases in insurance and business risk, partly offset by de-risking activities in the Benelux and overall lower market valuation leading to lower EC. Credit default risk decreased due to a methodology change and was offset by a lower diversification of this risk with other risk categories. AFR for ING Insurance EurAsia decreased in 2012 mainly due to market impacts (mainly credit and illiquidity spread changes on assets and liabilities), holding company interest, offset by the proceeds received for the divestment of Insurance Malaysia and capital injections from ING Verzekeringen N.V.

For the capital adequacy assessment of ING Insurance's US domiciled regulated insurance business, available capital is measured under US statutory accounting principles and required capital is measured under the US Regulatory Risk Based Capital (RBC) methodology as prescribed by the National Association of Insurance Commissioners (NAIC). For ING's US domiciled regulated insurance business, the consolidated RBC ratio (available capital/required capital) is estimated to be approximately 526% at 31 December 2012. 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 488% at the end of 2011.

Main credit ratings of ING at 31 December 2012

	Standard & Poor's		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
ING Groep N.V.						
– long-term	A	negative	A3	negative	A	stable
ING Bank N.V.						
– short-term	A-1		P-1		F1+	
– long-term	A+	negative	A2	negative	A+	stable
– financial strength			C-			
ING Verzekeringen N.V.						
– short-term	A-2		P-2		F2	
– long-term	A-	negative	Baa2	deve-loping	A-	negative

ING's key credit ratings and outlook are shown in the table above. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency.

A security rating is not a recommendation to buy, sell or hold securities and each rating should be evaluated independently of any other rating. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency if, in the rating agency's judgment, circumstances so warrant. ING accepts no responsibility for the accuracy or reliability of the ratings.

AUTHORISATION OF ANNUAL ACCOUNTS

Amsterdam, 18 March 2013

THE SUPERVISORY BOARD
J. van der Veer, chairman
P.A.F.W. Elverding, vice-chairman
J.P. Bahlmann
H.W. Breukink
J.H. Holsboer
S. van Keulen
P.C. Klaver
J.Ch.L. Kuiper
R.W.P. Reibestein
Y.C.M.T. van Rooy
L.A.C.P. Vandewalle
L.J. de Waal

THE MANAGEMENT BOARD INSURANCE
J.H.M. Hommen, *CEO and chairman*
P.G. Flynn, *CFO*
W.F. Nagel, *CRO*

Parent company balance sheet of ING Verzekeringen N.V.

as at 31 December before appropriation of result

amounts in millions of euros	2012	2011
Assets		
Investments in wholly owned subsidiaries 1	32,072	27,857
Other assets 2	4,166	12,333
Total assets	36,238	40,190
Equity 3		
Share capital	174	174
Share premium	11,874	11,874
Legal reserves [1]	8,253	5,280
Other reserves	6,059	4,947
Unappropriated result	939	1,200
	27,299	23,475
Liabilities		
Subordinated loans 4	2,947	4,367
Other liabilities 5	5,992	12,348
Total equity and liabilities	36,238	40,190

(1) Legal reserves includes Share of associates reserve of EUR 8,737 million (2011: EUR 5,536 million) and Currency translation reserve of EUR –484 million (2011: EUR –256 million).

References relate to the notes starting on page 162. These form an integral part of the parent company annual accounts.

Parent company profit and loss account of ING Verzekeringen N.V.

for the year ended 31 December

amounts in millions of euros	2012	2011
Result of group companies after tax	**992**	1,453
Other results after tax	**–53**	–253
Net result	**939**	1,200

Parent company statement of changes in equity of ING Verzekeringen N.V.

amounts in millions of euros	Share capital	Share premium	Share of associates reserve	Currency translation reserve	Other reserves [1]	Total
Balance as at 1 January 2011	174	11,874	3,609	–395	4,897	20,159
Unrealised revaluations after tax			2,092		86	2,178
Realised gains/losses transferred to profit and loss			403	70		473
Transfer to insurance liabilities/DAC			–2,004			–2,004
Changes in cash flow hedge reserve			1,316			1,316
Unrealised revaluations from net investment hedges			180	–269		–89
Exchange rate difference			–96	338		242
Total amount recognised directly in equity	0	0	1,891	139	86	2,116
Net result					1,200	1,200
	0	0	1,891	139	1,286	3,316
Transfer to share of associates reserve			36		–36	0
Balance as at 31 December 2011	**174**	**11,874**	**5,536**	**–256**	**6,147**	**23,475**
Unrealised revaluations after tax			**5,086**		**76**	**5,162**
Realised gains/losses transferred to profit and loss			**–367**			**–367**
Transfer to insurance liabilities/DAC			**–2,181**			**–2,181**
Changes in cash flow hedge reserve			**665**			**665**
Unrealised revaluations from net investment hedges			**–53**	**28**		**–25**
Exchange rate difference			**–113**	**–256**		**–369**
Total amount recognised directly in equity	**0**	**0**	**3,037**	**–228**	**76**	**2,885**
Net result					**939**	**939**
	0	**0**	**3,037**	**–228**	**1,015**	**3,824**
Transfer to share of associates reserve			**164**		**–164**	**0**
Balance as at 31 December 2012	**174**	**11,874**	**8,737**	**–484**	**6,998**	**27,299**

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

Accounting policies for the parent company annual accounts of ING Verzekeringen N.V.

