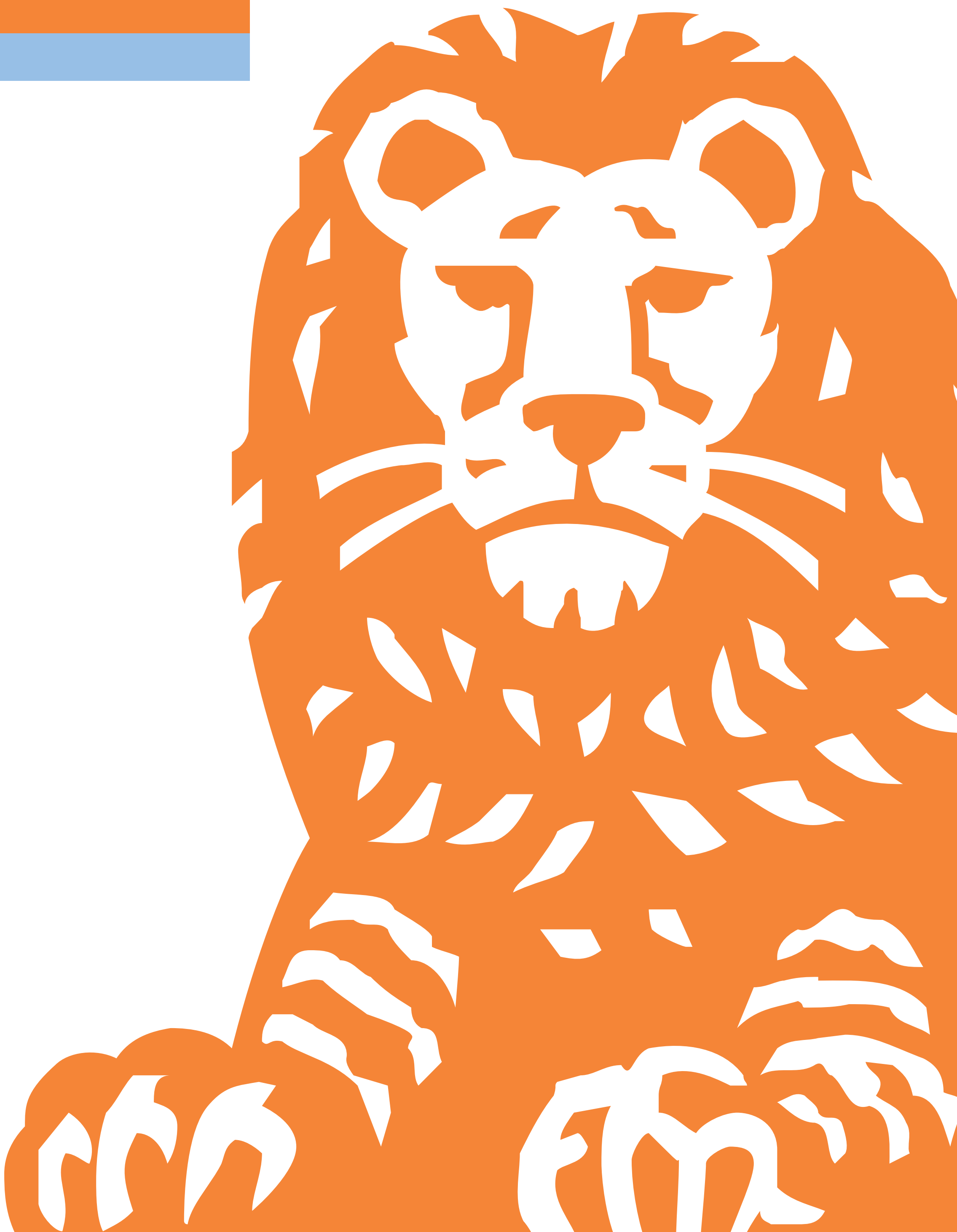
ING

ING Group Annual Report 2011

Building strong businesses
in a challenging environment



ING

- ING posts 2011 underlying net profit of EUR 3,675 million
- Strong funding position enabled us to increase lending to support our customers
- Managing through the current crisis by building on strong capital, funding and liquidity positions
- Making good progress on EC restructuring and further repayment of the Dutch State
- Continued dialogue with stakeholders on fundamental review of the financial system

Contents

Chairman's message

Dear reader,

2011 was a challenging year with tough economic conditions. I am proud of our employees, who were able to put more focus on customer centricity in these difficult circumstances. I am grateful that our customers have remained loyal to ING and have continued to place their trust in us. At the same time, we realise that there is still quite a way to go.

Against a backdrop of a deteriorating economy and increasing turmoil in the financial markets, we reported good performance in 2011. Thanks to a number of decisive strategic measures, our capital position is strong. We have sold a number of operations to simplify our portfolio. We divested ING Direct USA and the Latin American pension, insurance and investment management operations as imposed by the European Commission. With income under pressure, it is important that we maintain our competitive position by further driving down our costs and adapting to new market conditions.

We have reduced risk and significantly down-sized our position in Southern European government bonds. We have also repaid a substantial portion of the outstanding Dutch state aid. Fully repaying the State remains a top priority.

2011 was an exceptional year for ING. We took decisive and important steps in the restructuring process we initiated in 2009. Since 1 January 2011, ING Bank has been operating as a separate business from ING Insurance/Investment Management. The focus was directed towards consolidating and developing the strengths of the banking operations and on more efficient asset and liability management. At ING Insurance/Investment Management, the US, European and Asian businesses reported good progress in their initiatives to improve operating performance and strengthen capital positions. Furthermore, a lot of work was done in 2011 to prepare for the original base case of two initial public offerings (IPO): one for our US operations and one for our European and Asian activities. Unfortunately, due to the uncertain economic outlook and volatile markets, we recently had to announce a change of plans with regard to the divestment of the insurance and investment management businesses. We have decided to review other strategic options for our Asian insurance and investment management businesses. For the European insurance/investment management businesses, we will continue preparations for a stand-alone future, including the possibility of an IPO. As for the US, we continue to prepare for the base case of an IPO for the US insurance/investment management businesses.

Universal application

The financial sector faced many challenges in 2011. These include the many regulatory changes for the banking and insurance sectors. A massive volume of new regulations needs to be implemented within a short period of time. ING recognises and endorses the importance of bolstering the stability of the financial system but we are concerned that there is no universal international application because national interests all too often prevail. Furthermore, it is essential that the impact on the economy and on customers is assessed very carefully when new regulations are introduced. It is important that financial institutions can continue to effectively carry out their fundamental role in the economy.

Trust

Despite the tough economic climate, we have been working hard to regain the trust of all of our stakeholders and particularly of our customers, who are fundamental to our business; for example by offering simple and transparent products at a reasonable price, and by continuing to lend to them. We measure our performance using the Net Promoter Score, which tells us what our customers really think of us and whether we provide them with the products and services they need. The real test is whether they would recommend ING to family and friends.

We gather feedback from our customers via our employees but also through customer information sessions or via online social networks. In these forums we invite customers to share their views and experiences with us. We use this feedback to refine our processes and to develop products that better serve them. Online social networks are an increasingly important link in communications with our customers.

We have continued to invest in our distribution network to make the services we provide to our corporate and retail customers as easy to use as possible and to allow our customers to choose when and how they do business with us.

I would also like to thank our loyal shareholder base, a large part of which has stayed with us as we've gone through our restructuring. We intend to resume dividend payments when all remaining state aid has been repaid and Basel III requirements have been met.

> "ING is and remains an important player in the financial sector and we will shoulder the responsibility that comes with this role."

Positive changes

Sustainability is an important pillar of our strategy. As a global financial services provider, we have an impact on all economic sectors. We see it as our responsibility to use our influence to establish positive social and environmental change. For example, we work closely with our customers to develop and promote new and sustainable products and services. We are not only involved in development but we also finance and invest in sustainable products and projects. We adhere to environmental, ethical and social principles when investing for our customers and ourselves.

Other examples include sharing knowledge by organising seminars for specific customer groups or by publishing research to inform customers about relevant developments and to alert them to opportunities. An example of this is the 'Renewable energy in the Netherlands until 2020' report. We also run global financial education programmes to provide customers and others with a greater understanding and control of their finances. Our ING Chances for Children programme, which we run jointly with UNICEF, helps children all over the world to access education and encourages independence. You can find out more about this in the 'Sustainability' chapter.

Active dialogue

In 2011, the financial sector was once again a very regular topic of debate. Criticism was directed largely at the complexity of banks and their role in society. A fundamental review of the financial system and the banks' business model is the main focus. We are seeking a dialogue with our stakeholders and are open to their views about our role as a financial institution. We have already carried out major changes, including simplifying our business model, products and services and in the area of remuneration. These fundamental changes take time, but we remain committed to them.

Continuing to shape the future

Our focus in 2012 will be on a further completion of the restructuring process. In spite of the volatile market conditions and very low prices in the market for financial operations, we will continue to prepare for the divestment of our insurance/investment management businesses. The most important priorities of these businesses are to improve performance and optimise returns and value. ING Bank will further develop its strategy to be primarily a Europe-oriented business with leading domestic banking positions in the home markets of the Benelux, Germany and Poland, leading commercial banking positions in the Benelux and Central and Eastern Europe. Coupled with a number of other positions inside and outside of Europe this will give ING Bank interesting growth potential in the long term. One of our objectives is to have a Return on (IFRS-EU) Equity of 10–13% under Basel III by 2015.

In 2012, we will make every effort to continue to deliver good performance. The customer remains pivotal to our operations. Our focus is also on continuing to manage and reduce risks and bolstering the capital position.

ING is blessed with good people who are very committed to ING and its customers. Despite the heavy workload and the uncertainty that comes with separation projects, restructuring and divestments, our people have delivered a remarkable performance in 2011. It is an honour to be their leader.

The results of our annual employee survey reveal that our employees feel engaged with ING, even in these times of major change. That is important because they play an essential role in our services and in our success. ING is and remains an important player in the financial sector, and in 2012 we will shoulder the responsibility that comes with this role. Together with our stakeholders, we will continue to do all we can to further shape our future.

Jan Hommen
Chairman of the Executive Board

ING at a glance

OUR MISSION

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

OUR PROFILE

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

OUR STRATEGY

To serve the interests of our stakeholders, increase management focus and create value for our shareholders, ING is moving towards separation of its banking and insurance operations. We believe the widespread demand for greater simplicity, reliability and transparency makes this the best course of action. The separation is also part of the restructuring plan submitted to the European Commission in order to get approval for the Dutch state aid received during the financial crisis. In the future, ING Bank intends to be a strong European bank, with leading domestic banking positions in attractive, stable home markets, as well as a leading commercial bank in the Benelux and Central and Eastern Europe. We also intend to continue to selectively evolve our various ING Direct units into more mature full-service banking models. These initiatives in Europe, coupled with our positions outside of Europe, should give the Bank attractive growth potential in the long term. ING will build on its global presence and international network and capitalise on its leadership position in gathering savings, multi-channel distribution, simple propositions and marketing. On the insurance side, the focus will be on continuing to improve performance in order to optimise returns and value for the business as we prepare for separation. We will focus on earning our customers' trust through transparent products, value for money and superior service. This reflects our universal customer ideal: saving and investing for the future should be easier.

OUR CUSTOMERS

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

OUR STAKEHOLDERS

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

OUR CORPORATE RESPONSIBILITY

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

CREATING STRONGER STAND-ALONE BUSINESSES

Strategic priorities

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

Strong financial position

Solid earnings and a strong capital and funding position enable ING to support its customers also in uncertain times. On the banking side the core Tier 1 ratio, a key measure of financial strength, was at 9.6% at the end of 2011. ING Insurance/Investment Management's (IM) operating results mostly showed improvement throughout 2011.

Restructuring and streamlining on track

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

Repayment of core Tier 1 securities

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

Building stronger businesses

One of ING Bank's priorities is to generate capital and reach a core Tier 1 ratio of at least 10% by 2013. From 2013, the Bank aims for moderate balance sheet growth in line with GDP growth and a strong focus on deposits generation. ING Insurance/IM will continue to focus on its customers and distributors by providing exemplary products and service, as it restructures in preparation for a stand-alone future.

ING GROUP

BANKING

UNDERLYING INCOME
€15,854m
2010: €16,816m

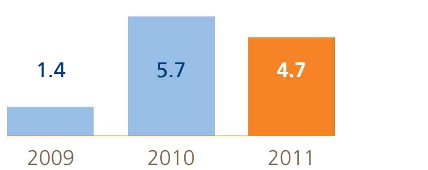
UNDERLYING NET RESULT
€3,384m
2010: €4,242m

BANKING
ING's banking operations are divided into two main activities: Retail Banking and Commercial Banking.

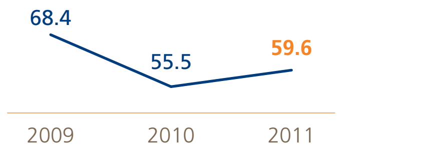
Retail Banking provides retail and direct banking services to individuals and small and medium-sized enterprises throughout Europe, Asia and Canada, with a base in our Northern European home markets. Our ambition is to transform ING Direct into a full-service bank.

Commercial Banking offers services such as lending, payments and cash management in more than 40 countries to corporations, governments and other financial institutions.

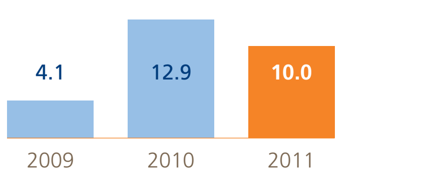
Underlying result before tax (EUR billion)



Underlying cost/income ratio (%)



ROE (%) based on IFRS-EU equity



INSURANCE

UNDERLYING INCOME
€38,065m
2010: €36,646m

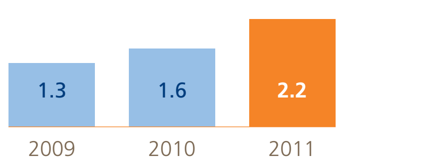
UNDERLYING NET RESULT
€291m
2010: €–1,050m

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

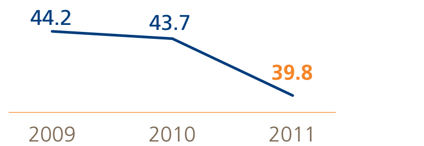
These activities are divided into six business lines: Insurance Benelux, Insurance Central and Rest of Europe, Insurance US (excluding US Closed Block VA), US Closed Block VA, Insurance Asia/Pacific and ING Investment Management.

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

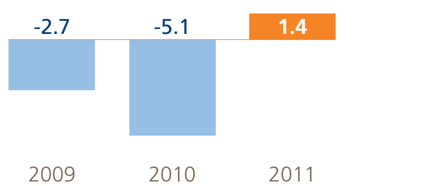
Operating result (EUR billion)*



Life & IIM administrative expenses / Life & IIM operating income (%)



ROE (%) based on IFRS-EU equity**



* Operating result is underlying result before tax excluding gains/losses and impairments, revaluations and market and other impacts.

** Full-year underlying net result adjusted for the after-tax allocated cost of Group core debt injected as equity into Insurance divided by average IFRS-EU equity.

Boards

COMPOSITION OF THE BOARDS*
on 31 December 2011

EXECUTIVE BOARD

Jan H.M. Hommen (68), CEO and chairman
Patrick G. Flynn (51), CFO

SUPERVISORY BOARD

Jeroen van der Veer (64), chairman
Peter A.F.W. Elverding (63), vice-chairman
J.P. (Tineke) Bahlmann (61)
Henk W. Breukink (61)
Sjoerd van Keulen (65)
Piet C. Klaver (66)
Joost Ch.L. Kuiper (64)
Aman Mehta[1] (65)
Luc A.C.P. Vandewalle (67)
Lodewijk J. de Waal (61)

[1] Nominated for reappointment as of 14 May 2012.

COMMITTEES OF THE SUPERVISORY BOARD[2]
on 31 December 2011

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

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

Corporate Governance Committee
Henk Breukink, chairman
Aman Mehta
Jeroen van der Veer
Lodewijk de Waal

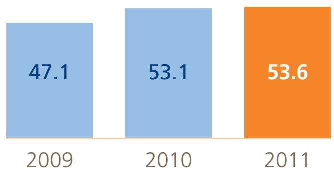
Risk Committee
Piet Klaver, chairman
Tineke Bahlmann
Sjoerd van Keulen
Joost Kuiper
Luc Vandewalle
Jeroen van der Veer

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

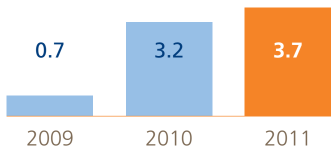
[2] The current composition of the Supervisory Board Committees can be found on the Company's website (www.ing.com).

* You can find more information on the members of the Executive Board on page 67 and on the members of the Supervisory Board on pages 70-71. The names of the nominated candidates for appointment at the General Meeting on 14 May 2012 can be found on pages 60 and 71.

Underlying income (EUR billion)



Underlying net result (EUR billion)



Key figures

ING Group in accordance with IFRS-EU in EUR million unless otherwise indicated	2011	2010 (1)	2009 (1)	2008 (1)	2007 (1)
Income					
Banking operations	**17,908**	17,734	12,293	11,662	14,602
Insurance operations	**38,236**	36,708	34,971	52,877	59,293
Intercompany eliminations	**350**	337	336	291	223
Total	**55,794**	54,105	46,928	64,248	73,672
Staff expenses and operating expenses					
Banking operations	**9,889**	9,659	9,665	10,122	9,970
Insurance operations	**4,132**	4,109	4,199	5,117	5,035
Total	**14,021**	13,768	13,864	15,239	15,005
Addition to loan loss provision Banking operations	**1,670**	1,751	2,973	1,280	125
Result					
Banking result before taxation	**6,028**	5,830	–838	106	4,510
Insurance result before taxation	**81**	–1,902	–999	–1,855	6,366
Result before taxation from continuing operations	**6,109**	3,928	–1,837	–1,749	10,876
Taxation	**1,365**	1,228	–613	–762	1,460
Net result from discontinued operations (2)	**1,109**	216	100	82	89
Minority interests	**87**	106	–118	–37	267
Net result	**5,766**	2,810	–1,006	–868	9,238
Figures per ordinary share (in EUR)					
Basic earnings (3)	**1.12**	0.63	–0.60	–0.33	3.31
Shareholders' equity (in parent)	**12.33**	10.81	8.89	8.55	17.73
Balance sheet (year-end, in EUR billion)					
Total assets	**1,279**	1,247	1,164	1,332	1,313
Shareholders' equity (in parent)	**47**	41	34	17	37
Core Tier 1 securities	3	5	5	10	

(1) The figures of this period have been restated to reflect the change in accounting policy, i.e., the move towards fair value accounting for Guaranteed Minimum Withdrawal Benefits for life in the US Closed Block VA as of 1 January 2011.
(2) The net result of Latin America has been transferred to 'net result from discontinued operations'. The years 2010 and 2009 have been restated.
(3) See note 49 in the Annual Accounts.

Capital ratios and other data	2011	2010	2009
Debt/equity ratio (1)	**12.7%**	13.4%	12.4%
Core Tier 1 ratio	**9.6%**	9.6%	7.8%
Insurance IGD Solvency I ratio (2)	**225%**	230%	n.a.
Underlying return on equity based on IFRS-EU equity	**8.7%**	8.1%	3.3%
Employees (FTEs, year-end, adjusted for divestments)	**97,043**	97,832	96,836
Market capitalisation (in EUR billion)	**21**	28	26

(1) ING Group evaluates its debt/equity ratio on the basis of 'core debt' and 'adjusted equity'. Further information is provided in the section 'Capital management' in the consolidated annual accounts.
(2) The calculation of the IGD ratio was changed in the fourth quarter of 2011 to ensure consistent application throughout the Group; only the comparative 2010 ratio was adjusted.

ING Group evaluates the results of its businesses using a non-GAAP financial performance measure called underlying result. Underlying result is derived from the result in accordance with IFRS-EU by excluding the impact of divestments and special items. Historic results have been restated for divestments in order to create a comparable sequence (i.e. 2011, 2010 and 2009 results exclude the results of a divestment which was completed in 2011). See note 51 in the consolidated annual accounts for a reconciliation between IFRS and underlying result.

Underlying net result in EUR million	2011	2010	% change	2009
Banking operations	**3,384**	4,242	–20.2%	1,128
Insurance operations	**291**	–1,050		–432
Underlying net result	**3,675**	3,192	15.1%	696
Divestments, discontinued operations and special items	**2,091**	–382		–1,702
Net result	**5,766**	2,810	105.2%	–1,006

ING share

PROFIT RETENTION AND DISTRIBUTION POLICY

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

ING's policy is to pay dividends in relation to the long-term underlying development of cash earnings. Dividends will only be paid when the Executive Board considers such a dividend appropriate. Given the uncertain financial environment, increasing regulatory requirements and ING's priority to repay the remaining outstanding core Tier 1 securities, the Executive Board will not propose to pay a dividend over 2011 at the annual General Meeting. ING intends to resume dividend payments on common shares when all remaining core Tier 1 securities have been repaid to the Dutch State and Basel III requirements have been met.

CORE TIER 1 SECURITIES

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

In December 2009, ING repurchased the first half of the core Tier 1 securities of EUR 5 billion plus a total premium of EUR 605 million. Furthermore, at the coupon reset date, 13 May 2011, ING exercised its option for early repurchase of EUR 2 billion of the remaining core Tier 1 securities. The total payment in May 2011 amounted to EUR 3 billion and included a 50% repurchase premium. ING has funded this repurchase from retained earnings.

ING remains committed to repaying the Dutch State as quickly as possible on terms acceptable to all stakeholders. Ideally, ING would like to complete the state repayment as soon as possible, however, given the ongoing crisis in the eurozone and increasing regulatory capital requirements, ING needs to take a cautious approach and to maintain strong capital ratios in the Bank as it builds towards Basel III.

LISTINGS

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

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

To the best of our knowledge, as at 31 December 2011, there were no shareholders or holders of depositary receipts for shares who reported to hold an interest of 5% or more as mentioned in the Dutch Financial Supervision Act, other than *Stichting ING Aandelen* (ING Trust Office) and *Stichting Continuïteit ING* (ING Continuity Foundation).

Authorised and issued capital

in EUR million	Year-end 2011	Year-end 2010
Ordinary shares		
– authorised	**3,480**	1,080
– issued	**919**	919
Cumulative preference shares		
– authorised	**1,080**	1,080
– issued	**–**	–

Shares in issue and shares outstanding in the market

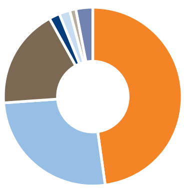
in millions	Year-end 2011	Year-end 2010
(Depositary receipts for) ordinary shares of EUR 0.24 nominal value	**3,831.6**	3,831.6
(Depositary receipts for) own ordinary shares held by ING Group and its subsidiaries	**49.3**	51.3
(Depositary receipts for) ordinary shares outstanding in the market	**3,782.3**	3,780.3

Prices depositary receipts for ordinary shares*

Euronext Amsterdam by NYSE Euronext in EUR	2011	2010	2009
Price – high	**9.41**	8.16	9.64
Price – low	**4.49**	5.52	1.92
Price – year-end	**5.56**	7.28	6.90
Price/earnings ratio**	**3.7**	9.8	***

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

Geographical distribution of ING shares*



in percentages	
United States	**48**
Netherlands	**26**
United Kingdom	**18**
Belgium	**2**
Luxembourg	**2**
Switzerland	**1**
Other	**3**
Total	**100**

* Year-end 2011 figures, estimated on information provided by several large custodians.

ING share continued

INVESTOR RELATIONS

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

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Fax: +31 20 576 6637
Email: investor.relations@ing.com

Main credit ratings of ING (1)

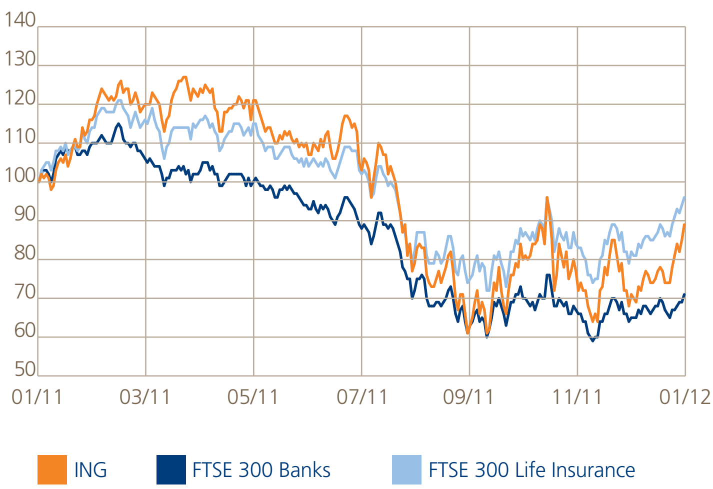
	Standard & Poor's (2)	Moody's (3)	Fitch (2)
ING GROUP	A	A1	A
ING BANK			
– short term	A-1	Prime-1	F1+
– long term	A+	Aa3	A+
– financial strength		C+	
ING INSURANCE			
– short term	A-2	Prime-2	F2
– long term	A-	Baa2	A-

(1) Still valid on 12 March 2012, the date of this Annual Report.
(2) Standard & Poor's and Fitch ratings for ING Group and long-term ratings for ING Bank carry a stable outlook, while the long-term outlook for ING Insurance is negative.
(3) Moody's rating for ING Group and the long-term rating of ING Bank are under review, while the long-term ING Insurance rating carries a developing outlook.

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

One-year price development ING depositary receipts for shares

Index 1 January 2011 = 100



IMPORTANT DATES IN 2012*

Publication results 1Q 2012
Wednesday, 9 May 2012, 7:30 a.m.

Annual General Meeting
Monday, 14 May 2012

Publication results 2Q 2012
Wednesday, 8 August 2012, 7:30 a.m.

Publication results 3Q 2012
Wednesday, 7 November 2012, 7:30 a.m.

* All dates shown are provisional.

Financial and regulatory environment

Financial markets and the economy hit the brakes in 2011

> Sovereign debt crisis created a highly challenging economic and financial environment
> Important changes in regulation and supervision

Major changes in the external environment had an impact on ING in 2011, the most significant being the deepening of the sovereign debt crisis in the eurozone which created an extremely challenging economic and financial market environment in the second half of 2011. Consequently, international capital and money markets were not functioning as normal. This had repercussions, especially in Europe where funding for governments and financial institutions dried up in certain markets.

The financial sector was also subjected to further regulatory reform during the year. Although we support in principle the regulatory reforms, we have concerns with both the massive volume of new regulation and the lack of coordination throughout the European Union (EU) and at the international level. ING favours a harmonised approach to new financial regulation in the EU, both with regard to drafting and transposition into national laws. This would minimise interference with the vital role banks have in supporting the real economy. One of our primary concerns, therefore, is the increasing number of national initiatives being taken by different member states on matters that should, for reasons of maintaining a level playing field and enhancing the Single Market, be dealt with at the European level. Examples are the introduction of national bank levies, different interpretations and timing of Basel III rules and liquidity standards. Banks based in countries moving ahead of international regulation could be placed at a competitive disadvantage.

We made good progress in 2011 with the European Commission's restructuring requirements for ING Group, and with the strengthening and streamlining of our banking and insurance businesses. The result is that ING is now in a relatively good position to navigate successfully through the challenges that will undoubtedly come from further changes in the financial and regulatory environment.

CHALLENGING ECONOMIC AND FINANCIAL ENVIRONMENT

The sovereign debt crisis deepened in 2011 and had a negative effect on the economy and on financial markets.

EUROPEAN SOVEREIGN DEBT CRISIS AFFECTED CREDIT AND EQUITY MARKETS IN 2011

For the eurozone countries in particular, 2011 was a year of two very different halves. In the first half there were still signs of continuing economic recovery; but in the second half the eurozone's sovereign debt crisis which had slowly emerged in 2010, deepened and had a negative knock-on effect on the economy. 2011 was for a large part marked by the inability of public authorities and institutions to solve the crisis.

In the eurozone, credit spreads only slightly increased in the first half of 2011, but moved up in the third quarter of 2011 towards levels not seen since the direct aftermath of the fall of Lehman Brothers in September 2008. In the US, credit spreads followed a similar pattern, but rose less sharply than in the eurozone.

Equity indices in the US and the eurozone decreased in the second and third quarter of 2011 and increased somewhat in the last quarter, but not enough to make up for the earlier downturn. In the eurozone, the FTSEurofirst 300 Index declined to levels last seen in the second quarter of 2009. The share prices of financial companies were particularly adversely affected. In these difficult market circumstances the performance of the ING share price was better than the FTSE 300 Banks Index but somewhat worse than the FTSE 300 Life Insurance Index over 2011, as shown in the 'ING share' chapter in this Annual Report.

ECONOMIES IN EUROPE AND BEYOND SUFFERED A NEGATIVE TURNAROUND

As a result of the European debt crisis, macroeconomic conditions started to deteriorate in the second half of 2011. Eurozone consumer and producer confidence declined sharply, international trade stopped growing, companies' willingness to invest fell and employment perspectives started to deteriorate markedly.

Whilst Europe seemed to be sliding into recession in 2011, the US economy showed signs of resilience in the second half of the year. Jobs data and unemployment rates gave grounds for market confidence and even some of the housing data was less negative than anticipated. However, the rate of growth of the US economy was still low in 2011.

By contrast, in many emerging economies like China, India and Brazil, household spending and corporate investment stayed at elevated levels and thus fuelled job creation, but this was not enough to quell fears of a further widening of global imbalances. Major imbalances between Asia and the Western world and between North and South in Europe continue to exist and threaten economic growth, and the stability of the global financial system. Looking ahead, underlying sovereign and financial system vulnerabilities remain a significant concern. The outlook for a large part of the global economy in 2012 therefore seems to be somewhat gloomy.

The uncertain economic outlook, the turbulence on financial markets, and the fact that market values for activities to be divested are very low, have had implications for ING's strategy. On 12 January 2012, we announced that the base case of two IPOs is replaced by one in which ING will explore other options for its Asian insurance and investment management businesses. See the 'Strategy' chapter in this Annual Report for further elaboration.

ING GROUP FINANCIAL DEVELOPMENTS

Operating conditions were challenging in 2011. The prolonged weakness of the economic recovery and its impact on local and capital markets were especially prominent in the fourth quarter. Despite this difficult context, ING Group's full-year results improved compared with 2010. The full-year 2011 net result was EUR 5,766 million compared with a net result of EUR 2,810 million in 2010. The 2011 net result includes EUR 1,866 million gains on divestments, of which EUR 995 million was attributable to the sale of our Latin American insurance, pension and investment management business, EUR 347 million to the sale of ING Car Lease, and EUR 466 million to the sale of Real Estate Investment Management.

Special items were EUR 54 million in 2011 compared with EUR –1,065 million in 2010. The 2011 special items include a EUR 716 million net gain from the liability management transaction, i.e., the exchange or tender offers for seven tranches of subordinated debt securities totalling approximately EUR 5.8 billion, offset by costs for various restructuring programmes and separation costs. Result on divestments and discontinued operations recorded in 2010 were EUR 683 million. Net gains on divestments were EUR 388 million, mainly reflecting the result on the sale of Private Banking Switzerland and Asia. The 2010 net results from divested units and discontinued operations amounted to EUR 296 million and relate mainly to Insurance Latin America, ING Car Lease and Real Estate Investment Management.

Underlying net result for 2011 was EUR 3,675 million, up 15.1% from EUR 3,192 million a year earlier. Underlying net result is derived from total net result by excluding the impact from divestments and special items.

ING's capital position remained strong, despite the EUR 3 billion repayment to the Dutch State in May 2011. ING Bank's core Tier 1 ratio was stable at 9.6% at the end of 2011, absorbing the EUR 9 billion higher risk-weighted assets (RWA) under the Capital Requirements Directive III (CRD III). The Insurance Group Directive Solvency I ratio decreased to 225% at the end of 2011 from 230% at the end of 2010. The Group debt/equity ratio decreased to 12.7% as a result of a successful liability management transaction in December 2011. This transaction generated EUR 716 million net profit for ING Group.

Shareholders' equity increased EUR 5.8 billion from EUR 40.9 billion at the end of 2010 to EUR 46.7 billion at the end of 2011. This increase was caused by the EUR 5.8 billion net profit. Positive changes in reserves were offset by the EUR 1 billion repurchase premium paid to the Dutch State in May 2011. This amount is the 50% premium paid on the repurchase of EUR 2 billion core Tier 1 securities issued in November 2008. Shareholders' equity per share was EUR 12.33 at the end of 2011 versus EUR 10.81 at the end of 2010. Underlying net return on equity, calculated as underlying net result divided by average IFRS-EU equity, improved from 8.1% in 2010 to 8.7% in 2011.

Banking recorded an underlying result before tax of EUR 4,740 million in 2011, a 17.4% decrease compared with 2010. This decrease was mainly driven by EUR 783 million more adverse market impacts in 2011, of which EUR 588 million was impairments on Greek government bonds. Insurance reported an underlying result before tax of EUR 314 million, which was up EUR 1,386 million compared with the EUR 1,072 million loss in 2010. Both years were heavily impacted by markets and other impacts, i.e., EUR –1,547 million in 2011 versus EUR –2,567 million in 2010.

IMPORTANT CHANGES IN REGULATION AND SUPERVISION

During 2011 important steps were taken in the European and international regulatory reform programmes that had been set up in the wake of the 2008/2009 financial crisis.

Reforms in the financial sector are of particular interest to ING as a cross-border financial institution with operations all over Europe and in other parts of the world. Although we actively support many of the new regulatory proposals and are implementing them to a large extent already, we have strong concerns that the ultimate and aggregated consequences of all reforms are still not fully clear. We fear that there are too many uncoordinated additions to regulation; that there is too much focus on short-term measures, and too little a focus on how the financial sector can contribute to achieving sustainable economic growth. This has a number of potential effects which should be taken into serious consideration.

First, we are concerned that too much regulation will unnecessarily restrict banking activities needed to support the economy and will make our services more expensive. Second, because of the aggregate impact of various new rules a tendency may emerge in which risks that are normally taken by financial institutions are shifted to customers.

Third, as many new rules are still in development, we have some concerns about the actual implementation. There is a clear tendency for national authorities to have different and fragmented approaches to implementation, which is reflected both in the speed of introduction of new measures and the content of measures. This applies to the new capital and liquidity standards in Basel III/CRD IV, where regulators in some countries are implementing ahead of the time frames set by the Basel Committee or are setting additional requirements at the national level. It also holds for crisis management regulation (insolvency laws). While an EU framework is under discussion, several countries are considering or have already announced they will adopt their own specific measures. This is leading to a lot of uncertainty, not only for financial companies, but also for equity investors and bond investors.

EBA STRESS TEST AND CAPITAL EXERCISE

In July 2011, the European Banking Authority (EBA) published the results of the second round of stress tests. The first round was conducted in 2010 by the EBA's predecessor, the Committee of European Banking Supervisors (CEBS). The tests assessed the resilience of European banks to adverse market developments and tested their solvency levels under hypothetical stress events. The test in July 2011 again confirmed the strong capital position of ING Bank which makes us better equipped to absorb adverse shocks.

In addition to the EU-wide stress test in summer 2011, the EBA performed an additional capital exercise in December 2011. The objective of the capital exercise was to create an exceptional and temporary capital buffer to address current market concerns over sovereign risk and other residual credit risks related to the current difficult market environment. Following the completion of the capital exercise, which the EBA conducted in close cooperation with the Dutch central bank (De Nederlandsche Bank, DNB), it was determined that ING Bank met the 9% core Tier 1 ratio.

ADDITIONAL MEASURES FOR SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS

In 2011 the Basel Committee issued a consultative document on Global Systemically Important Banks (G-SIBs) as part of a broader package of policy measures to address Systemically Important Financial Institutions (SIFIs). The Financial Stability Board (FSB) reviewed and approved the package and submitted it for approval to the G20 in November 2011. As ING has been earmarked as a Global Systemically Important Financial Institution (G-SIFI), we could be subject to an additional capital surcharge. In November 2011, the Dutch central bank (DNB) and the Dutch government announced additional capital buffers for domestic systemically relevant banks. Depending on the degree of systemic relevance, the additional requirement amounts to 1 to 3 percent of risk-weighted assets (RWA) and this includes the internationally agreed (FSB) buffer. The aim is to introduce the buffer gradually from 2016 to 2019, thereby allowing banks to generate capital from retained earnings.

Another important element of internationally agreed policy measures is the obligation for banks to set up recovery and resolution plans. In the recovery plans, which are drafted in close coordination with the main supervisor, banks have to draw up plans for the restoration of their financial situation in the event of a significant deterioration. An important element of these plans is risk mitigating measures with respect to capital and liquidity. In addition, clear governance principles have to be established. ING is in the process of finalising its recovery plan which it currently plans to update annually.

DUTCH LEGISLATIVE MEASURES

In anticipation of EU regulation the Dutch authorities have already announced a number of related measures.

Dutch intervention law

A new draft legislative proposal on crisis management would, if enacted, grant new powers to the DNB and the Minister of Finance to intervene in situations where an institution faces financial difficulties or where there is a serious and immediate risk to the stability of the financial system caused by an institution in difficulty.

Bank levy

On 1 July 2011, the Dutch Ministry of Finance announced a temporary reduction of the real estate transfer tax from 6% to 2%. In the announcement several ways of funding the reduction were identified, the introduction of a bank tax being one of them. The levy may enter into force in 2012. Dutch and non-Dutch entities with banking activities in the Netherlands will be included in its scope. The taxable base of the levy is the liability side of the (global consolidated) balance sheet with an exemption for equity, for deposits that are covered by a deposit guarantee scheme and for certain liabilities that relate to insurance business. The rate of short-term funding (less than one year) will be twice the rate of long-term funding (more than one year). Currently, total yearly tax proceeds of EUR 300 million are expected. We believe the timing and motivation for such a tax to be less opportune given the economic climate and conditions in financial markets.

Deposit Guarantee Scheme

In August 2011, the Ministry of Finance and the DNB published their proposal to establish an ex-ante funded Deposit Guarantee Scheme (DGS) in the Netherlands. As was announced at an earlier stage by the Dutch finance minister, the target level of the fund will be 1% of total guaranteed deposits in the Netherlands. This equals about EUR 4 billion, to be built up, in principle, within 15 years. The main element of the proposal is that for each bank the individual target amount is defined as 1% of its guaranteed deposit base. To reach this individual target amount, every bank pays a base premium of 0.025% per quarter of the guaranteed deposits. Additionally, a risk add-on of 0%, 25%, 50% or 100% of the base premium has to be paid by every bank, depending on its risk weighting.

Executive compensation legislation

Currently a legislative proposal is under discussion in the Dutch Parliament relating to variable remuneration at financial institutions that have received state support for reasons of financial stability, such as ING. If and when entered into force, the legislation prevents these financial institutions from granting variable remuneration (in cash or otherwise) to their Executive Board members. In addition, the legislation contains certain restrictions with respect to the possibility of increasing the fixed salary of Executive Board members.

SOLVENCY II

The most important regulatory issue for the insurance industry in Europe is the continued development by the European Union of the Solvency II capital adequacy framework. Solvency II is intended to be based on economic, risk-based and market-consistent principles whereby capital requirements across Europe are directly dependent on an insurer's assets and liabilities.

Such a framework should enable insurance companies to play their fundamental role in society for consumers, corporates and the economy. Insurance companies take the risks off the shoulders of consumers by pooling their long-term risks and providing guarantees at affordable prices. Through the accumulation of premiums, insurance companies are also major institutional investors that provide long-term funding to companies and institutions via the capital markets. By spreading risks and extending long-term funding, the insurance industry thereby also plays an invaluable role for society as a whole in dampening volatility through economic cycles.

In order to achieve these goals it is very important that the Solvency II framework, as originally envisaged, will become market-based, avoids pro-cyclicality and should be able to withstand market volatility. The framework should therefore ensure that the measures to be implemented are robust enough throughout market cycles.

Moreover, there needs to be a balance between on the one hand pricing that is affordable and on the other hand meeting capital objectives with which the industry can fulfil its long-term obligations. Such a balanced market-based framework should be designed to last for a long time (to come) and should maintain the ongoing trust from consumers, thereby positioning the European insurance industry for the future.

ING wants to work constructively with its colleagues in the insurance industry to advise EU policy makers and regulators to come up with concrete proposals to meet these objectives. It is important that the framework is built to last and will service society as a whole for a long time to come.

In March 2011, the European Insurance and Occupational Pensions Authority (EIOPA) published the results of its Fifth Quantitative Impact Study (QIS5) on Solvency II. ING participated in QIS5 independently as ING Insurance, and also as ING Group, which is in line with our internal preparations to become fully Solvency II-ready. Based on the results, EIOPA and the Dutch central bank confirmed that the financial positions of European and Dutch insurers remained sound. Individual results were not disclosed. The results have been fed into the European Commission's process for fine-tuning the Solvency II framework and implementation.