BASIS OF PRESENTATION

The parent company accounts of ING Verzekeringen N.V. are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The accounting policies applicable to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. The principles of valuation and determination of results stated in connection with the consolidated balance sheet and profit and loss account are also applicable to the parent company balance sheet and profit and loss account with the exception of investments in group companies and investments in associates which are recognised at net asset value with goodwill, if any, recorded under intangible assets.

The profit and loss account is drawn up in accordance with Section 402, Book 2 of the Dutch Civil Code.

A list containing the information referred to in Section 379 (1), Book 2 of the Dutch Civil Code has been filed with the office of the Commercial Register of Amsterdam, in accordance with Section 379 (5), Book 2 of the Dutch Civil Code.

Changes in balance sheet values due to changes in the Revaluation reserves of associates are reflected in the Share of associates reserve, which forms part of Shareholder’s equity. Changes in balance sheet values due to the results of these associates, accounted for in accordance with ING Insurance accounting policies, are included in the profit and loss account. Other changes in the balance sheet value of these associates, other than those due to changes in share capital, are included in the Share of associates reserve.

A legal reserve is carried at an amount equal to the share in the results of associates since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the Share of associates reserve, which forms part of Shareholder’s equity.

Notes to the parent company annual accounts of ING Verzekeringen N.V.

amounts in millions of euros, unless stated otherwise

ASSETS

1 INVESTMENTS IN WHOLLY OWNED SUBSIDIARIES

Investments in wholly owned subsidiaries		
	2012	2011
ING Insurance Eurasia N.V.	**19,373**	15,956
ING U.S., Inc.	**10,425**	9,337
ING Insurance International B.V.	**2,257**	2,545
Other	**17**	19
	32,072	27,857

Changes in investments in wholly owned subsidiaries		
	2012	2011
Opening balance	**27,857**	25,864
Repayments-capital contribution	**–134**	–3,840
Disposals of group companies	**–2**	–4,523
Revaluations	**2,935**	2,190
Result of group companies	**992**	1,453
Capital contribution	**424**	6,726
Dividend		–13
Closing balance	**32,072**	27,857

2 OTHER ASSETS

Other assets		
	2012	2011
Receivables from group companies	**3,917**	12,137
Other receivables, prepayments and accruals	**249**	196
	4,166	12,333

As at 31 December 2012, an amount of EUR 4,119 million (2011: EUR 3,521 million) is expected to be settled after more than one year from the balance sheet date.

Notes to the parent company annual accounts of ING Verzekeringen N.V. continued

EQUITY
3 EQUITY

Equity	2012	2011
Share capital	**174**	174
Share premium	**11,874**	11,874
Share of associates reserve	**8,737**	5,536
Currency translation reserve	**–484**	–256
Other reserves	**6,998**	6,147
Equity	**27,299**	23,475

The Share of associates reserve includes the following components: Reserve for non-distributable retained earnings of associates of EUR 340 million (2011: EUR 176 million) and Revaluation reserve of associates of EUR 8,397 million (2011: EUR 5,360 million).

Share capital	Ordinary shares (par value EUR 1.13)			
	Number x 1,000		Amount	
	2012	2011	**2012**	2011
Authorised share capital	**680,000**	680,000	**768**	768
Unissued share capital	**526,116**	526,116	**594**	594
Issued share capital	**153,884**	153,884	**174**	174

Changes in other reserves and unappropriated result			
2012	**Retained earnings**	**Unappro–priated result**	**Total**
Opening balance	**4,947**	**1,200**	**6,147**
Result for the year		**939**	**939**
Unrealised revaluations	**76**		**76**
Transfer to retained earnings	**1,200**	**–1,200**	**0**
Other	**–164**		**–164**
Closing balance	**6,059**	**939**	**6,998**

Changes in other reserves and unappropriated result			
2011	Retained earnings	Unappro–priated result	Total
Opening balance	6,472	–1,574	4,898
Result for the year		1,200	1,200
Unrealised revaluations	85		85
Transfer to Share of associates reserve	–36		–36
Transfer to retained earnings	–1,574	1,574	0
Closing balance	4,947	1,200	6,147

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

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

Notes to the parent company annual accounts of ING Verzekeringen N.V. continued

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

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

The total amount of non-distributable reserves is EUR 9,221 million (2011: EUR 5,792 million).

See Note 12 'Shareholder's equity (parent)' in to the consolidated annual accounts for additional information.