ALIGNMENT OF REMUNERATION POLICIES WITH CRD III

Since the start of the crisis in 2008, ING has been continually reviewing and amending its remuneration policies in response to the ongoing review of the financial system and related public debate, as well as in line with applicable regulatory developments. In 2010, the European Commission issued the Capital Requirements Directive III (CRD III), which contained specific requirements in relation to the remuneration of those who have a material impact on the company's risk profile, the so-called Identified Staff. From 1 January 2011, the directive had to be implemented into national law.

In 2011, ING's remuneration policies for the Executive Board and Identified Staff were amended in line with the CRD III requirements. The amended policy for the Executive Board was adopted by the annual General Meeting of Shareholders in May 2011. Our remuneration policies continue to have an increased focus on long-term value creation, risk and non-financial performance measures to improve sustainable business practices.

ING'S APPEAL AGAINST THE EC DECISION

In January 2010, ING filed an appeal with the General Court of the European Union against specific elements of the European Commission's decision of 18 November 2009 which approved the state aid received and ING's restructuring plan. ING requested the Court to annul the decision of the European Commission insofar:

- as it states that the agreement between ING and the Dutch State concerning a reduction of the repayment premium for the first EUR 5 billion tranche of core Tier 1 securities leads to additional state aid of EUR 2 billion;
- as the Commission has subjected the approval of the state aid to the acceptance of price leadership bans; and
- as the Commission has subjected the approval of the state aid to restructuring requirements that go beyond what is proportionate.

The Dutch State joined ING in 2010 in its appeal with the General Court to contest the EC decision insofar as it qualifies the core Tier 1 amendment as additional state aid. The Dutch central bank joined the proceedings in support of ING's appeal. In July 2011, oral arguments of the appeal case were heard by the Court. The ruling of the Court was on 2 March 2012. ING welcomes the judgment to partially annul the EC decision. From 2 March, ING has been in the process of carefully assessing the full judgment as well as its consequences.

Strategy

Creating stronger businesses and earning trust from all stakeholders

- > Financial position strengthened despite difficult market conditions
- > Group restructuring on track
- > Portfolio streamlined as more divestments were made
- > Further progress on building stronger banking and insurance/investment management businesses
- > Earning trust remains a top priority

2011 saw a marked deterioration in the debt and equity markets amid a slowdown of the macroeconomic environment and a deepening of the sovereign debt crisis in Europe. ING Group continued to take a prudent approach to risk, increasing hedging to preserve capital and selectively reducing exposure to southern Europe. In this challenging environment ING's earnings remained resilient, and our strong funding position enabled us to continue to increase lending to support our customers in these uncertain times.

We were also able to make good progress on the strategic priorities of ING Group, which are strengthening the financial position, restructuring, streamlining the portfolio, repayment of state aid and building stronger banking and insurance/investment management businesses. Apart from these measures, earning trust remained at the top of our strategic agenda. The past few years have made it clear that it is of crucial importance for financial institutions such as ING to rebuild the trust and confidence of all their stakeholders, first and foremost those of their customers. We believe that trust is and remains the most important licence to operate for every financial institution.

STRENGTHENING THE FINANCIAL POSITION

ING Group's underlying net profit rose 15% to EUR 3,675 million in 2011. This result was reached despite the impact of volatile financial markets, a weakening of the macroeconomic environment, a charge for the Insurance US Closed Block Variable Annuity and impairments on Greek sovereign debt as discussed in the 'Financial and regulatory environment' chapter in this Annual Report.

Both ING Bank and ING Insurance/Investment Management (ING Insurance/IM) showed clear progress on their respective performance improvement programmes. Despite the far-reaching restructuring that ING Group is going through, we have continued to show solid commercial growth across our franchises, which is a testimony to the dedication and professionalism of our staff as we endeavour to maintain the loyalty of our customers.

ING Bank's results benefited from a healthy interest margin, higher client balances, lower risk costs and focus on cost control. The capital position of the Bank remained strong, with the core Tier 1 ratio stable at 9.6% after absorbing the impact of higher capital requirements under the Capital Requirements Directive III (CRD III) which came into effect at year-end, and despite repaying EUR 3 billion to the Dutch State in 2011.

ING Insurance/IM's operating results mostly showed improvement throughout 2011, reflecting higher fees and premium-based revenues, robust sales growth, an improvement in the investment margin and cost control. A significant earnings charge was taken of EUR 1.1 billion against fourth-quarter results for the Insurance US Closed Block Variable Annuity (VA), a legacy business that was closed in 2009 – primarily on revised assumptions for policyholder behaviour.

Going forward, ING Group will strive to further strengthen its financial position by improving operating performance, boosting income and lowering risk and overall costs.

RESTRUCTURING AND STREAMLINING THE PORTFOLIO

The restructuring of the Group is on track, based on our work towards the separation of the banking and insurance/investment management activities and the execution of divestments.

SEPARATION PROCESS ON SCHEDULE

We continued to work towards the full physical and organisational separation of the banking and insurance/investment management activities. In 2011 we laid the groundwork for the original base case of two IPOs (initial public offerings) of our insurance and investment management activities: one for our US operations and one for our European and Asian activities. However, on 12 January 2012 we announced an update on the restructuring of the insurance and investment management businesses. Due to the uncertain economic outlook and volatile markets, especially in Europe, ING has decided to review other strategic options for its Asian insurance and investment management businesses. For the European insurance/investment management businesses, ING is continuing preparations for a stand-alone future, including the possibility of an IPO. And we are continuing to prepare for the base case of an IPO for the US insurance/investment management businesses. ING is committed to conducting these processes with the utmost diligence in the interests of all stakeholders, including customers, employees, distribution partners and shareholders.

The separation process of ING Bank and ING Insurance/Investment Management (IM) has been a massive undertaking, entailing more than 1,100 projects. It was set up as a four-year programme, running from early 2010 through to the end of 2013. Operational separation was achieved as of 1 January 2011; since then, approximately 90% of the planned full separation projects have been completed. The full separation of ING Insurance US and ING Insurance Eurasia was well underway in 2011. Separation costs for 2011 were about EUR 200 million, well within the budgeted amount of EUR 250 million after tax. This reflects the cost-efficient way in which the separation was handled. Only a small number of projects were carried over from 2011 to 2012 and are expected to be resolved in the first quarter of 2012. In addition, ING will finalise a couple of large longer-term IT projects.

As ING continued to prepare for the restructuring of its insurance/investment management businesses, important steps were made in 2011 to realign the legal structure and governance of the insurance/investment management operations. Regulatory approvals were nearing completion at the end of 2011 to create one new holding company for the European and Asian insurance and investment management activities, called ING Insurance Eurasia, under ING Verzekeringen N.V. We also created a management board for ING Insurance Eurasia. These represent 'no regrets' steps to allow for strategic flexibility on execution of the divestments of the European and the Asian insurance and investment management businesses. The announcement of a stand-alone future for the European insurance/investment management businesses does not affect governance. The US insurance and investment management operations are expected to continue to be part of a separate, already existing legal entity (ING America Insurance Holdings). We believe that this change in the legal structure will allow ING Group to optimise the capital structure of the separate entities and go further with the disentanglement process in order to be able to move quickly towards the IPO(s) or other options when market conditions become favourable.

ING America Insurance Holdings is reviewing options to optimise its funding structure independent from the Group and to repay its remaining inter-company debt. After the divestments, ING Verzekeringen N.V. will become a legacy entity and will be wound down over time in an orderly manner, using the cash proceeds from the sale of the Latin American insurance and investment management business that was completed in the fourth quarter of 2011, and other divestments.

DECISIVE EXECUTION OF DIVESTMENTS

We took decisive steps to meet the other restructuring demands which are part of the restructuring plan, which we submitted to the European Commission (EC) in late 2009 in order to obtain retroactive EC approval of state aid received. In June 2011 we reached an agreement to sell ING Direct USA, meeting one of the principal restructuring requirements. In February 2012 the regulatory approval process was concluded and the sale was closed. ING Direct USA was sold for approximately USD 9 billion (consisting of a combination of cash and shares) to Capital One Financial Corporation (Capital One), a leading US-based financial holding company. In connection with this sale, ING reached an agreement with the Dutch State to adjust the structure of the Illiquid Assets Back-up Facility (IABF).

Divestment of ING Direct USA

ING Group and the Dutch State reached an agreement on an IABF in 2009 in order to achieve a full risk transfer on 80% of the portfolio of Alt-A mortgage securities at ING Direct USA and Insurance Americas. In connection with the sale of ING Direct USA the structure of the IABF was adjusted.

The amendment served to delink the IABF from ING Direct USA. ING Bank became the new counterparty for the Dutch State. In return, ING Direct USA will receive on its balance sheet an amount in cash from ING Bank. Also, after the sale of ING Direct USA, ING Bank will receive the funding fee and management fee from the Dutch State and pay the guarantee fee.

The 20% of the Alt-A portfolio not covered by the IABF will remain on the balance sheet of ING Direct USA and will be transferred to Capital One as part of the sale of ING Direct USA. In order to ensure continued alignment between the interests of ING and the Dutch State with regard to the Alt-A portfolio, ING will provide a counter guarantee to the Dutch State covering 25% of the 80% part of the Dutch State. This guarantee will cover realised cash losses if these exceed the 35.5% that is implied by the market value of the portfolio at the time the divestment of ING Direct USA was announced. This adjustment will therefore lower the risk exposure for the Dutch State. The potential capital and P&L impact of the alignment for ING Bank is expected to be limited.

ING's commercial finance activities and ING's insurance/investment management operations in the US have been unaffected by this transaction.

Furthermore, we reached an agreement in 2011 to sell our Latin American pensions, life insurance and investment management operations to Grupo de Inversiones Suramericana (GrupoSura) for approximately EUR 2.6 billion, thereby marking the first major step in the divestment of the insurance and investment management activities.

WestlandUtrecht Bank (WUB) became commercially independent of ING in November 2010 after which options were further explored in 2011 to divest WUB.

In the course of the continued streamlining of our business portfolio we also announced other major divestments. ING Real Estate Investment Management was sold to the US-based CBRE Group and to Clarion Partners management in partnership with Lightyear Capital LLC in two separate transactions for a combined price of approximately USD 1 billion. These transactions fit our strategic objectives of reducing exposure to real estate, simplifying the structure of the company and further strengthening our capital base.

Furthermore, ING Car Lease was sold to BMW's fleet management division Alphabet for approximately EUR 696 million.

Going forward, ING plans to continue building on its leading position as a predominantly European bank with a strong international network focused on providing customers with consistently high-quality services.

REPAYING STATE AID AS SOON AS POSSIBLE BUT WITH PRUDENCE

The total amount repaid on the core Tier 1 securities to the Dutch State by the end of 2011 was EUR 7 billion in principal, out of the total capital support provided of EUR 10 billion. Including interest and premium, the payments made to the Dutch State by the end of 2011 reached a total of EUR 9 billion. We have improved efficiency and built up strong capital buffers in the Bank to withstand potential shocks given the uncertain economic environment, while continuing to increase our lending to customers as much as possible to facilitate economic growth. As a result, ING was in a position to repay a second tranche of support from the Dutch State out of retained earnings in May 2011. This latest repayment of EUR 3 billion (including a EUR 1 billion premium) of capital support to the Dutch State was an important milestone in ING Group's efforts to do business successfully without the financial aid of the Dutch State.

We aim to repay the remaining EUR 3 billion principal of capital support to the Dutch State as soon as possible on terms acceptable to all stakeholders. Ideally we would like to complete the state repayment as soon as possible; however, given the current challenging financial environment in the eurozone and increasing regulatory capital requirements we will take a cautious approach and maintain strong capital ratios as we build towards Basel III and satisfy other regulatory requirements.

BUILDING STRONGER BANKING AND INSURANCE/ INVESTMENT MANAGEMENT BUSINESSES

BANK

ING Bank has delivered on its priorities to strengthen its financial position, reduce risks, meet the restructuring requirements imposed by the European Commission and to build a stronger bank. The Bank continued to make progress on meeting its Ambition 2013 targets, which are business improvement programme targets, mostly established in October 2009. These targets included boosting underlying income, lowering risk and overall costs, and lifting return on equity. Due to the changing market circumstances and new regulatory requirements as well as the fact that ING has realised to a large extent its Ambition 2013 goals, ING has set itself new performance targets as from 2012.

A key factor in developing the updated banking strategy which was presented in January 2012 has been the changing regulatory environment. In the short-term the Bank's priorities are to generate capital and reach a core Tier 1 ratio of at least 10% by 2013. With respect to Basel III our focus is also on the liquidity requirements to be met from 2013. After this transition period, ING Bank aims for moderate balance sheet growth in line with GDP growth and a strong focus on deposits generation. It wants to evolve ING Direct units into full banks and develop selected growth markets.

Our long-term ambition is to be a strong Northern European Bank with a low-risk balance sheet producing a competitive Return on (IFRS-EU) Equity of 10% to 13% through low costs and low risk. ING Bank has a good starting position with a competitive edge, with leading banking positions in its home markets of the Netherlands, Belgium, Luxembourg, Germany and Poland. Furthermore, ING has key positions in other western, central and eastern European countries and Turkey. This is coupled with options outside of Europe which will give ING Bank interesting growth potential in the long-term. It has strong deposit gathering capabilities and a strong funding mix. It has a well-known brand and it uses the Net Promoter Score (NPS) methodology as a tool to increase customer centricity. The Bank is used to operating in lean, competitive markets which has made us leaders in innovative distribution. It has a leading position in internet banking with a 'direct first, advice when needed' model and a relationship-driven commercial bank offering competitive products in terms of price, efficiency and effectiveness. Going forward, the Bank will focus on restoring trust and customer centricity, on operational excellence and optimising its balance sheet to meet its strategic goals.

INSURANCE/INVESTMENT MANAGEMENT

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

The operating profit for the insurance/investment management businesses increased compared with the previous year, as measures taken to improve returns continued to gain momentum. An NPS programme used in the insurance/investment management businesses has improved customer service levels in the Benelux, Central and Rest of Europe, and Asia/Pacific as well as in the sold Latin American businesses. For more information on NPS, see 'Earning Trust' below.

For further explanation on how ING is building stronger banking and insurance/investment management businesses see the 'Banking overview' and 'Insurance overview' sections of this Annual Report.

EARNING TRUST

Building stronger banking and insurance/investment management businesses is also about earning trust and increasing customer centricity in both banking and insurance/investment management.

ING's approach in both its banking and its insurance/investment management businesses is built on sound business ethics and good corporate citizenship in order to ensure customer loyalty, employee engagement, and ultimately to deliver satisfactory returns for our shareholders. As part of this approach, we have embedded social, ethical and environmental criteria into our financing and investment policies and business ambitions. We aim to ensure that our strategic decision-making is always based on financial as well as non-financial performance objectives.

The customer is at the centre of all our activities. We strive to meet our customers' expectations by providing the right products and services to the right customers, for the right reasons, the right price and in the right way. ING also consistently monitors market and regulatory developments, engages with customer representative groups, and tests its products to ensure their suitability for customer needs.

With a clearer focus on customer needs as the anchor of our business operations, ING is not only building businesses that are financially sound and viable, but ones that have the potential to become the supplier of choice for our customers. To monitor progress on customer loyalty we introduced the NPS methodology in 2009 and fully implemented it throughout ING in 2011. It is based on surveys sent to customers, and gauges their feedback. NPS goes beyond being a measurement tool and is also used as a means of driving growth and changing local business culture. Customer feedback is used to improve ways of doing business.

ING believes that customers, employees, shareholders and the rest of society no longer live in separate worlds that meet intermittently, but have become more integrated. This mutual interdependence of business and society means that organisations must follow the principle of shared value – the actions they take must benefit everyone.

The financial crisis of 2008/2009 and its impact on ING made it necessary for us to intensify the dialogue with and rebuild trust among all our stakeholders and society as a whole. Although this need is recognised internationally, it was, and in fact still is, especially urgent in ING's Dutch home market. Deepening relationships with all stakeholders continued to be a key priority in 2011.

ING is convinced that the changes set in motion will make it a stronger company and partner for stakeholders, one that is better able to anticipate and address emerging issues. To underline the increasing importance of ethical, environmental and social considerations in our business strategy, the Sustainability department began to report directly to ING Group's chief executive officer from 1 July 2011.

For more details on the non-financial achievements of ING Group, please see the 'Sustainability' chapter in this Annual Report.

CONCLUSIONS AND AMBITIONS

In a challenging environment ING's earnings remained resilient in 2011, and our strong funding position enabled us to continue to increase lending to support our customers in these uncertain times. We were also able to make good progress on our strategic priorities, which are strengthening the financial position, restructuring, streamlining the portfolio, repayment of state aid and building stronger banking and insurance/investment management businesses. We continued to build our banking and our insurance businesses based on sound business ethics and good corporate citizenship.

As maintaining income levels comes under more pressure we must renew efforts to reduce expenses across the Group to adapt to the leaner financial environment and maintain our competitive position. Despite volatile markets we continue to work towards the separation of our insurance/investment management companies so we will be ready to move ahead with the IPO(s) or other options when markets are favourable. We maintain an open mind on how the future of the insurance/investment management businesses will be shaped. The fact that market values for activities to be divested are very low, requires that we review all options available to us.

ING will make further efforts to divest businesses to meet the restructuring demands imposed by the European Commission, to simplify the company, to focus on core activities, to further improve our risk profile and to bolster the capital base. It is one of ING's priorities to repay the remaining EUR 3 billion of capital support to the Dutch State as soon as possible, but as discussed above, ING recognises the need to proceed in a prudent manner in light of the current challenging and changing financial and regulatory environment.

Sustainability

Financing the future

> ING active participant in the public debate on the future of finance
> Scores 72 out of 100 in DJSI World
> Stepping up financing efforts in renewable energy
> Record employee participation in ING Global Challenge

Sustainability is about ensuring long-term business success while contributing towards economic development, a healthy environment and a stable society. ING's approach to sustainability forms an integral part of the company's overall corporate strategy. As a reflection of our Business Principles, social, ethical and environmental criteria are embedded in our financing and investment policies and our business ambitions. We make sure that our strategic decision making is always based on financial as well as non-financial performance objectives.

It is our mission to help our customers manage their financial future in ways that are considered responsible, valuable and sustainable by all those we serve through our products, people and activities. We strive to leverage our resources, skills and expertise as an international financial institution to contribute to economic growth, the financial well-being of our customers and positive change. We believe that we best contribute to society by taking the following approach:

– Being good at what we do.
  We provide high-quality products and services for the right price that meet the needs and expectations of our customers and are easy to access and understand. We are committed to fair, honest and lawful behaviour that earns our stakeholders' trust. We foster an open, safe and stimulating place to work, where our employees are inspired to be the best they can be.
– Mitigating harm and promoting sustainable finance.
  We aim to mitigate harm and contribute to positive change by helping to create financial solutions to global challenges like energy and poverty.
– Making a difference in communities.
  Aligned to our business skills, we invest in tomorrow's economy by supporting people to find their way towards a financially secure and independent future.

BEING GOOD AT WHAT WE DO

PRODUCTS AND SERVICES

We strive to meet the growing demand for environmentally and socially responsible products in addition to generating a good return. To make sure that the sustainable assets we manage continue to grow, we create more awareness about green and social products. We also look at developing new products and services that meet the expectations and needs of customers.

Examples of these include loans designed for environmentally friendly projects, such as renewable energy, nature development and biological agriculture. In addition, we offer socially responsible investment (SRI) opportunities, such as the ING Investment Management global sustainable equity funds. For SRI products, our fund managers combine conventional financial analysis with an assessment of environmental and social policies and performance. Within our Commercial Banking operations, the Structured Finance Emissions Products team works with clients on projects to reduce greenhouse gas emissions in line with the Kyoto Protocol.

In our Dutch home market in particular, we offer products like green car loans, a green savings product, a mortgage with a philanthropic component (linked to microfinance funding) and different advisory services.

Extending the sustainable product portfolio at ING Investment Management

In 2011, ING Investment Management (ING IM) launched the EUR 200 million ING (L) Renta Fund – Euro Credit Sustainable. The new fund invests in euro-denominated debt securities issued by companies which pursue policies of sustainable development and adhere to social and environmental norms. With the addition of this fund to its portfolio, ING IM offers a range of products to clients who are looking for investments with additional non-financial risk control and sustainability-linked returns.

Financing bio-gas installations in South Africa and India

Millions of people in developing countries are exposed daily to toxic fumes caused by primitive cooking conditions, such as open fires and stoves. In 2011, ING Structured Finance Natural Resources found a way to help them. Initially, this is being done through a five-year loan from ING to the Dutch-based FairClimateFund (FCF) to help pre-finance projects to build bio-gas installations in India and South Africa. Households are provided with improved stoves and education on energy-efficient and environmentally friendly cooking techniques. This will not only create healthier living conditions, but the projects are also expected to lead to a 150,000-tonne reduction in CO_2 emissions over a period of five years and will generate carbon credits to finance more projects.

STAKEHOLDER ENGAGEMENT

To earn and maintain the trust of our customers and other stakeholders, optimal alignment of our commercial and business decisions with our responsibilities towards them is essential. This is all the more important in the light of the global debate on the future of the financial industry.

Our stakeholder engagement strategy is aimed at ensuring ING's ability to be a trusted financial services adviser for all its stakeholders. Stakeholder engagement is integrated across business units and corporate staff departments and the various activities are aligned with the company's business strategy.

Actively participating in debates on the future of finance

In 2011, ING actively participated in public discussions on the future of the financial sector. The subject has been at the forefront in the public consciousness around the world and under broad debate. For instance at the Sustainable Finance Lab at the University of Utrecht, a series of plenary debates organised by leading Dutch academics, ING executives made clear that the company supports measures leading to a more stable financial system, such as higher capital buffers and more sustainable remuneration structures. However, they also voiced concerns about the possible accrual of new regulations. Particularly in the context of major financing and investment challenges, e.g. those associated with greening the energy supply, ING argued that the role played therein by large institutions like ING needs to be taken into account while the industry's regulatory framework is restructured.

AN INCLUSIVE PLACE TO WORK

ING strives to build a healthy relationship with its customers based on trust and integrity and has strongly embedded this objective in its people strategy. We continuously work to create the right environment and strengthen our performance culture based on our Business Principles. To help achieve this, we have set up a number of development and training programmes, one of which is part of the ING International Talent Programme. In particular, we aim to increase the diversity of our workforce by creating an inclusive corporate culture that embraces the differences of our employees.

ING US scores top marks on Corporate Equality Index

In December 2011, the Human Rights Campaign Foundation awarded ING in the US a 100% score on its 2012 Corporate Equality Index (CEI) for the sixth year running. The Index assesses 850 American companies on their efforts at achieving lesbian, gay, bisexual and transgender (LGBT) equality in the workplace. While the firms are annually rated on 40 specific policies and practices, the assessment for 2012 was made on the basis of additional new stringent criteria on transgender health benefits.

MITIGATING HARM AND PROMOTING SUSTAINABLE FINANCE

CONTRIBUTING TO POSITIVE CHANGE

An essential element of good corporate citizenship is contributing to positive change, in particular by researching and promoting the business case for sustainability. We do this by sharing our knowledge and expertise with customers to help them make better informed choices about their financial decisions, but also with regard to investing in sustainable businesses, and by investing in sustainable businesses.

Boosting green energy investments in the Netherlands and Germany

In September, ING's Economics Department published the report 'Renewable energy in the Netherlands until 2020'. The study investigated the economic potential of renewable energy projects, demonstrating that wind energy and biomass are promising sources to make energy production more sustainable. Moreover, the economists concluded that, to achieve the carbon emission targets set for 2020, the volume of investments in the Netherlands is to be scaled up from the current EUR 2 billion to at least EUR 10 billion a year. Therefore ING called on the government, the business community and knowledge institutions to join forces with ING to formulate a Green Delta Plan.

ING also kick-started its involvement in the offshore wind sector in Germany with the signing of a EUR 1.047 billion Project Finance Facility for the Global Tech I Offshore Wind GmbH project. The project was selected to increase ING's involvement in offshore wind deals. Global Tech I is the largest ever project-financed offshore wind farm, and in view of the distance to shore and water depth, multi-contract structure and use of wind energy converters with a limited track record, one of the most challenging offshore wind projects in the world.

MITIGATING HARM

With 80 million customers worldwide, the scope of ING's business activities has a significant impact on the economy and society. To assess whether this impact is consistent with our approach to sustainability, the sector and company profile of each new business client coming to the bank or the insurance company is screened according to our environmental and social risk (ESR) policies. These policies are a practical translation of our Business Principles and describe the rules and guidelines for specific industry sectors, human rights and environmental issues.

ING applies its ESR Framework to manage potentially negative socio-environmental risks of the transaction or the client engagement. Policy refinement is a continuous process. By enforcing these standards, ING has been indirectly helping its clients improve their overall risk profile. All ING activities are within the scope of the ESR framework, so management of ESR is embedded in ING's mainstream financial risk management practice.

Ranking high in DJSI World
Each year various independent research organisations investigate companies on social, environmental and ethical performance. This research is used for benchmarking and to construct leading sustainable indices, many of which ING is included in. In 2011, ING was again selected for the Dow Jones Sustainability World Index (DJSI World). Where the industry average score in the insurance sector increased to 48, ING was rated 72 out of 100. ING has been included in the DJSI World since 1999, the year in which the indices were established.

As for our direct environmental impact, ING has been a carbon-neutral company since 2007. We strive to minimise carbon emissions that are a direct consequence of our operations around the globe and have a company-wide ambition of minimising our carbon footprint by 30% by 2012. We do this by more efficient use of resources, sustainable means and sources for procurement and encouraging employees to be mindful of the environmental impact of their activities. We measure our remaining emissions and compensate for them by investing in renewable energy projects.

Direct environmental footprint (1)

	2011	2010 (2)
Energy use in MWh per FTE (3)	**7.9**	8.3
Business travel by air in km per FTE	**3,041**	2,639
Paper consumption in kg per FTE (4)	**72.8**	51.6

(1) More details including coverage of data can be found in the ING Sustainability Report 2011. We report on energy and paper use and business travel as this contributes to 99% of ING's direct environmental footprint.
(2) Figures for 2010 have been adjusted due to the availability of more accurate data.
(3) This includes brown and green energy, natural gas, fuel oil and district heating.
(4) This includes eco-labelled paper and non eco-labelled paper.

MAKING A DIFFERENCE IN COMMUNITIES

With over 97,000 employees in more than 40 countries, ING is part of many communities. We consider it our responsibility to make a positive contribution to these communities, so we work hard to strengthen them from the inside out. This involves educating children about finance so that future generations can be financially independent and self-sufficient.

At the heart of our community investment activities lies the ambition to enable children worldwide to harvest their potential and build a better future for themselves and the community around them. And without education, their future is uncertain. Therefore, we focus our initiatives on children and (financial) education, as their formative years are of crucial importance. We support corporate philanthropic initiatives and partnerships with charitable organisations based on three components: financial contributions or cash donations, in-kind donations of goods and services, and contributions of time, skills and knowledge of our staff.

Global Challenge 2011 hits a record
The ING Chances for Children Global Challenge 2011 clocked up a record number of 42,757 volunteering hours, up by nearly 10,000 from the previous year. The United Nations' Universal Children's Day on 20 November marked the motivational point for staff and management throughout ING to volunteer their time and energy in support of children's projects. A total of 24,433 ING employees pooled their efforts in support of children – up from 20,541 the previous year and equal to an impressive 25% of the company's global workforce. A total of EUR 538,350 was raised for projects aimed at children's education and welfare projects. The myriad of activities ranged from a charity bazaar in South Korea to promoting reading at local schools in Peru and the Netherlands, and from collecting books for a children's book bank in Hungary to baking pies in France and selling wine and chocolates in Belgium.

SPONSORING AND ART MANAGEMENT

Sponsorships offer ING the opportunity to build sustainable relationships with the communities in which we are active. They offer an opportunity to support ING's brand and help ING connect to our main target groups. In order to make sure our sponsoring is effective and promotes a consistent image, we focus our policy on three areas: ING in society, sports, and art & culture. Through the ING in society activities, we enable employees to engage in charitable activities in their community. Sponsorship in the field of sports ranges from soccer (Dutch national team) to the New York Marathon. Our aim is to make art and culture accessible to a broad audience. That is why ING sponsors the Rijksmuseum Amsterdam and the Royal Concertgebouw Orchestra. They are our international partners and strengthen our mutual goals through art by means of events and other activities.

In addition to the sponsorship activities, the ING Collection, which is curated by ING Art Management and consists of 15,000 artworks contributes to our art & culture philosophy. Art is an essential part of ING's corporate identity and creates a colourful daily work environment in ING offices worldwide. Art is displayed everywhere at ING offices: in corridors, meeting rooms and restaurants. Many ING employees feel proud to be surrounded by works of art, which stimulate social interaction and create an inspirational environment. Objects from the ING Collection are often found in specialised (contemporary) art museums and exhibitions as well. In 2011, while reviewing the art collection following the operational split of the banking and insurance operations, a sizeable portion of our collection was donated to hospitals and care facilities in the Netherlands.

LOOKING FORWARD

The anticipated separation of the banking and insurance operations will not alter ING's commitment to sustainable development. The sustainability strategies for ING Bank and the to-be-separated insurance/investment management operations will be in line with the Group strategy and based on a track record built up over the years.

KEY PERFORMANCE INDICATORS 2011

ING has identified 10 Key Performance Indicators (KPIs) for its sustainability reporting. These KPIs relate directly to the ING sustainability strategy and are used by ING to measure sustainability performance within ING.

Key Performance Indicators (1)	Year-end 2011	Year-end 2010
Equator Principles Number of projects reviewed	**55**	74
Sustainable assets under management (in EUR million)	**1,683**	2,120
Customer satisfaction index (2)	**69.3%**	69.1%
Economic value (3) (in EUR million) Total assets	**1,279,188**	1,247,005
Shareholders' equity	**46,663**	40,904
Total income from continuing operations	**55,794**	54,105
Result before tax from continuing operations	**6,109**	3,928
Net result from continuing and discontinued operations	**5,766**	2,810
Personnel expenses: salaries	**5,307**	5,457
Personnel expenses: other	**2,249**	2,235
Employee engagement index (4)	**66%**	69%
Diversity (5) Percentage of women in the international management council	**16.2%**	14.9%
ING Chances for Children Number of children provided with access to education	**118,101**	125,175
Green energy MWh of electricity purchased by ING that is derived from renewable resources	**310,933**	332,843
Dow Jones Sustainability Index (6)	**72**	72
FTSE4Good Index	**Included**	Included

(1) The audit firm Ernst & Young has audited the KPIs for reasonable assurance.

(2) For the Bank business (excluding ING Direct), satisfaction scores are based on the American Customer Satisfaction Index (ACSI), which is adapted for the financial market and is based on a combination of questions related to overall satisfaction, customer delight and being an ideal provider. This score is not weighted by market. In 2011 the survey was carried out within Retail Banking in the Netherlands, Belgium, Poland, Romania, Turkey and India. In 2011, the Insurance business replaced the customer satisfaction index with the Net Promoter Score system. No ACSI survey was carried out for ING Insurance/IM and therefore no comparative figures are available.

(3) The 2010 figures have been restated to reflect the change in accounting policy, i.e., the move towards fair value accounting for Guaranteed Minimum Withdrawal Benefits for life in the US Closed Block VA as of 1 January 2011.

(4) For 2011 we are reporting on the percentage of 'overall employee engagement scores'. The 2010 score does not reconcile with the score mentioned in the 2010 Annual Report because it was based on one of the four questions of employee engagement: 'I am proud to work for ING'. The 2010 percentage in this report is based on the 'overall employee engagement score'. The research was carried out by Kenexa.

(5) We have calculated the diversity figures in 2011 as a weighted average relating to the total members of the Management Council (Insurance US Management Council, Insurance EurAsia Management Council and Bank Management Council).

(6) The ING company score is the underlying SAM's corporate sustainability assessment (1–100).

Capital management

ING's Group Capital Management department (Capital Management) is responsible for ensuring sufficient capitalisation of ING Group entities at all times in order to manage the risk associated with ING's business activities. This involves the management, planning and allocation of capital within ING Group. ING's Corporate Treasury is part of Capital Management. It executes capital market transactions, term (capital) funding and risk management transactions. Capital Management monitors and plans capital adequacy on a consolidated basis at three levels: ING Group, ING Insurance and ING Bank. Capital Management takes into account the metrics and requirements of regulators (EU Solvency, Tier 1 and BIS ratios and limits for hybrid capital), rating agencies (leverage ratios, Adjusted Equity) and internal models such as the economic capital models. It also makes sure that ING will be able to comply with new regulatory capital requirements coming from Basel III and Solvency II.

BALANCING DIFFERING REQUIREMENTS WHILE ENSURING SUFFICIENT CAPITALISATION

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

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

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

MAINTAINING A WELL-DIVERSIFIED FUNDING BASE

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

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

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

PREPARING FOR THE FULL SEPARATION OF ING BANK AND INSURANCE/IM

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

DEVELOPMENTS IN 2011

In 2011, ING's capital position improved, driven mainly by strong capital generation at ING Bank. In December 2011, ING successfully completed a liability management transaction (the exchange of existing subordinated debt securities for new senior debt securities or cash at a discount to nominal value), with an average participation of 60%. This transaction proactively addressed uncertainty regarding future call options on capital securities and generated EUR 0.7 billion net profit for ING Group. The net impact of this transaction on ING Group's consolidated balance sheet was a EUR 2 billion debt decrease.

A more detailed section in the annual accounts provides insight into the capital management practices and the development of the capital position of ING Group and its various business lines in 2011.

Risk management

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

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

THREE LINES OF DEFENCE

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

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

ADAPTING TO CHANGE

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

Distribution and communication channels are becoming more direct and internet-based. This increases the speed and convenience with which our customers can reach us to access their funds and our services. ING is committed to providing this convenience without compromising security or liquidity management standards.

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

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

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

Financial regulation and accounting standards are in a state of flux, and ING is following the developments closely. Over the past year, ING Insurance Eurasia has continued the implementation of the requirements of the Solvency II directive. Meanwhile, the Bank has taken further steps to prepare for the improved regulatory capital and liquidity framework for banks, commonly referred to as Basel III. ING is well positioned to operate under these new regulatory frameworks once they are in force. This is also reflected in the outcome of the EU capital exercise performed by the European Banking Authority, which concluded that ING Bank is currently adequately capitalised.

Risk Management plays an important role in performance evaluation and determining remuneration under the Capital Requirements Directive (CRD) III Framework, which was issued by the European Commission in 2010. This role extends both to the setting of risk-specific performance targets across the organisation as well as the assessment of the performance of senior management in this respect, and is considered essential for the alignment of compensation with the interest of all stakeholders. Risk management's involvement ensures that compensation outcomes are symmetric with risk outcomes.

2011 was marked by the sovereign debt crisis in Europe, with downgrades of several countries due to deteriorated deficits and the assistance packages given to Greece, Ireland and Portugal. In the course of the year ING responded to these developments by reducing its sovereign and financial institutions exposures to eurozone countries with the biggest political and economic uncertainties. Throughout the credit and liquidity crisis, ING Bank has maintained its liquidity position within conservative internal targets.

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

Human resources

Change is a constant

> Group HR to gradually reduce its role; HR functions Bank and Insurance/IM to assume own responsibility
> HR Bank to continue supporting organisation in creating One Bank
> HR Insurance assisting the businesses in shaping a stand-alone future

ING highly values its people and realises that they are crucial to the business. Motivated and engaged employees are essential in enhancing customer satisfaction and assuring our success.

Following the operational split on 1 January 2011 between Bank and Insurance/Investment Management, ING Group's Human Resources (Group HR) continued to serve the two independent organisations, Bank and Insurance/IM, in a number of areas. These areas relate to key processes and specific categories of staff and include HR system support, executive remuneration, the Winning Performance Culture (WPC) survey and international mobility. The idea is that Group HR will gradually reduce its role, while both Bank and Insurance/IM HR functions will assume more responsibility.

Following the split, Group HR has continued to work on the further disentanglement of the various HR systems. Group HR also reviewed, renegotiated and disentangled all global HR vendor contracts. The objective is that all Bank and Insurance/IM HR systems work on a stand-alone basis, once the formal split materialises. Examples include the splitting of HR systems in talent management, performance management and headcount reporting, which became operational on 1 January 2012.

Group HR partnered with the business and employee representation groups on how to best change the organisational structure, how to set up the governance bodies for both entities and how to organise employee representation in the future. Group HR also assisted Insurance US in setting up a new, local Executive Team, which supports the Management Board America Insurance Holdings.

In 2011, a number of activities were sold. Group HR facilitated the retention of staff to ensure future viability of the businesses.

TALENT AND DEVELOPMENT

Group HR continued to support the businesses in identifying, developing, appraising and retaining talent for senior and executive positions. However, the process, the criteria, the development and administrative tools are now coordinated and managed separately at Bank and Insurance/IM. Succession plans are in place for all key positions within Bank and Insurance/IM. From 2012, both entities used their own talent management system.

The Bank, for example, employs a three-year, global talent development programme, where trainees perform one to two job roles in one of five different fields, i.e. General Management, Commercial Banking, Risk, Finance and/or IT.

The ING Business School merged with the Commercial Banking Academy to form the ING Bank Academy. Its three-pillar focus is on strategic leadership, banking and professional skills, and project-based activities. The Academy increased its emphasis on online programmes – 4,800 online trainings were completed.

At Insurance, HR Insurance/IM EurAsia set up a Talent Council programme in Central and Rest of Europe, involving talents across the regions to find solutions for strategic business challenges and in Asia, the ING Insurance Asia University was launched. Within this environment, employees are encouraged to be innovative, to learn and to explore.

Insurance US made a number of significant changes at the most senior leadership levels and HR Insurance US worked closely with the business to ensure these organisational changes were handled seamlessly.

DIVERSITY

A diverse workforce remains a focal point for ING and enhancement is therefore promoted throughout the organisation. However, goal setting, implementation and metrics differ for each business unit and are carried out separately for Bank and Insurance/IM.

The Group's ambition for women to account for 33% of the Management Council positions by 2015 is still in place. At year-end, approximately 16% of the Management Council positions were filled by females across the Group.

LEADERSHIP DEVELOPMENT AND TRAINING

In 2011, both Bank and Insurance/IM EurAsia developed their own specific leadership profile. This will be used for recruitment, development, promotion, assessment and performance appraisal purposes.

From a policy perspective, International Mobility remains a Group responsibility. Both Insurance/IM and Bank now have their own operational HR capability to support the exchange of international staff ('expats') to and from business units and regions. In 2011, Group HR put much effort into ensuring that expats were assigned to either Bank or Insurance/IM, as in the future it will no longer be possible to assign expats across the Bank and Insurance/IM.

PERFORMANCE AND REMUNERATION

Group HR has centrally governed and coordinated the overall performance management process (setting objectives, mid-year review and performance appraisals) for all members in senior management positions, adhering to the requirements of the Capital Requirements Directive III (CRD III) framework. Executing the performance management process, however, was undertaken by the 'stand-alone' entities (i.e. Bank, Insurance/IM EurAsia and Insurance/IM US).

Management remuneration remained a key focal area in 2011, following the introduction of the CRD III framework and its impact on compensation for identified staff and control functions. Implementation of the CRD III framework at Bank and Insurance/IM was taken care of by the entities themselves. For further information on remuneration linked to performance within the CRD III framework, please see the Financial and Regulatory Environment section, as well as the Remuneration section.

WINNING PERFORMANCE CULTURE SURVEY

Group HR rolled out the annual global engagement WPC survey – an online survey that measures the level of engagement of ING employees worldwide. The results are used as a starting point for dialogue between employees and managers to help improve overall engagement. Eighty percent of employees worldwide completed the survey compared with 74% in 2010.

The overall Bank response rate was 80%, while the overall engagement score was 66% (2010: 69%). The results show that there is a strong sense of pride in working for ING and that Bank staff are very satisfied with the company as a place to work. The results also show that we need to continuously communicate our strategic direction and work on career development opportunities and work processes. HR will assist the business in driving dialogue with employees, drafting action plans and improving identified areas on a continuous basis.

At Insurance EurAsia, an all-time high number of employees (82% versus 76% in 2010) responded to the WPC survey, showing that employees are eager to participate in the corporate cultural debate and willing to share their opinion at a time the business is in transition and preparing for a stand-alone future. Employee engagement was up 2% at 68%. At Insurance US, the response was up at 78% (2010: 69%) and the overall engagement score rose from 60% to 64%. Results show improvement in leadership, strategy, accountability, and people manager effectiveness, which were significant issues in 2010.

Group HR will organise the overall WPC survey until the company has been officially split, but the results and implementation of improvements will be addressed by the individual business units.