Notes to the parent company annual accounts of ING Verzekeringen N.V. continued

LIABILITIES
4 SUBORDINATED LOANS

Subordinated loans

Interest rate	Year of Issue	Due date		Notional amount in original currency	Balance sheet value 2012	2011
Variable	2011	Perpetual	EUR	450	**450**	450
Variable	2008	Perpetual	USD	1,100	**834**	850
Variable	2007	Perpetual	USD	1,000	**758**	772
4.176%	2005	Perpetual	EUR	168	**181**	313
Variable	2005	Perpetual	USD	200	**152**	154
Variable	2005	Perpetual	USD	100	**76**	77
6.375%	2002	7 May 2027	EUR	476	**496**	501
Variable	2001	21 June 2021	EUR	1,250		1,250
					2,947	4,367

The subordinated loans rank subordinated to the other liabilities in a winding-up of ING Insurance.

5 OTHER LIABILITIES

Other liabilities by type

	2012	2011
Debenture loans	**694**	2,855
Amounts owed to group companies	**5,239**	9,423
Other amounts owed and accrued liabilities	**59**	70
	5,992	12,348

Debenture loans

Interest rate	Year of Issue	Due date	Balance sheet value 2012	2011
2.500%	2006	Apr 2012		245
Floating	2006	Sep 2013	**270**	1,000
4.000%	2006	Sep 2013	**424**	1,007
3.500%	2005	Nov 2012		502
3.500%	2005	Nov 2012		101
			694	2,855

Amounts owed to group companies by remaining term

	2012	2011
Within 1 year	**5,239**	9,401
More than 1 year but less than 5 years		22
	5,239	9,423

6 OTHER
Guarantees
As at 31 December 2012, ING Verzekeringen N.V. had guarantees on behalf of ING Bank companies to third parties of EUR 221 million (2011: EUR 250 million) outstanding.

ING Verzekeringen N.V. has issued statements of liability in connection with Section 403, Book 2 of the Dutch Civil Code and other guarantees (mainly funding and redemption guarantees) for ING Insurance group companies.

Fiscal unity
For corporation tax purposes, the Dutch fiscal unity in which ING Verzekeringen N.V. and its Dutch subsidiaries participate changed as of 1 October 2011 from ING Verzekeringen N.V. to its direct parent ING Insurance Topholding N.V. After the change, all tax payments and receipts are settled through ING Insurance Topholding N.V., albeit all subsidiaries that belong to the fiscal unity remain jointly and severally liable.

REMUNERATION OF SENIOR MANAGEMENT, MANAGEMENT BOARD AND SUPERVISORY BOARD
See Note 31 'Related parties' to the consolidated Annual Accounts for additional information.

AUTHORISATION OF PARENT COMPANY ANNUAL ACCOUNTS
Amsterdam, 18 March 2013

THE SUPERVISORY BOARD
J. van der Veer, chairman
P.A.F.W. Elverding, vice-chairman
J.P. Bahlmann
H.W. Breukink
J.H. Holsboer
S. van Keulen
P.C. Klaver
J.Ch.L. Kuiper
R.W.P. Reibestein
Y.C.M.T. van Rooy
L.A.C.P. Vandewalle
L.J. de Waal

THE MANAGEMENT BOARD INSURANCE
J.H.M. Hommen, *CEO and chairman*
P.G. Flynn, *CFO*
W.F. Nagel, *CRO*

Independent auditor's report

To: the Shareholder, the Supervisory Board and the Management Board of ING Verzekeringen N.V.

REPORT ON THE ANNUAL ACCOUNTS

We have audited the accompanying annual accounts 2012 of ING Verzekeringen N.V., Amsterdam (as set out on pages 18 to 166). 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 2012, 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 2012, the parent company profit and loss account for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

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

Opinion with respect to the consolidated annual accounts

In our opinion, the consolidated annual accounts give a true and fair view of the financial position of ING Verzekeringen N.V. as at 31 December 2012 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the parent company annual accounts

In our opinion, the parent company annual accounts give a true and fair view of the financial position of ING Verzekeringen N.V. as at 31 December 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination of whether the report of the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we Report that the report of the Management Board, to the extent we can assess, is consistent with the annual accounts as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 18 March 2013

Ernst & Young Accountants LLP

signed by A.F.J. van Overmeire

Proposed appropriation of result

amounts in millions of euros

PROPOSED APPROPRIATION OF RESULT

The result is appropriated pursuant to Article 21 of the Articles of Association of ING Verzekeringen N.V., the relevant stipulations of which state that the appropriation of result shall be determined by the General Meeting, having heard the advice of the Management Board.

For 2012, it is proposed to appropriate the entire result to reserves, so that no final dividend will be paid.

In 2012 no interim dividend was paid.

Proposed appropriation of result

Net result	**939**
Proposed to be added to the Other Reserves pursuant to Articles 21(2) and 21(3) of the Articles of Association	**939**

232454

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