BECOMING A TOP EMPLOYER

Along with Customer Centricity and Operational Excellence, Top Employer is one of the three global strategic priorities that are key to becoming One Bank. Being a top employer is a key priority of ING because banking is a people's business. Research shows that top employers have better engaged employees that create strong relationships with customers. Top employers are more productive and profitable, have significantly lower employee turnover and a larger talent pool to draw from. ING Bank firmly believes in this correlation and aims to be a Top Employer by 2014.

To this end, ING – working with people from all parts of the bank – developed 22 standards that set the internal benchmark for becoming a top employer. These standards are based on five dimensions spanning an employee's career, from joining the bank to their work environment, high-performing teamwork, developing each employee's talent and becoming proud ING ambassadors. The 22 standards are global but will be implemented locally. Every country faces different challenges in becoming a top employer and has different priorities. Following a number of workshops, every country has created their own local action plan based on their strengths, challenges and priorities. Progress will be measured both globally and locally.

CONCLUSIONS AND AMBITIONS

Throughout 2011, Group HR played a significant role in helping the businesses unravel the responsibilities and systems of the individual entities. Group HR will continue to reduce its role and shift tasks and responsibilities to the individual HR functions, both at Bank and Insurance/IM, but will continue to co-ordinate HR-related aspects on a global level.

The individual HR functions at Bank and Insurance will assume more responsibility and will continue to support their organisations. HR Bank will help drive ING Bank's strategic priority to create One Bank. Other priorities for 2012 include becoming a top employer, talent attraction and retention as well as performance management and rewards.

At Insurance/IM, the HR functions will continue to assist the businesses in preparing for the future. Focal areas for EurAsia include enhancing accountability, talent and engagement, whereas in the US, HR will help the organisation focus on full separation from the Group through a base case IPO, staff retention and talent management.

Banking overview

MANAGEMENT BOARD BANKING
on 31 December 2011

Jan Hommen
chief executive officer

Koos Timmermans (from 1 October 2011)
vice-chairman

Patrick Flynn
chief financial officer

Wilfred Nagel (from 5 October 2011)
chief risk officer

William Connelly
CEO Commercial Banking

Eli Leenaars
CEO Retail Banking Direct and International

Hans van der Noordaa
CEO Retail Banking Benelux

Financial overview*		
in EUR million	**2011**	2010
Total underlying income	**15,854**	16,816
Underlying operating expenses	**9,447**	9,336
Underlying additions to loan loss provisions	**1,667**	1,742
Underlying result before tax	**4,740**	5,738
Interest margin	**1.41%**	1.42%
Underlying cost/income ratio	**59.6%**	55.5%
Underlying cost/income ratio (excl. market impacts)	**55.4%**	53.7%
Net production client balances (EUR billion)	**45**	49
Underlying risk costs in bp of average RWA	**52**	53
Risk-weighted assets (year-end, EUR billion, adjusted for divestments)	**330**	319
Underlying Return on Equity based on IFRS equity	**10.0%**	12.9%
Underlying Return on Equity based on 10% core Tier 1**	**10.9%**	13.1%
Employees (FTEs, year-end, adjusted for divestments)	**70,580**	70,073

* Underlying numbers are derived from IFRS-EU, excluding the impact of divestments and special items.
** Underlying after tax return divided by average equity based on 10% core Tier 1 ratio.

Underlying income		
in EUR million	**2011**	2010
Retail Banking	**10,903**	11,402
Commercial Banking	**5,023**	5,349
Corporate Line banking	**–72**	65
Total	**15,854**	16,816

Underlying result before tax		
in EUR million	**2011**	2010
Retail Banking	**2,944**	3,601
Commercial Banking	**2,020**	2,217
Corporate Line banking	**–224**	–80
Total	**4,740**	5,738

ING Bank is a large international player with an extensive global network in over 40 countries. It has leading banking positions in its home markets of the Netherlands, Belgium, Luxembourg, Germany and Poland. Furthermore, ING has key positions in other Western, Central and Eastern European countries and Turkey. This is coupled with options outside of Europe which will give ING Bank interesting growth potential in the long-term.

The retail banking operations are focused on delivering simple and transparent retail products at low costs through a multi-channel distribution approach. Commercial Banking supports its global clients through an extensive international network and offers core banking solutions and provides tailored solutions.

Since January 2011, ING Bank has been operating as a stand-alone business under the umbrella of ING Group.

FINANCIAL DEVELOPMENTS

Underlying result before tax (excluding the impact of divestments and special items) dropped 17.4% to EUR 4,740 million from EUR 5,738 million in 2010, mainly reflecting the impact of the sovereign debt crisis in Europe. The decline was mainly due to EUR 588 million of impairments on Greek government bonds and EUR 181 million of losses on selective de-risking at ING Direct, while the previous year included EUR 275 million of capital gains on the sale of two Asian equity stakes. Excluding these items, underlying result before tax rose slightly by 0.8%.

Total underlying income declined 5.7% to EUR 15,854 million in 2011 from EUR 16,816 million in 2010. The underlying net interest result was practically stable at EUR 13,562 million, despite a small increase in volumes. The total interest margin, however, declined slightly to 1.41% from 1.42% in 2010. Commission income remained flat on 2010, as increases in Commercial Banking (mainly Structured Finance) were offset by declines in Retail Banking. Total investment and other income dropped to EUR 37 million compared with EUR 1,008 million in 2010. This decline was due to EUR 588 million of impairments on Greek government bonds and EUR 181 million of losses on selective de-risking at ING Direct taken in 2011, while 2010 included EUR 275 million of capital gains on the sale of two Asian equity stakes.

Underlying operating expenses increased by 1.2% to EUR 9,447 million, mainly due to specific investments in the business and a modest year-on-year increase in staff costs. This was largely offset by stringent cost control and lower impairments on real estate development projects. The underlying cost/income ratio increased to 59.6% from 55.5% in 2010, mainly driven by lower income. Excluding market-related impacts, the cost/income ratio was 55.4% in 2011.

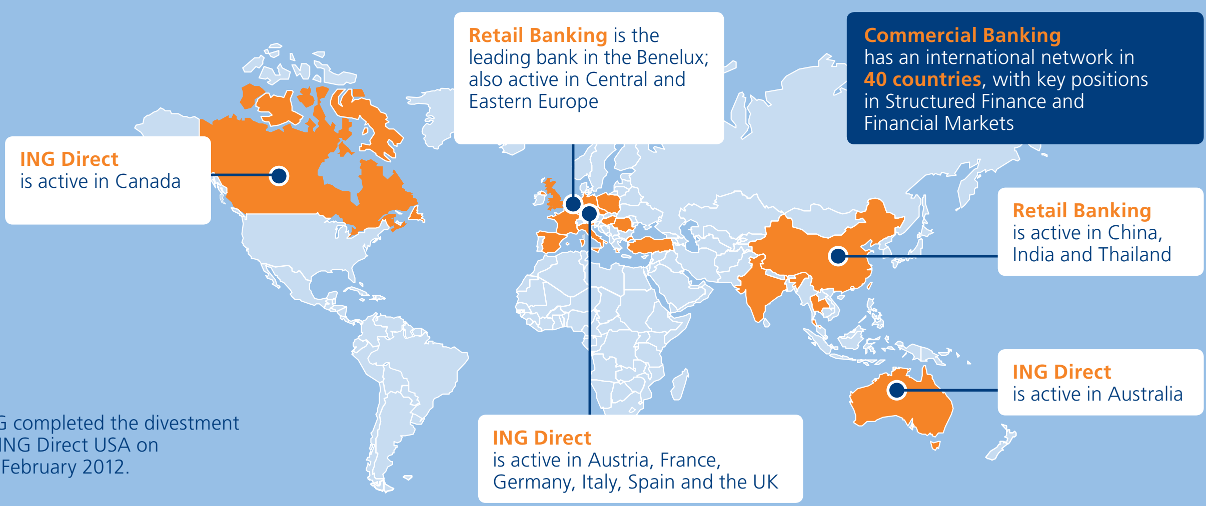
The underlying net addition to the provision for loan losses declined 4.3% to EUR 1,667 million from EUR 1,742 million in 2010. Risk costs in 2011 were 52 basis points of average risk-weighted assets compared with 53 basis points in 2010.

The underlying return on IFRS-EU equity was 10.0% in 2011, down from 12.9% in 2010.

Banking overview continued

WHERE WE OPERATE*

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



* ING completed the divestment of ING Direct USA on 17 February 2012.

BUSINESS DEVELOPMENTS

In 2011, ING Bank continued to show solid results despite the difficult macroeconomic environment and volatile financial markets. In addition to these challenging circumstances the vulnerable financial system remained a concern. The results were affected by the impairments on Greek government bonds. ING Bank withstood the market instability by carefully managing its exposure to sovereign bonds.

ING has delivered on its priorities to strengthen its financial position, reduce risks, meet the restructuring requirements as imposed by the European Commission and to build a stronger bank.

ING Bank continued to make progress on meeting its Ambition 2013 targets. These are business improvement programme targets, mostly established in October 2009 and involve boosting underlying income, lowering overall costs, reducing risk costs and lifting return on equity.

In 2011, ING Bank's underlying income was EUR 15,854 million, underlying cost/income ratio was 59.6% and underlying return on equity based on IFRS-EU equity was 10.0%.

Given the changing market circumstances, new regulatory requirements and the fact that ING has realised to a large extent its Ambition 2013 goals, new performance goals have been set for 2015. These are: achieving a Return on (IFRS-EU) Equity of 10–13% under Basel III, while maintaining a core Tier 1 ratio of at least 10%, and bringing our cost/income ratio down to 50–53%.

In 2011, ING Group proved its ability to generate capital by making a net profit of EUR 5.8 billion. Capital generation is needed to repay the Dutch State and to improve capital ratios while making selective investments to improve services to our clients.

ING comfortably passed the 2011 EU-wide stress test conducted by the European Banking Authority (EBA) confirming the solid capital position of ING Bank thanks to the actions taken to de-risk and de-leverage the balance sheet.

ING's capital position also met the new EBA capital target. By the end of June 2012, European banks must meet a 9% threshold for their core Tier 1 ratio under the EBA definition which includes valuing sovereign bond holdings at market rates. ING Bank already met the 9% requirement in 2011. ING is well prepared to meet the new capital requirements proposed by Basel III and also has focus on the liquidity requirements to be met from 2013.

ING is on the Financial Stability Board's list of Global Systemically Important Financial Institutions (G-SIFIs) which means it will be forced to hold more capital because of its importance to the global financial system. The package of additional policy measures to address SIFIs has been submitted for approval to the G20 in November 2011 by the Financial Stability Board.

For more information see the chapters 'Capital management' and 'Financial and regulatory environment'.

ING Bank continued to manage costs carefully. It is more necessary than ever to reduce expenses to adapt to the leaner environment and maintain our competitive position. Streamlining the organisation and enhancing efficiency are therefore key.

Retail Banking Netherlands, for example, is taking steps to further cut costs and improve efficiency through operational excellence. Unfortunately this leads to substantial job cuts. We will effectuate these with the utmost care. The strategic measures are focused on further process improvements by reducing complexity and streamlining workflow.

Additional IT investments will help to reduce costs while delivering faster and more accurate service. They will also enable customers to manage their financial affairs through their preferred banking channel.

In 2011, financial markets were confronted by a worsening of the sovereign debt crisis in Europe. ING maintained a prudent approach to risk, substantially reducing its government bond exposure to southern Europe and de-risking its total investment book. In addition, ING's exposure to asset-backed securities and to real estate development projects and investments declined sharply. For more information on ING's policies and measures for managing risks, see the chapter on 'Risk management'.

In 2011, ING Bank realised a number of divestments. With the sale of ING Direct USA, ING met one of the principal restructuring requirements of the European Commission. With the divestment of ING Car Lease, ING continued to sharpen the focus on its core banking franchise. The divestment of ING Real Estate Investment Management, completed in October, fits with ING's strategic objectives of reducing exposure to real estate, simplifying the company and further strengthening the capital base. WestlandUtrecht Bank is now run as a separate entity and is being prepared for sale. (See also chapter 'Strategy').

ING's large retail deposit base is a significant source of funding. It is among the largest in Europe and underlines that ING has a good funding position compared to other banks. Thanks to our strong funding position, we have increased lending to our customers even in uncertain times. The fact that we continued to provide customers with credit and products underlines our focus on customer centricity and will help build trusting relationships.

ING's net inflow of funds entrusted in 2011 was EUR 18.8 billion compared to EUR 25.1 billion in 2010. The net production of lending in 2011 was equal to 2010: EUR 25.6 billion of which EUR 19.7 billion in mortgages (net inflow/production is adjusted for foreign-exchange impacts and divestments).

Despite our strong funding position, we need to become even more self-reliant. To achieve this, our One Bank ambition and the further integration of our balance sheet remained a top priority during the year.

OPERATIONAL EXCELLENCE
Achieving true operational excellence is a key priority. It goes far beyond just cost-cutting. Operational excellence is about constantly improving products, processes and systems to structurally and sustainably increase efficiency. For ING it means a simpler organisation with more time to focus on the customer.

An example of progress made in the area of operational excellence, was the integration of the commercial banking business in Germany with ING-DiBa, the direct retail banking business in Germany. The creation of the One Bank in Germany will optimise the banking businesses and customer services by making more efficient use of capital and liquidity. Another example was the launch of a new initiative by ING Direct France which allows customers to open savings accounts through an online-only process.

CUSTOMER CENTRICITY
Customers' needs are constantly evolving, so it is crucial to keep close to them, anticipate their every requirement and provide new products and services.

In the Netherlands, for example, ING Business Banking introduced an innovative and easy tool, based on the Bank's in-depth knowledge of every industrial sector, to help clients assess their financial needs.

ING continued working with the Net Promoter Score (NPS), which measures customer loyalty. Feedback from customer service is used to improve ways of doing business. It is therefore a measurement tool as well as a means of changing business culture and driving growth. An example of improved customer centricity is the implementation of customer complaints procedures by ING Bank Slaski and ING Bank Turkey. The changes reduce the amount of time needed to resolve complaints and allow ING to better analyse customer feedback and thus improve its processes, products and services.

Mobile banking and social media initiatives are on the increase. In several countries mobile banking has been introduced, including in the Netherlands where we launched a mobile banking app for private customers. ING uses social media like Facebook, Twitter and blogs to get closer to customers, to run special promotions, and to gather feedback to improve existing products and services and develop new ones.

ING Direct Canada, for example, used customer feedback to develop the THRiVE Chequing Account; an online, no-fee, daily checking account that pays interest.

TOP EMPLOYER
Being a top employer is another key priority of ING because banking is a people's business. Having engaged and motivated employees is essential to achieving success.

As an employer, we play an important role in driving engagement. However, we are operating in a very challenging environment and the financial sector as a whole, and ING in particular, is going through many changes. Staff therefore must handle a lot of concerns and uncertainties. It is of the utmost importance to us that our employees feel engaged and motivated, especially in these challenging times.

Several initiatives were taken in 2011 to enhance employee engagement, stimulate personal development and manage talent. ING Bank Slaski, for instance, developed an online programme to help staff map out their career opportunities. The programme is linked in with succession planning, the recruitment process and performance appraisals. As a result ING Bank Slaski has received Top Employer awards and continues to enjoy a strong standing in the Polish labour market.

Across ING Bank as a whole, the ING Commercial Bank Academy and ING Business School provide a coherent global learning and development strategy for staff around the world.

CONCLUSIONS

Looking ahead, ING Bank will continue to remain vigilant and focused on containing costs. This is all the more important as the bank operates in a fierce, competitive environment in difficult economic conditions and with increasing regulatory constraints.

ING Bank presented its banking strategy in January 2012. This strategy takes into account recent market, regulatory, consumer and technology trends.

In the short-term the Bank's priorities are to manage through the crisis, limiting balance sheet and risk-weighted asset growth and executing on-balance sheet optimisation. We have strong funding capabilities and attractive home market positions in Northern Europe.

We will invest in IT to improve service and work towards operational excellence. We will continue to simplify the business portfolio and the organisation, while taking a prudent approach to capital and funding in the current unstable market conditions.

With our retail models converging, our ambition is to selectively evolve ING Direct into a full-service bank. ING Bank is well placed to capture growth opportunities in the high-growth markets of Central Europe and Asia. Our experience in lean and competitive markets has made us leaders in innovative distribution at low costs. This puts us in a good position as customers want simple, transparent and fairly priced products.

For Commercial Banking, we will continue to build on our existing strengths, such as our leading positions in the Benelux and in Structured Finance and Financial Markets, and our extensive international network in Central and Eastern Europe and beyond. Our intention is to sustain and further develop these pillars of our Commercial Banking franchise in order to support growth initiatives elsewhere.

Retail Banking

Strong position in a changing competitive environment

> Resilient results in difficult economic conditions
> Superior customer service a key long-term ambition
> Product improvement continues, using NPS feedback

Retail Banking maintained its strong positions in the mature markets of the Benelux, Western Europe, Canada and Australia. It is well placed to capture opportunities in the high-growth markets of Central Europe and Asia. Financial performance in 2011 was solid, but certain areas came under pressure due to the deteriorating global economic situation. The business continued to work on the 'direct if possible, advice when needed' model, moving towards full-service banking in some countries in order to realise the Bank's ambition of becoming the preferred bank. Customer centricity remained a key focus, with many initiatives in mobile banking and social media. Customer feedback via the Net Promoter Score (NPS) methodology was central to product and service improvements.

FINANCIAL DEVELOPMENTS

Retail Banking's underlying result before tax declined to EUR 2,944 million from EUR 3,601 million in 2010 mainly due to EUR 363 million of impairments on Greek government bonds and EUR 181 million of losses from selective de-risking of exposures at ING Direct. Net production in client balances was EUR 51.1 billion, including a net inflow of EUR 22.5 billion in funds entrusted and EUR 27.3 billion in lending, of which EUR 19.7 billion was in residential mortgages and EUR 7.6 billion in other lending. Assets under management reported a net inflow of EUR 1.3 billion.

Total underlying income decreased by 4.4% to EUR 10,903 million. The interest result declined 1.0%, as the impact of higher volumes was more than offset by lower interest margins on most products, especially in the Netherlands. The interest results of ING Direct and Central Europe increased as volume growth outpaced the impact of lower margins. Commission income was 2.8% down as declines in the Benelux and Central Europe were only partly offset by increases in ING Direct and Asia. Investment and other income declined significantly, mainly due to the impairments on Greek government bonds and the losses from selective de-risking of exposures at ING Direct.

Underlying operating expenses were up 3.4% to EUR 6,768 million, mainly due to increased staff costs, higher marketing spending, the introduction of new products and investments in the branch network in Spain. The underlying cost/income ratio increased to 62.1% from 57.4% in 2010.

The addition to the loan loss provisions declined 4.9% to EUR 1,191 million in 2011, or 67 basis points of average risk-weighted assets compared with 70 basis points in 2010. This decline was mainly caused by lower risk costs in the Benelux, especially in the mid-corporate and SME segments, although the level remained elevated and started to increase again in the last quarter of 2011. Risk costs at ING Direct and Central Europe were higher compared with 2010.

The underlying return on equity, based on a 10% core Tier 1 ratio, dropped to 12.0% from 14.8% in 2010, due to the decline in results. In 2011, total risk-weighted assets increased by 2.0% to EUR 179 billion at year-end, mainly outside the Benelux.

RETAIL NETHERLANDS
FINANCIAL DEVELOPMENTS

The underlying result before tax of Retail Netherlands decreased 8.2% to EUR 1,261 million in 2011 from EUR 1,374 million in 2010, principally driven by lower income and higher expenses, partly offset by a decrease in risk costs.

Financial overview*		
in EUR million	**2011**	2010
Total underlying income	**10,903**	11,402
Underlying operating expenses	**6,768**	6,548
Underlying additions to loan loss provisions	**1,191**	1,253
Underlying result before tax	**2,944**	3,601
Underlying cost/income ratio	**62.1%**	57.4%
Underlying cost/income ratio (excl. market impacts)	**58.8%**	56.9%
Net production client balances (EUR billion)	**51**	36
Underlying risk costs in bp of average RWA	**67**	70
Risk-weighted assets (year-end, EUR billion, adjusted for divestments)	**179**	176
Underlying Return on Equity based on 10% core Tier 1**	**12.0%**	14.8%

* Underlying numbers are derived from IFRS-EU, excluding the impact of divestments and special items.
** Underlying after tax return divided by average equity based on 10% core Tier 1 ratio.

Underlying income		
in EUR million	**2011**	2010
Retail Netherlands	**4,146**	4,310
Retail Belgium	**2,031**	2,048
ING Direct	**3,423**	3,782
Retail Central Europe	**1,028**	976
Retail Asia	**275**	286
Total	**10,903**	11,402

Underlying result before tax		
in EUR million	**2011**	2010
Retail Netherlands	**1,261**	1,374
Retail Belgium	**454**	543
ING Direct	**999**	1,450
Retail Central Europe	**158**	154
Retail Asia	**72**	80
Total	**2,944**	3,601

Total underlying income decreased 3.8% to EUR 4,146 million in 2011. This decrease was mainly due to a 5.3% decline in interest result, owing to increased competition for savings putting pressure on margins.

Net production in residential mortgages was EUR 3.6 billion, while volumes in other lending decreased EUR 0.2 billion and margins declined. Funds entrusted increased EUR 3.1 billion, mainly driven by a successful marketing campaign for a one-year deposit in the fourth quarter.

Operating expenses rose 2.2% to EUR 2,428 million in 2011, mainly as a consequence of higher pension costs following updated mortality tables and an impairment on software in WestlandUtrecht Bank. The addition to loan loss provisions decreased 18.4% to EUR 457 million, or 93 basis points of average risk-weighted assets, mainly due to lower additions for specific files in the Mid-Corporate and SME segments, although the level started to increase again in the last quarter of 2011.

BUSINESS DEVELOPMENTS

The economic setback in 2011 in several parts of the world, and in the eurozone in particular, had its impact on the Netherlands, and therefore on the Dutch banking sector and ING. Retail Netherlands' (Retail NL) revenues were affected by the adverse economic circumstances, with private lending volumes decreasing due to lower demand, although business lending volumes stayed at moderate levels. These trends are expected to continue into 2012.

Despite the difficult economic environment – coupled with repositioning by long-established competitors – Retail NL focused on serving its customers, remained a strong capital generator and continued to fulfil its role of financing retail customers and small and medium-sized businesses. The key to its success is maintaining a fine balance between delivering added value to customers, being a robust bank, and meeting many new regulatory requirements (including liquidity and solvency requirements).

Retail NL's results were resilient. Its average mortgage market share was 16% (22% including WestlandUtrecht Bank), with full-year net production in residential mortgages falling to EUR 3.6 billion compared with EUR 5.5 billion in 2010. This was due to a considerable decline in demand on the overall residential mortgage market, as well as ING's policy to selectively grow this lending class while maintaining pricing discipline. Funds entrusted were up, at EUR 106 billion at year-end.

Retail NL was faced with increased, strong competition, especially in savings, but in spite of this the savings market share of ING Netherlands (private individuals and SME/Business Banking combined) went slightly up.

Certain organisational changes were made to enhance efficiency, reduce costs even further, and increase investments in IT and processes. This was done against the background of a weakening economic environment, more stringent regulation and changing customer expectations, and to secure the long-term viability of the company. Customers expect flawless service, and technology can help deliver that, especially in internet and mobile banking. In response to these developments, Retail NL announced redundancies – approximately 2,000 internal FTEs and 700 external FTEs. These redundancies will take effect in 2012–13. ING will do its utmost to implement these measures with care.

Retail NL maintained its strong top two overall market position and is the number two in the Mid-Corporate segment. Retail NL serves 8.9 million retail customers, including around 600,000 business customers. It has more than 400 agents and 280 branches across the country. Furthermore, it has the 'Best-in-Class' cost/income ratio in the Dutch market and the most flexible cost base.

Strategy

Retail NL's strategy is linked to ING Bank's overall strategy to build a leading retail and commercial bank. Its ambition is to be the customer's preferred bank, something that will be realised through operational excellence, customer centricity and becoming a top employer.

The aim is to create long-term value for all stakeholder groups: customers, employees, business relations and suppliers, society at large and shareholders. The Dutch businesses continued to focus strongly on customer suitability. Our Customer Suitability programme, launched in 2010, emphasises the importance of transparency, easy-to-understand products and services, and providing the right products and services to fit customers' needs at every stage of their relationship with us.

ING Netherlands made good progress with its score in the AFM (the Netherlands Authority for the Financial Markets) customer centricity assessment. AFM examined ING's policy on customer centricity and its execution on 10 criteria. On all criteria, such as transparency of product conditions and prices and complaint handling, ING scored similar to, or higher than, the market's average and was complemented by AFM for the execution of its integral improvement plan.

Investments to improve client satisfaction remain key, as delivering superior customer centricity is part of the bank's long-term ambitions between now and 2015. One of Retail NL's aims is to contribute to the optimising of ING Bank's balance sheet.

Stakeholder trust

ING continued to enhance its reputation and regain trust among stakeholders, and as part of that, Retail NL organised another series of Financial Information Evenings for customers and several round-table discussions with various stakeholder groups on the future of the financial sector, and on the financing of healthcare and renewable energy. Retail NL also held sessions with building companies, real estate developers and public authorities on the future of the Dutch housing market, and entered into dialogues with consumer organisations on several topics.

Another initiative involved Dutch Board members – together with relationship managers of Business Banking and Private Banking – visiting various customers around the country. The objective was to enhance customer relationships and listen to their feedback on aspects of their relationship with ING.

Operational excellence

All business units focus on operational excellence to ensure the timely, efficient and flawless execution of customer service. A key development in 2011 was the introduction of 'Customer Service Through Delivery Guarantees', the aim of which is to reduce the time it takes to act on customers' requests. To this end, ING Netherlands selected over 100 of its key services and processes and monitored them in real-time dashboards, resolving problems as soon as they became apparent. The next step is to provide customers with service guarantees, explaining the level and speed of service they can expect.

The Bank continued to work on transferring customers to a single IT platform following the merger of Postbank and ING Bank in 2009. By June 2011, all Private Banking customers had been transferred, while the remaining part (all the Dutch Business Banking and Financial Institutional customers as well as Corporate Clients) are expected to migrate to the single platform in 2012–13. This will further reduce IT complexity and costs and will improve the customer experience as they will be offered a consistent service concept and product range levels.

Customer centricity

Retail NL continued building a customer-centric organisation by searching for ways to best meet customers' needs, and investments were made to improve service. ING is the leading internet bank in the Netherlands measured by number of customers using an online bank account (> 4 million), channel usage (70% via the internet) and sales (40% of net present value). ING is the only bank in the top 10 of Google search. It is now also active on Facebook, using this social network to engage in dialogue and knowledge sharing with customers.

Retail NL introduced a mobile banking app for retail customers, with both payments and savings functionalities. By year-end, the app had been downloaded more than half a million times and it had over 367,000 active users. Online product and service offerings now account for 60% of sales transactions, clearly illustrating the success of our 'direct if possible, advice when needed' approach. Our ambition is to further increase this percentage by gradually introducing new mobile offerings. Another online, non-commercial initiative is Villa Pecunia – a website for, and by, students on which they can exchange ideas, have discussions and share 'savings' tips.

ING Netherlands is the main sponsor of the Dutch national soccer team and, in 2011, established a Young Lions Platform – a permanent, cross-media platform for 6–12-year-olds. Some 55,000 young Dutch ING customers signed up as members. The platform has a website with interactive football video games that can be played with social network friends via Hyves.

ING Netherlands continued to broaden its *Duurzaam Spaarbeleid* (Sustainable Savings Policy), aimed at providing consumers with simplified, transparent savings products.

Business Banking designed the innovative *Conditietest* (fitness test), which provides Mid-Corporate clients with insights into the key strategic and financial indicators of their organisation, up-to-date sector information and benchmarking on their competitors. It also introduced *Ondernemerssupport*, an online network and support initiative for mid-corporates, and the *Bedrijfsscan* (company scan) for SMEs, offering assistance in improving financial business practices regarding operating capital, payment transactions and liquidity management.

ING organised a conference to enhance international entrepreneurship, the idea being that setting up businesses abroad will become an increasingly viable alternative to simply exporting products and services from one's home country. Representatives of over 1,000 internationally-oriented businesses attended ING's International Entrepreneurship Conference in Eindhoven's Evoluon in November.

ING continued to improve customer focus by implementing results from earlier satisfaction measurements among customers. The product offering in the *Rentepuntenwinkel* (customer loyalty programme) was adjusted, following direct feedback from customers. Client panels and user tests have been consulted to build, test and improve the new 'Mijn ING' website.

ING received international recognition for its efforts. It was awarded 'Best Bank of the Year Netherlands 2011' by the British magazine *The Banker*, owned by the Financial Times, and it was voted 'Most Popular Website of the Year' in the Financial Services Category by Emerce/Metrix Lab.

Private Banking

Retail NL also provides private banking services in the Netherlands to wealthy individual customers. Private Banking implemented an ambitious plan in 2011 to strengthen the ING Private Banking franchise. It also migrated 25,000 Private Banking clients to the new ING target platforms to give them the advantage of the new and improved ING services and products.

Private Banking registered a big improvement on its NPS, the customer loyalty measure it adopted two years ago, scoring highly compared with its peers.

WestlandUtrecht Bank

WestlandUtrecht Hypotheekbank was renamed to WestlandUtrecht Bank towards the end of 2010 after which it became operationally and commercially independent from ING. WestlandUtrecht Bank (WUB) is run as a separate entity under the ING Group umbrella, following the ING/EC agreement in 2009 to divest WUB.

In 2011, WUB continued with its commercial campaign and roll-out of its savings account, *SpaarOnline* (save online).

RETAIL BELGIUM

FINANCIAL DEVELOPMENTS

The underlying result before tax of Retail Belgium fell 16.4% on 2010, as a slight decline in income was accompanied by higher operating expenses. Income decreased 0.8% compared to 2010, mainly due to EUR 17 million of impairments on Greek government bonds. Interest result remained flat, as a decline in margins was compensated by higher volumes, particularly in savings and lending. Net production in mortgages totalled EUR 3.0 billion in 2011, while production in other lending was EUR 3.2 billion. The net production in funds entrusted was EUR 3.0 billion, mainly driven by the success of the Orange Book savings product in the beginning of the year.

Operating expenses increased 6.5% on 2010 to EUR 1,432 million, mainly reflecting higher staff expenses, increased contribution to the deposit guarantee scheme and higher marketing expenses. The addition to the provision for loan losses declined 9.4%, to EUR 145 million, or 77 basis points of average risk-weighted assets, mainly attributable to releases in the Mid-Corporate segment.

BUSINESS DEVELOPMENTS
ING Belgium (ING BE), the fourth biggest bank in the country, further improved its already solid position in a turbulent market. The business was able to gain momentum and increased its market share. It serves approximately 2.7 million customers and has 773 branches. In 2011, Retail Belgium (Retail BE) added more than 85,000 customers (net inflow) to its customer base.

Retail BE continued to improve operations and services, and went ahead with its branch transformation programme, which places greater emphasis on direct banking. The 'direct if possible, advice when needed' business model is paying off, as the Bank changes from being a purely branch-based bank to a multi-channel bank.

Online sales as a percentage of total sales continued to grow. Nearly 157,000 simple online products (excluding securities brokerage) were sold, considerably more than the 119,482 sold in 2010, reflecting ING's objective of meeting customers' needs.

Despite fierce competition and a stagnating market for regulated savings, Retail BE increased total savings to EUR 36.2 billion at year-end, driven mainly by the savings product Orange Book.

Retail BE's market share of mortgages was 11.9% (portfolio) and 12.6% (production) at year-end. Net production amounted to EUR 3.0 billion (2010: EUR 2.8 billion).

In December, Retail BE (Mid-Corporates/Institutional Banking) successfully participated in a tender for banking services, and acquired the Flemish Government as a client.

As with other banking business units, Retail BE's ambition is to become the customer's preferred bank, through operational excellence, customer centricity and being a top employer.

Operational excellence
Retail BE's focus is on the 'direct if possible, advice when needed' business model, and specifically on timely, efficient, and flawless execution of customer services. It wants to make banking easier for customers and is, therefore, continuously improving services through its mix of distribution channels.

An example of operational excellence is the improvement in the customer information flow by directly linking the customer e-IDs to the ING database.

Retail BE also launched a new ing.be website, which makes it easier to monitor and analyse customers and adapt to their behaviour.

The Bank will continue to pursue opportunities to improve its processes and efforts are being made to implement several internal efficiency solutions, including a new core banking system, which will reduce the time to market for new products.

Customer centricity
Retail BE's domestic transformation programme, with its focus on direct banking, is on track. However, it also continued to invest in its branch network. The Bank has almost finished the transformation of its traditional branches to 'proximity' outlets ('proxi' branches) with self-service cash facilities and online banking access. At year-end, 466 branches had been converted into proxi branches. Retail BE also launched a pilot to transform its bigger branches to new full-service branches, with equal focus on direct banking and closer contact with the customer. By the end of 2011, seven new full-service branches had been opened.

Retail BE launched a mobile banking service in 2011 and its first mobile banking app, MyING.be, is available through the Apple app store. MyING.be allows customers to check their balances, see overviews of accounts and credit-card transactions, make online transfers and make branch appointments. My ING.be has about 37,000 users and received a 4-star rating, making it the best rated of all free financial apps. Mobile banking for the Android operating system will be launched in 2012.

The Bank also launched a new ing.be website in May, allowing customers to buy simple products. Savings products sold over the internet increased from 21.2% of total sales in 2010 to 28.1% in 2011. Current accounts and cards sold over the internet rose from 31.8% in 2010 to 38.6% in 2011.

At Home'Bank, Retail BE's online bank, existing functions were improved and new ones added, such as an account overview page, an extended history and search function, and a payment basket. Over 1.2 million people use Home'Bank.

To improve online banking security, Retail BE continued the roll-out of the ING Card Reader in Belgium. In 2011, almost 800,000 card readers were sent to customers, bringing the total to more than one million since it was launched in September 2010.

Social networks have become an important part of the banking landscape. ING BE believes in the power of peer-to-peer advice and is now present on Facebook, with its 'minute orange' concept, and providing tips and information about its products. The purpose of being on Facebook is to develop a real community of ING customers. At the year-end, ING BE's Facebook page had over 17,000 'fans'.

Retail BE also launched two insurance products, ING Lion Assistance (travel and breakdown insurance) and ING Lion Travel Stop (travel cancellation insurance). Customers can buy these products online or at a branch, in a process that takes as little as three minutes.

Retail BE continued to use NPS to gauge customer feedback and improve service. NPS, adopted in Belgium in 2009, is a widely recognised measure of customer satisfaction and loyalty. The Bank conducted nine NPS surveys in Belgium in 2011, including one on opening an ING Lion Account; the number of ING Lion Accounts increased by 16% in 2011. The Bank also began using NPS for Mid-Corporate and Private Banking customers in 2011.

Private Banking
Retail BE provides private banking services in Belgium and Luxembourg to wealthy individuals. Private Banking has a top three position in Belgium. The unit's assets under management in Belgium amounted to EUR 15.5 billion and in Luxembourg to EUR 6.9 billion at year-end, totalling EUR 22.4 billion. Private Banking contributed favourably to Retail BE's overall results, despite the adverse economic climate.

Record Bank
Retail BE includes Record Bank, the third largest retail savings institution in the country, with close to 800,000 customers. Its strength is the personal approach taken by its network of 1,500 independent agents, credit brokers and vendors. This network achieved an 8.1% growth in deposit volumes in 2011 compared with 2010. In 2011, Record Bank also increased the volume of its loan book by 17.5% compared to 2010.

ING Luxembourg
ING Luxembourg is a full universal bank with three business lines: domestic retail banking, private banking and commercial banking. The Bank serves private individuals, SMEs, large companies and financial institutions. It ranks fifth in retail banking, serving around 70,000 customers, and has 16 branches. It is number four in the Mid-Corporate segment and number three in the Corporate segment.

The retail activities (private customers and retail companies) performed well in 2011, despite adverse market conditions. Assets under management increased from EUR 1.68 billion in 2010 to EUR 1.77 billion at year-end 2011. Lending volumes also rose.

As part of its drive towards greater customer centricity, ING Luxembourg launched an online product called Orange Account early in the year, which was successfully received. More than 1,700 people signed up for the account (27% of all new retail customers acquired in 2011), mainly through a digital marketing campaign using Google's advertising network and social networks in Luxembourg and neighbouring regions.

ING Luxembourg adopted the NPS method for measuring customer loyalty in late 2010 and used it in several customer interaction areas in 2011.

ING Luxembourg won second place in the Great Place to Work ranking, a national award, which recognises a positive work culture and good management/staff communications. It also rolled out 'mobile working' for all eligible employees in the retail segment, a programme that helps them work from home, or while travelling on business. The Bank continued to reinforce its front office capabilities by employing additional staff in 2011.

ING DIRECT

FINANCIAL DEVELOPMENTS

The underlying result before tax of ING Direct declined 31.1% to EUR 999 million compared to EUR 1,450 million in 2010. The decrease was due to EUR 326 million higher impairments on debt securities (including EUR 346 million of impairments on Greek government bonds) and EUR 181 million of losses from the selective sale of mainly unsecured and ABS exposures in the investment portfolio. Underlying income decreased to EUR 3,423 million from EUR 3,782 million in 2010, fully due to the above mentioned impairments and losses. The interest result increased by 2.4%, or EUR 91 million, driven by higher volumes while the interest margin remained stable at 1.24%. The interest result in the US continued to benefit from the IFRS treatment on previously impaired bonds, which had a positive impact of EUR 168 million in 2011, down from EUR 230 million in 2010.

The total net production in mortgages was EUR 12.4 billion while funds entrusted reported a net inflow of EUR 13.7 billion.

Operating expenses increased by 4.0%, reflecting higher marketing expenses (particularly in Germany, Italy, France and Spain) and higher costs to set up a limited number of branches in Spain and further roll out of payment accounts in France, Italy and Canada. The addition to loan loss provisions increased to EUR 462 million, or 61 basis points of average risk-weighted assets, from EUR 446 million in 2010 (or 59 basis points of average risk-weighted assets). The increase was driven by the lower anticipated recovery rates in the US, partially offset by lower risk costs in Germany.

BUSINESS DEVELOPMENTS

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

In mid-June, ING Group announced the sale of ING Direct USA to Capital One Financial Corporation. The sale was part of ING's restructuring plan filed with the European Commission in 2009 in order for the EC to approve Dutch state aid given to ING. The sale closed on 17 February 2012. Following the sale, ING Direct has 16.7 million customers worldwide.

Becoming a complete bank
ING Direct continued to work towards becoming a complete retail bank, but one which continues to maintain a different approach from its competitors. ING Direct remained at the cutting edge of internet and mobile banking in 2011, while broadening its product base to achieve greater income diversification. It took further initiatives to optimise its distribution mix, introduced more branches and invested more in cross-buying.

In some countries, ING Direct plans to move towards a full bank model. Implementation of this model began in 2011 with the integration of the commercial banking business in Germany with ING-DiBa, the direct retail banking business in Germany. The creation of One Bank in Germany optimises the banking businesses and their customer services by making more efficient use of capital and liquidity. ING-DiBa in Germany has been very successful in growing its business in Europe's largest market and the integration is designed to take advantage of further opportunities in this large and attractive market.

In Spain, ING Direct is already well known for its direct banking operations, but to broaden its reach and to establish closer contact with customers, it opened 21 branches in 2011, including a flagship branch in Barcelona, bringing the total number of branches to 27 at the end of 2011, which includes four ING Direct cafes. They form an important part of ING Direct's growth strategy to become a complete retail bank and provide many cross-buying opportunities. ING Direct in Spain entered the life insurance market, launching two new products in February 2011 – a basic cover and extra cover product. The expanded branch presence in Spain is part of ING Bank's strategy of converging its retail and direct banking operations.

In Italy, ING Direct opened its first bank shop in September 2011 and by the end of the year opened a further six shops. It was an important milestone in building the most preferred consumer bank in the country.

ING Direct was recognised with awards in 2011 in the areas of customer centricity, product innovation and marketing. Most notably, ING-DiBa received awards for its website, investment options and customer service. It was also named 'Online Broker of the Year' by financial magazine *Börse-Online* for the seventh consecutive year and 'Most Preferred Bank' by finance magazine *Euro* for the fifth year in row. ING Direct Italy won an award for financial innovation in the Funds category awarded by AiFin, the Italian association for financial innovation. ING Direct Spain won multiple awards for their online advertising campaigns.

Social media remained an important area of activity for ING Direct, enabling closer contact with the customer. ING Direct Canada supported the national roll out of the new THRiVE cheque (payment) account with an extensive campaign on social media platforms like Facebook and Twitter. The new payment account was created thanks to customer feedback through crowd sourcing (using the internet to ask a large group of people their opinions about something) and it won the product of the year 2011 award in Canada. In France a similar approach was taken, when ING Direct organised a blog which asked for suggestions and feedback from existing customers on a range of issues from the development of a new mobile phone application to their thoughts on proposed promotional offers. In Germany, ING-DiBa conducted a campaign, DiBaDu und Dein Verein on its website to sponsor local non-profit associations. Associations had to register on the website and people could then vote on which association should receive funds. The campaign resulted in more than 17.5 million votes over a six-week period and generated much discussion in social media channels.

Operational excellence
All of ING's business units focus on timely, efficient and flawless execution of customer services. Making banking easier for customers through innovation in distribution is an important aim of the business.

ING Direct France launched an initiative allowing customers to open savings accounts through a 100% online process – responding to consumer wishes and enhancing efficiency. ING Direct Canada was awarded 'Best Mid-Sized Contact Center' by Contact Center World North America. The Canadian team won based on customer satisfaction scores, call response times and training programmes. In Australia, ING Direct's 'Simply Orange' quality programme resulted in process improvement tools for all employees. Ideas for improvements came from customer 'front-line' workers.

Customer centricity
ING Direct continued to search for ways it can best meet customers' needs. It encourages customer feedback and uses it to update and improve its service. In all its markets, ING Direct is either first or second in terms of customer satisfaction as measured by the Net Promoter Score (NPS).

In the important mobile banking space, all ING Direct business units launched either applications or m-sites (ING-DiBa in Germany and ING Direct Italy) which allow users to carry out everyday banking transactions from their mobile phones and tablet devices. ING Direct in France produced an award-winning mobile phone application which was developed in part by crowd sourcing. This application was then successfully used as a basis for developing mobile phone applications in four other ING Retail Banking units.

In the internet channel, advances were made in functionality and accessibility with ING Direct Canada introducing a web-chat application to better assist site visitors with finding relevant information and Italy launching a renewed website with a more client-centric focus.

A number of ING Direct business units produced compelling content aimed at empowering consumers and helping them to manage their household finances. ING Direct France's *Monnaie Time* partnership with Yahoo, the *Finanzversteher* portal of ING-DiBa Germany, and the *Voce Arancio* blog of ING Direct Italy are all examples of client-centric initiatives to educate clients and non-clients alike about personal financial matters.

RETAIL CENTRAL EUROPE

FINANCIAL DEVELOPMENTS
The underlying result before tax of Retail Central Europe rose 2.6% to EUR 158 million, driven by higher results in Poland, partly offset by lower results in Turkey due to increased risk costs. Underlying income in Central Europe increased 5.2% as higher income in Poland and Romania was partly offset by lower income in Turkey due to negative currency effects.

Overall volumes in Poland remained relatively stable, while margins improved, particularly in savings and current accounts. In Turkey, a variable savings product was launched which led to a slight decrease in margin and an increase in volumes. In Romania, both volumes and margins remained largely stable. Net production of lending in Central Europe was EUR 3.5 billion, while the net inflow of funds entrusted was EUR 2.2 billion.

Operating expenses were up 1.6% driven by the increased client activity. The addition to loan loss provisions rose to EUR 97 million, or 42 basis points of average risk-weighted assets, compared with EUR 61 million, or 28 basis points of average risk-weighted assets, in 2010. Risk costs increased mainly in Turkey due to business growth, while the level in 2010 was low due to releases of specific provisions and improved data quality.

BUSINESS DEVELOPMENTS
Retail Central Europe has a leading presence in Poland and strong positions in Romania and Turkey. In all three countries, retail banking is an integrated part of the domestic bank, which serves retail and commercial banking customers, and offers a wide range of services.

All Retail Central Europe banks are rapidly expanding into direct distribution, illustrating the convergence of the retail and direct business models.

Operational excellence
During the year, many initiatives were taken to improve operational effectiveness including implementing business process management, knowledge sharing across countries and building up direct distribution capacities by enhancing websites.

ING Bank Romania carried out an upgrade of its internet banking site, Home'Bank. A new interface and improvements in usability resulted in a 39% growth in transactions. In September a mobile version of the Home'Bank website was introduced and led to a threefold increase in site visits from smartphones.

ING Bank Slaski in Poland aims to be 'the most internet bank'. In 2011, its website www.ingbank.pl, was ranked the most user-friendly bank website in Poland by experts from banking website Money.pl.

ING Bank Turkey launched the Orange account, the country's first variable savings product (variable term), which was developed using ING's extensive savings know-how. The Orange account accelerated an operational transformation and simplification of the business and enhanced ING's image in the Turkish market. It helped double the level of deposits in ING Bank Turkey in 2011 with 44% of all Orange accounts opened coming from new customers. The account positioned ING Bank Turkey as an innovative, customer-savvy savings bank. It also showed how ING could bring its global experience to help local operations in emerging markets to best meet the financial needs of their customers. ING Bank in Turkey also launched a mobile phone banking application, which took first prize in the 'Best Mobile Application' category in one of the country's largest interactive award ceremonies.

Customer Centricity

ING's retail banks are working towards their aim of becoming the preferred bank in their respective countries, and so therefore customer satisfaction is very important. Throughout 2011, ING Bank Turkey and ING Bank Slaski in Poland used the NPS methodology. The Net Promoter Score (NPS) at ING Bank Slaski improved from 22% at the beginning of the programme in the second quarter to 27% at year end, indicating that more people were happy with ING's service.

Dealing with customer complaints in a timely and effective manner is a priority issue for ING. During the year, ING Bank Slaski and ING Bank Turkey implemented new customer complaints processes. The changes reduced the amount of time needed to resolve complaints and also enabled ING to better analyse customer feedback, which is then used to improve ING's management, products and service. In Romania, a project aimed at analysing customer complaints, identifying problem areas and improving resolution times helped lift the 'first call resolution' rate to 72%.

RETAIL ASIA

FINANCIAL DEVELOPMENTS

Retail Asia's underlying result before tax declined to EUR 72 million in 2011 from EUR 80 million in 2010. This decline was mainly the result of lower income, primarily as a result of unfavourable currency movements. Excluding currency impacts, underlying income was up, driven by ING Vysya Bank, where higher interest results were coupled with increased fee income and higher other income. Net production in lending was EUR 1.2 billion in 2011, while the net inflow of funds entrusted was EUR 0.5 billion. The increased profit contribution from ING Bank's share in the result of TMB in Thailand and higher dividends from Bank of Beijing were offset by higher funding costs resulting in an overall decline of the interest result.

Operating expenses were down 3.9% to EUR 173 million, but increased adjusted for currency effects, mainly as a result of business expansion in India.

The addition to loan loss provisions rose by EUR 4 million to EUR 30 million, or 32 basis points of average risk-weighted assets in 2011, mainly as a result of higher non-performing loans at ING Vysya Bank.

BUSINESS DEVELOPMENTS

Retail Banking is well positioned in the important Asian markets of India, China and Thailand. As with all other banking business units, Retail Asia's core focus is to become the customer's preferred bank by focusing on operational excellence, customer centricity and being a top employer.

ING Vysya, in which ING has a 44% stake, serves over two million customers and is growing in line with the rapidly developing Indian banking market. The business transformation programme in TMB Bank in Thailand, in which ING has a 30% stake, is yielding results with many operational efficiencies achieved and increased profitability for the third year in row.

Bank of Beijing (BoB) – in which ING has the largest single shareholding (16.07%) – is the largest city commercial bank in China. ING provides principally risk management and retail banking expertise to BoB. Several years ago, the Beijing municipal government recognised ING's work in assisting the bank with its risk management by awarding the company 'The Great Wall Friendship' award.

Operational excellence

ING Vysya Bank implemented a performance measurement system MOP – Measure of Performance Scores – in its operations divisions. Performance of all operational units is now measured through a defined score card on a monthly basis.

ING Vysya Bank continued to improve customer usability. A new consumer finance system (mortgages, vehicle finance) was launched which resulted in a faster turnaround time in processing customer applications.

In Thailand, TMB Bank continued to work improving brand recognition and customer engagement. Brand recognition rose to 66% in April 2011 from 31% in May 2009. TMB is in the second phase of its transformation programme which focused on service and operational excellence, product expansion and channel and brand enhancement.

Customer centricity

ING Vysya Bank continued to expand its national reach by extending its branch network to 526 branches in 373 cities as at the end of 2011. The Net Promoter Score programme was launched and resulted in a positive score.

TMB also opened more branches as part of its strategy to improve channel accessibility. It plans to relocate and open more than 50 branches. The bank also strengthened its electronic banking channel by enabling existing clients to open savings and term deposit accounts online.

On the product front, TMB introduced a 'No Fixed Account' product, the first savings account in Thailand with no minimum balance and no withdrawal or transfer fees. In its first month, 160,000 accounts were opened. A 'no-slip' service was introduced to make deposit and withdrawal transactions easier for the customer.

CONCLUSIONS AND AMBITIONS

Despite challenging circumstances in a rapidly changing landscape, Retail Banking again delivered a solid contribution to the Bank's overall performance and reinforced its commercial position. It also took a number of actions to improve efficiency, reduce costs and adapt to the new regulatory reality. Working efficiently is a constant objective in ING's approach.

ING remains a key bank in the Benelux, helping customers navigate through the adverse economic climate. Delivering superior customer service is a key ambition between now and 2015. ING is committed to offering the right products and services to fit its customers' needs at every stage of their financial life cycles, and it will continue to develop its 'direct if possible, advice when needed' business model.

In 2012, ING Direct will continue to work towards becoming a complete retail bank. It will concentrate on using its low cost, simple and transparent retail banking model to win new clients, while offering a superior customer service. Its ambition is to continue its leadership in the field of internet and mobile banking. ING Direct will play a central role in the Bank's balance sheet optimisation efforts by contributing to deposit growth and allowing for portfolio transfers through balance sheet integration.

In Retail Central Europe and Retail Asia, ING's banking businesses will position themselves for future growth by fully focusing on customer centricity and excelling in business process management, while leading in innovation and distribution.

Commercial Banking

Focusing on our strengths

> A robust performance focused on core areas
> Client and product platforms sustained and adjusted against a challenging economic and regulatory backdrop
> Balance sheet optimisation remained a top priority
> Risk and cost discipline were fundamental to our success

In 2011, Commercial Banking delivered strong results, maintaining its focus on core franchises in the Benelux, Central and Eastern Europe, Structured Finance and Financial Markets. We made significant progress in optimising our balance sheet and with managing our resources in relation to solvency, liquidity and funding more efficiently; this against the backdrop of a tough economic environment and materially increasing regulatory demands.

The year presented many challenges, but we have adapted our business model to ensure continued success. We have continued to divest non-core businesses (e.g. ING Car Lease) and adjust our core platforms where necessary, maintaining tight control over costs and risks and with a continued discipline over capital allocation and returns. As a result, the Commercial Banking franchise remained robust and strengthened its position in the market.

FINANCIAL DEVELOPMENTS

The underlying result before tax of Commercial Banking decreased 8.9% to EUR 2,020 million from EUR 2,217 million in 2010. ING Real Estate recorded a profit before tax of EUR 34 million compared with a loss of EUR 109 million in 2010. The underlying result before tax of Commercial Banking excluding Real Estate dropped 14.6% to EUR 1,986 million.

The decrease in the underlying result before tax of Commercial Banking excluding Real Estate was largely attributable to Financial Markets, whose result declined by EUR 420 million to EUR 499 million in 2011, partly caused by EUR 225 million of impairments on Greek government bonds. Excluding these impairments, underlying result of Financial Markets declined by EUR 195 million (or –21.2%), following adverse market circumstances as well as the winding down of the proprietary trading book in the US.

Underlying result of General Lending and Payments and Cash Management (PCM) declined by 9.9% to EUR 410 million in 2011 from EUR 455 million in 2010. This was mainly driven by impairments on the restructuring portfolio, as well as higher expenses due to selective IT investments in PCM. The result of Structured Finance rose by 21.4% to EUR 1,139 million in 2011, driven by strong volume growth in the first half of 2011 resulting in higher interest results and commission income, while risk costs were lower. The result of Leasing & Factoring declined EUR 5 million to EUR 75 million entirely due to higher risk costs.

ING Real Estate reported an underlying profit before tax of EUR 34 million, compared with a loss of EUR 109 million in 2010. Negative fair value changes on the direct and indirect real estate investments as well as impairments on real estate development projects declined to EUR 273 million in 2011, compared with EUR 434 million in 2010. Excluding revaluations and impairments, underlying result before tax decreased EUR 18 million to EUR 307 million in 2011 from EUR 325 million in 2010, mainly due to higher risk costs at Real Estate Finance.

In 2011, net production of client balances was EUR 5.8 billion negative. Funds entrusted reported a net outflow of EUR 3.6 billion, while lending was EUR 1.7 billion down as demand was subdued. Assets under management declined EUR 0.6 billion.

Total underlying income of Commercial Banking declined 6.1% to EUR 5,023 million, mainly in Financial Markets, which included EUR 225 million of impairments on Greek government bonds

Financial overview*

in EUR million	2011	2010
Total underlying income	**5,023**	5,349
Underlying operating expenses	**2,527**	2,643
Underlying additions to loan loss provisions	**476**	489
Underlying result before tax	**2,020**	2,217
Underlying cost/income ratio	**50.3%**	49.4%
Underlying cost/income ratio (excl. market impacts)	**44.5%**	42.2%
Net production client balances (EUR billion)	**–6**	12
Underlying risk costs in bp of average RWA	**35**	33
Risk-weighted assets (year-end, EUR billion, adjusted for divestments)	**145**	140
Underlying Return on Equity based on 10% core Tier 1**	**11.2%**	11.6%

* Underlying numbers are derived from IFRS-EU numbers, excluding the impact of divestments and special items.
** Underlying after tax return divided by average equity based on 10% core Tier 1 ratio.

Underlying income

in EUR million	2011	2010
Commercial Banking excl. ING Real Estate	**4,494**	4,820
– General Lending & PCM	**1,121**	1,159
– Structured Finance	**1,601**	1,440
– Leasing & Factoring	**320**	310
– Financial Markets	**1,290**	1,700
– Other Products	**162**	211
ING Real Estate	**529**	529
Total Commercial Banking	**5,023**	5,350

Underlying result before tax

in EUR million	2011	2010
Commercial Banking excl. ING Real Estate	**1,986**	2,326
– General Lending & PCM	**410**	455
– Structured Finance	**1,139**	938
– Leasing & Factoring	**75**	80
– Financial Markets	**499**	919
– Other Products	**–138**	–65
ING Real Estate	**34**	–109
Total Commercial Banking	**2,020**	2,217

in 2011, partly compensated by higher income from Structured Finance. Underlying operating expenses were 4.4% lower at EUR 2,527 million driven by lower impairments on real estate development projects. The underlying cost/income ratio was 50.3%, slightly up from 49.4% in 2010.

Risk costs decreased to EUR 476 million compared with EUR 489 million in 2010. Declines in Structured Finance and General Lending were partly offset by higher risk costs in Real Estate Finance and Leasing. In 2011, risk costs were 35 basis points of average risk-weighted assets up from 33 basis points in 2010.

The underlying return on equity, based on a 10% core Tier 1 ratio, decreased slightly to 11.2% from 11.6% in 2010, due to the decline in results, partly offset by lower average risk-weighted assets supported by positive risk migration. At year-end 2011, however, risk-weighted assets were 3.5% higher than in 2010, due to the implementation of Capital Requirements Directive III in December 2011.

BUSINESS DEVELOPMENTS

ING Commercial Banking supports the banking needs of our corporate and institutional clients and is an integral part of ING's One Bank ambition and strategy, originating high-quality assets that earn attractive returns in which to invest both Retail and Commercial Bank customer deposits.

We aim to be a trusted adviser for the long-term, by providing solutions to clients' financial challenges and flawlessly executing the services we offer. By fulfilling our clients' needs, we have become one of Europe's leading commercial banks in our core markets and an important partner for clients internationally.

We are a full-service commercial bank in our home markets in the Benelux, as well as in Germany, Central and Eastern Europe. In addition to the basic banking services of lending, payments and cash management and treasury, we provide tailored solutions in other areas, including specialised and trade finance, derivatives, corporate finance, debt and equity capital markets, leasing, factoring and supply chain finance.

Our clients include mid-sized enterprises, large corporations, major multinationals, financial institutions, governments and supranational organisations. We assist them by financing their growth, managing their day-to-day banking needs and by providing a full range of banking solutions to help them manage their risks and achieve their business goals.

We are building on our strengths in Industry Lending, covering both Structured Finance and Real Estate Finance, franchises with recognised origination, structuring and risk management skills in selected industries on a global scale.

Our global Financial Markets platform continues to focus on clients and products in home markets and in emerging markets.

The Transaction Services organisation has been created to be a new pillar within Commercial Banking, in which core payments, trade and other flow products are offered to our clients.

In Germany, we completed the merger of the Commercial Banking branch with the retail subsidiary ING-DiBa AG. This combined entity, having a very strong local balance sheet, positions ING to grow our German franchise, focusing on multinational companies that benefit from our international network, in particular our franchise in Central and Eastern Europe.

BUILDING THE PREFERRED BANK

Commercial Banking's strategy supports ING's ambition to be a preferred European bank with a global reach and an uncompromising dedication to customer centricity and operational excellence.

Customer centricity

ING Bank was voted 'Best Bank in the Netherlands' by *The Banker* and named 'Best M&A Financial Advisor of the Year' in the Benelux region by the *Financial Times* and *Mergermarket*. These awards demonstrate the strength of ING's relationships with its clients, as well as the importance of its international network.

Our international network provides an effective platform from which to service our multinational clients, especially those from the US and Western Europe, and particularly their operations in Benelux and Central and Eastern Europe.

To further enhance our emphasis on customer centricity we launched the International Business Initiative, aimed at providing clients with excellent cross-border service. We have continued to simplify our processes (for example, for international account opening, indirect bank guarantees and standby letters of credit) and created several tools to facilitate the provision of these services in order to increase client satisfaction.

A Net Promoter Score methodology was also adopted by Commercial Banking to assess customer loyalty and requirements and to improve our products and services. Initial surveys in the Netherlands and Belgium have provided valuable insights into customer priorities and our services.

Structured Finance (SF) maintained its client-centric approach, receiving many external awards. These included The American Power Deal of the Year from Project Finance International for the USD 800 million financing for the CPV Sentinel gas-fired power plant, and Asia Pacific Petrochemical Deal of the Year Award from Euromoney for the USD 1.6 billion financing for Jurong Aromatics Corporation. In commodity finance, SF was assessed as number 1 in the FImetrix Client Satisfaction Index.

In SF, the record level of non-interest revenue reflected fees on structuring new transactions, as the business helped many clients to refinance in the first half of the year.

Operational excellence

We have continued to strengthen our operations by further integrating our activities and standardising the way in which we work. We have made significant progress towards optimising our balance sheet and legal entity structure, across regions and functions, better aligning our asset generating capabilities with our ability to raise customer deposits.

Other steps were also taken to optimise our balance sheet, including the structural transfer of assets from more funding constrained entities to those where liquidity is available. Approximately EUR 3.5 billion of such transfers were made in 2011, with a significant amount already planned for 2012.

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The year also saw significant steps taken to identify and address non-core businesses, while increasing our focus on core markets and client franchises. We prioritised the allocation of resources across our business lines and streamlined our operations in response to growing regulatory demands and economic uncertainty.

Examples of this include the sale of the ING Car Lease business to BMW Group in September for EUR 696 million and the divestment of ING Real Estate Investment Management for EUR 770 million (approximately USD 1.0 billion), the majority of which was sold to CBRE Group, Inc. In addition, we took steps to realign our General Leasing business with our core Commercial Banking franchises, which will result in ING's exit from non-core activities in several countries outside our home markets. Meanwhile, we have continued to narrow our legacy Real Estate development and investment portfolio, reducing our residual exposure.

All of these steps have enabled us to sharpen our focus on our core business and reallocate the capital required to achieve our future ambitions.

MARKET LEADERSHIP

In addition to recognition by the industry experts previously mentioned, Greenwich Associates client research states that among large corporations we maintained our strong position as number 1 bank in the Netherlands both in terms of penetration and lead relationships.

Global Finance named ING the Best Investment Bank in the Netherlands and 'Best Trade Finance Bank in the Netherlands'. ING has also retained its number 1 position as book runner for syndicated loans in the Benelux by volume and value and number 2 position as Merger & Acquisition adviser in the Benelux by volume and value.

Financial Markets was able to demonstrate its strength in various areas in 2011:

- Corporate investment grade bonds (Benelux): 8th by value and 4th by deal volume.
- Europe sovereign investment grade bonds: 8th by value and 6th by deal volume.
- US Private Placements: 1st by deal volume Benelux and 3rd by deal volume in Continental Europe. ING was involved as Bookrunner in USD 1.8 billion from a total value of USD 3.6 billion in Benelux US Private Placements transactions.

ING Equity Markets was named Leading Equity Brokerage Firm in both the Benelux and Central and Eastern European markets in the annual Extel Pan European survey 2011. We scored top positions in areas such as Research, Sales and Trading, both on a company and individual level, reflecting the strength we continue to have in our home countries.

Payments and Cash Management (PCM) was ranked second by volume in Euro Banking Association's clearing and settlement systems (Euro1/Step1).

Greenwich Associates client research confirms PCM's strong position in the Netherlands and that ING is the most often used cash manager for Dutch companies in Central and Eastern Europe while being equal first in Belgium for services in Central and Eastern Europe. In the Netherlands, PCM is market leader in the domestic factoring market.

Major deals

Despite the subdued market conditions, Commercial Banking continued to support its clients through many transformational transaction mandates.

In each instance, we worked closely with our clients to deliver highly tailored solutions. For example:

- Lead advisor to Jumbo Group Holdings on its acquisition of Dutch supermarket C1000. This transaction strengthened ING's mergers and acquisition (M&A) track record and demonstrated our excellent financing capabilities, expertise in tailor-made subordinated debt and equity-like products, and strong relationships with Jumbo and other stakeholders.
- ING advised Couckinvest in its successful public (to private) offer for all outstanding shares of Omega Pharma N.V., one of Belgium's largest listed corporations. ING also acted as a lead-arranging bank for the acquisition facilities needed for this landmark transaction.
- Full-scope financing solution for VimpelCom to support its merger with Wind Telecom and transforming it into a top-five global telecommunications player. This multi-faceted transaction incorporated the largest ever eurobond offering placed by a non-sovereign Russian issuer.
- Four-year appointment by the Flemish government in Belgium, to cover all incoming and outgoing payments, as well as short-term placements and lending by the Flemish Government. ING secured the mandate from previous incumbent Belgian banks. The deal is expected to incorporate a payments volume of EUR 90 billion per year, 10,000,000 transactions per year, 600 accounts and 200,000 salary payments per month.

GENERAL LENDING AND PCM

GENERAL LENDING

Lending is a core element and anchor product in building and supporting client relationships in our target markets creating a position from which we are able to provide other services.

Volumes gradually increased throughout the first half of 2011 and while margin pressures have increased, our average margin remains far above pre-crisis levels. ING has maintained its position as (co-) market leader in the Benelux market, and selectively increased its franchise within Central and Eastern Europe and other Western European markets.

In the second half of the year, market conditions significantly deteriorated and cost of funding increased. Anticipated increases in capital requirements under Basel III led to a number of competitor banks withdrawing from international markets and focusing on their home country franchises. ING has sustained its presence throughout this time and our relative market positioning strengthened as a result. We are beginning to see a positive re-pricing in our portfolio with further opportunities to improve the quality of our business and our relationships.

PAYMENTS AND CASH MANAGEMENT

Payments and Cash Management (PCM) is one of our most important product lines. Alongside General Lending, we consider it a pre-requisite for customer acquisition and retention. During 2011, ING re-defined its PCM strategy. Our ambition is to gain a leading position in the European market and we have launched a multi-year investment programme to this end. In the coming years, we will significantly improve our payments offering to support these goals.

PCM completed a number of high profile and international transactions with clients, demonstrating our commitment to offering solutions across regions (e.g. ING has been appointed by GDF SUEZ as main bank for payments and cash management in the Benelux). This resulted in a further strengthening of ING's position as a trusted banking partner.

We have strengthened our position as a market leader for payments processing in the Netherlands and made steady progress towards becoming a top-tier payments bank in Belgium.

Furthermore, our migration to the Single Euro Payments Area (SEPA) standards is underway, as our Belgian, Dutch and other international clients have begun to migrate towards our SEPA product offering.

STRUCTURED FINANCE

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

The SF business continued to grow in 2011, with revenues supported by relatively good margins on business originated in 2009 and 2010.

In Trade and Commodity Finance (TCF) there were increases in both volumes and margins as a result of our consistent approach to the market over many years. TCF, with its transactional lending characteristics, is attractive to many banks. We have become the leading bank in the syndicated loan market for commodity clients. ING's efforts in the commodity business were recognised by *Global Trade Review* magazine, which named ING the 'Best Global Commodity Finance Bank'.

The Energy, Transport & Infrastructure Group specialises in capital-intensive industry sectors such as oil and gas, mining, offshore services, shipping, power-utilities and infrastructure. There is increasing demand for project finance in these sectors, notably for investments in renewable energy, offshore oil production and infrastructure through public-private partnerships.

The cash flow lending business in Structured Acquisition Finance and Telecom and Media Finance was affected in previous years by the slowdown during the financial crisis. However, these sectors have since stabilised and the year saw an increase in new transaction flows in our core markets of the Benelux and Central and Eastern Europe.

LEASING AND FACTORING

Leasing and Factoring (L&F) provides financial and operating leasing services for a wide range of equipment as well as receivables financing and other factoring solutions for Commercial Banking clients.

The key development during 2011 has been the transformation of the former independent corporate structure of the L&F product lines into two separate product businesses integrated within Commercial Banking.

Furthermore, in the current economic environment, the L&F portfolio was reviewed against the criteria of its strategic fit with the focus of ING Bank across Europe, its performance and its critical mass in some countries. As a result of this review, ING Car Lease was sold to BMW Group fleet management division Alphabet, and decisions have been taken to downsize or discontinue our leasing operations in certain countries.

The focus of our Leasing business will continue to be on providing a full service to all customer segments in ING's home markets, while the Factoring business which is unaffected by the review remains positioned as a core growth product within our trade-focused Transaction Services activities.

L&F has performed well at the operating level, thanks in large part to a strong performance by ING Car Lease during the first nine months of the year under ING's ownership. General Lease has performed well in a continuingly sluggish environment for capital investment, while our Factoring businesses have seen increased volumes. However, the overall performance has been negatively impacted by higher risk costs in the General Lease business, notably in Spain and Italy.

The latest statistics from the leasing industry association (Leaseurope) confirm that ING Lease improved its market share to 6th position in Europe during 2011, demonstrating its ability to continue to support key customers in ING's focus markets. ING Commercial Finance Netherlands was voted into 1st place by its customers (source: Incompany 100 Business Finance survey 2011) and ING Lease UK was voted '2011 Broker Champion of the Year' in the Leasing World Awards, cementing their position in the UK.

FINANCIAL MARKETS

Financial Markets (FM) is the global business unit that manages ING's financial markets trading and non-trading activities. FM is managed along three business lines: ALCO manages the interest rates exposures arising from the traditional banking activities, Strategic Trading Platform incorporates the primary proprietary risk taking units and Clients and Products is the primary customer facilitation business line.

FM continued to be a sizeable and profitable business within Commercial Banking. Following record years in 2009 and 2010, the first half of 2011 continued in a similar vein. However, the growing intensity of the euro sovereign crisis from August 2010 led to an challenging environment in the second half. Not least of these challenges was the impairment of Greek government bonds in the available-for-sale portfolio, including those maturing after 2020, to their market valuation at the end of the third quarter. Revenue was also negatively impacted from August by increased USD funding costs which impacted Treasury profitability. Client revenues held up in line with 2010, but the facilitation trading environment was difficult, which depressed profits in the second half.

Within Financial Markets, a Global Equities platform was created, combining our Cash Equities, Equity Derivatives and Global Securities Finance franchises.

2011 was the first year in which FM implemented counterparty credit revaluations of derivative positions and issued notes – more generally referred to as CVA and DVA. These were individually very volatile through the year on a month-to-month basis, while by the end of the year there was considerable offset with only a relatively small impact on net profits.

FM faced further challenges during the year, including the Q4 implementation of Basel 2.5, which had a large impact on Market Risk Capital usage as the new elements of Stressed Value-at-Risk and Incremental Risk Charges were included for the first time.

We believe the regulatory environment will continue to be challenging, with many further initiatives under way that will impact all financial markets participants.

These anticipated developments have led to a reassessment of individual business lines and activities, particularly with regard to their capital requirements and subsequent return on equity. We will further de-risk our platform in line with other market participants.

ING REAL ESTATE

ING Real Estate includes the Finance, Development and Investment Management businesses.

During 2011 Real Estate Finance (REF) maintained the quality of its credit portfolio at a satisfying level, despite the challenging market circumstances. The volume of new transactions in Europe fell in 2011 as part of our strategy to reduce exposure to real estate in general, while investors continued their focus on core assets. The US businesses closed numerous restructurings, thereby optimising the portfolio, while the Asian and Australian businesses faced increased competition from regional players.

Real Estate Development (ING RED) and Real Estate Investment Management (ING REIM) continued with a controlled wind down of activities.

In 2011, ING signed an agreement with CB Richard Ellis Group (CBRE), Inc. on the sale of ING REIM Europe, ING REIM Asia and ING Clarion Real Estate Securities (CRES). Separately, ING sold ING Clarion Partners to Clarion Partners' management in partnership with Lightyear Capital LLC. The combined price of the two transactions was approximately USD 1.0 billion (EUR 770 million). In addition, as part of the overall transactions, ING agreed to sell approximately USD 100 million of its equity interest in existing ING REIM funds. These highly complex transactions were closed during 2011.

Also, in early 2011 ING finalised the strategic review of ING REIM Australia and its five listed real estate funds. Four funds have since been divested with strategic options being considered for the remaining business.

For ING RED, the year started with the announcement of the sale of a number of Dutch projects to a subsidiary of the largest Dutch construction company. Furthermore, two country offices were closed and the remaining country organisations have been restructured to minimal wind-down teams. In addition the restructuring or disposal of 100 development projects and positions resulted in the reduction of EUR 700 million of future commitments. Overall the real estate exposure of the Bank has decreased significantly.

Although the real estate markets are expected to remain difficult, we will continue to serve real estate investors around the world while retaining our network of highly skilled real estate experts and our knowledge base.

CONCLUSIONS AND AMBITIONS

ING Commercial Banking performed well in 2011 and proved that in difficult circumstances its underlying business is robust thanks to its strong commercial franchises, solid risk management, strict cost discipline and prudent management of capital and lending asset growth. It has also benefited from a well-diversified portfolio.

In the coming year, we will:

- Continue to be client focused, making further inroads through transparency, fair pricing, convenience and excellent service.
- Improve and maintain leadership positions in our core markets in Benelux and Central and Eastern Europe, in Structured Finance and in Financial Markets.
- Develop Germany as a core market franchise and make further improvements to our Transaction Services activities.
- Further optimise our balance sheet structure and increase the efficiency and effectiveness of our operations.
- Continue to manage our capital prudently and allocate it to core markets and high return businesses with attractive risk/reward characteristics.
- Further optimise our cost structure.

In conclusion, Commercial Banking is strong and well positioned for the current and developing regulatory and economic environment. By combining robust commercial franchises and a disciplined, flexible operating model, we are confident of continued positive developments in this area.

Insurance overview

MANAGEMENT BOARD INSURANCE

Jan Hommen
chief executive officer

Patrick Flynn
chief financial officer

Wilfred Nagel (from 5 October 2011)
chief risk officer

Koos Timmermans (until 1 October 2011)
chief risk officer

Lard Friese (until 3 November 2011)
responsible for Insurance Europe and Asia

Matthew Rider (until 3 November 2011)
chief administrative officer

Gilbert Van Hassel (until 3 November 2011)
responsible for ING Investment Management

Financial overview*

in EUR million	2011	2010
Total operating result	**2,206**	1,560
Gains/losses and impairments	**–550**	–512
Revaluations	**205**	449
Market and other impacts	**–1,547**	–2,569
Underlying result before tax	**314**	–1,072
New sales	**4,200**	4,169
Administrative expenses/operating income	**39.8%**	43.7%
Life general account assets (in EUR billion)	**175**	162
Administrative expenses (total)	**3,428**	3,443
Underlying Return on equity based on IFRS-EU Equity	**1.4%**	–5.1%
Employees (FTEs, year-end, adjusted for divestments)	**26,463**	27,755

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

Underlying result before tax

in EUR million	2011	2010
Benelux	**739**	775
Central and Rest of Europe	**–198**	253
United States (excl. US Closed Block VA)	**618**	308
US Closed Block VA	**–1,273**	–2,075
Asia/Pacific	**588**	517
ING Investment Management	**204**	150
Corporate Line insurance	**–364**	–1,000
Total	**314**	–1,072

Operating result**

in EUR million	2011	2010
Benelux	**974**	677
Central and Rest of Europe	**207**	292
United States (excl. US Closed Block VA)	**661**	559
US Closed Block VA	**19**	49
Asia/Pacific	**554**	473
ING Investment Management	**193**	143
Corporate Line insurance	**–402**	–633
Total	**2,206**	1,560

** Operating result is underlying result before tax excluding gains/losses and impairments, revaluations, market and other impacts.

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

FINANCIAL DEVELOPMENTS

Operating conditions were challenging in 2011, as financial markets continued to be volatile and the macroeconomic environment deteriorated. The underlying result before tax of Insurance/IM was EUR 314 million, up from a loss of EUR 1,072 million in 2010. The increase was primarily driven by an improvement in market and other impacts as a result of lower deferred acquisition costs (DAC) write downs in the US Closed Block VA business and in Japan's Single Premium Variable Annuity (SPVA) business. This is, however, partially offset by a charge of EUR 1.1 billion due to the completion of a comprehensive policyholder behaviour assumption review for the US Closed Block VA. Capital losses, reflecting de-risking, and impairments were in line with the previous year. Further, revaluations were lower, largely related to Collateralised Mortgage Obligations (CMOs) in the US. Hence, underlying results per business line diverged, with strong recoveries in the US and Asia/Pacific (excluding Japan variable annuities), compared with lower underlying results in the Benelux and Central and Rest of Europe.

The operating result of Insurance/IM increased to EUR 2,206 million from EUR 1,560 million in 2010, mostly driven by higher investment margins and higher fees and premium-based revenues in the life and the investment management business. The investment spread on life general account assets increased 16 basis points to 106 basis points in 2011 following cautious re-risking of the investment portfolios in the first half of 2011, which was partially offset by de-risking in the second half. The increase in operating income was partly offset by higher expenses. Operating results improved in nearly every business line, with the exception of Central and Rest of Europe given the harsh economic conditions and in US Closed Block VA.

The Life/IM administrative expenses ratio improved from 43.7% in 2010 to 39.8% in 2011 as a result of 6.9% higher Life/IM income and 2.6% lower administrative expenses. Expenses especially in the US were lower as a result of cost savings and pension plan changes.

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

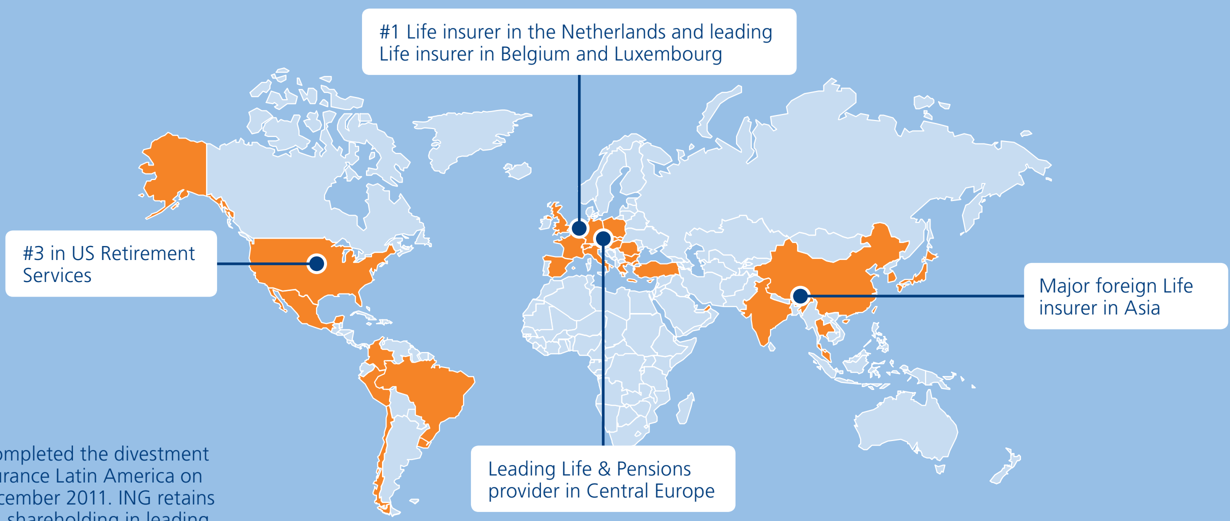
BUSINESS DEVELOPMENTS

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

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

WHERE WE OPERATE*

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



* ING completed the divestment of Insurance Latin America on 29 December 2011. ING retains a 36% shareholding in leading Brazilian insurer SulAmérica SA

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

LEGAL RESTRUCTURING AND GOVERNANCE

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

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

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

SOLVENCY II DEVELOPMENTS

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

NET PROMOTER SCORE (NPS)

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

TIED AGENCY OVERHAUL PROGRAMME

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

BUSINESS LINES

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

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

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

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

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

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

CONCLUSIONS AND AMBITIONS

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

Insurance

INSURANCE BENELUX

> Integration of Dutch insurance businesses complete
> New bank pension savings and annuity products launched
> Customer-driven strategy unveiled which focuses on simpler products and improved systems

Insurance Benelux completed the first phase of the transformation of Nationale-Nederlanden (NN) to become the most efficient and most preferred insurer in the Netherlands. The integration of the Dutch insurance operations under the Nationale-Nederlanden banner was completed in 2011, one year ahead of schedule. The two-year programme has led to major cost savings and efficiency gains. The next phase of the transformation programme commenced with the introduction of new low-cost bank pension savings and annuities products, in response to the changing regulatory and economic environment and shifting customer demands. NN also received a licence to launch a low-cost defined contribution company pension product (Premium Pension Institution) in 2012, an important development in expanding the company's presence in the growing corporate pension market in the Netherlands.

FINANCIAL DEVELOPMENTS

The underlying result before tax of Insurance Benelux decreased by 4.6%, despite a 43.8% higher operating result, reflecting the change in provision for guarantees on separate account pension contracts and capital losses and impairments on debt and public equity, mainly as a result of deteriorating financial markets and de-risking.

The operating result increased 43.8%, as a higher investment margin, higher technical margin and a higher non-life result more than offset higher administrative expenses.

The 45.9% higher investment margin was mainly driven by lower interest rebates, lower profit sharing and higher non-recurring separate account pension contract results. In addition, the investment margin continued to benefit from the impact of reinvestments in the first half of 2011, and higher dividends on public equity and real estate funds.

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

Life administrative expenses increased 4.4% as a result of releases of incidental expenses in the previous year, incidental expenses in 2011 and the impact of organisational changes which were only partially offset by recurring cost savings.

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

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

BUSINESS DEVELOPMENTS

Business activity in 2011 was marked by an ongoing focus on cost containment, efficiency and new initiatives to lift growth in premiums. NN became the largest insurer in all segments of the Dutch small and medium-sized enterprises market (SME) in 2011 as defined by market research bureau GfK in its report on important developments in the business market, *TOF Zakelijk 2007 – 2011*.

The first phase of the transformation of Nationale-Nederlanden, the One programme, was a major business activity in 2011 and also in the previous year. As part of the One programme, NN, RVS and ING Verzekeren Retail (formerly Postbank Verzekeren) were combined into one customer-focused organisation under the Nationale-Nederlanden brand to simplify the business and to reduce costs. As a result of the integration, NN now consists of four key business units: NN Retail (retail clients), NN SME (small and medium-sized enterprises), NN Corporate Clients (corporate clients) and NN Services (the Closed Book business).

In the Netherlands, NN received a bank licence from the Dutch Central Bank and introduced three new tax-favourable bank products for pension savings (*banksparen*). Consumers are increasingly looking for simple, flexible and low-cost savings products and NN's move into the *banksparen* field is in recognition of this shift in consumer preferences. The move was made possible by changes to tax rulings several years ago which gave bank-based long-term savings products the same fiscal advantages as insurance-based products. Both NN and ING Bank now offer pensions-related bank savings products but they focus on different target groups: ING Bank concentrates on the direct market and NN on the advisor market.

Late in 2011, NN gained approval from the Dutch Central Bank to introduce a low-cost defined contribution company pension product (Premium Pension Institution). It launched NN EssentiePensioen in early 2012 for companies with more than 100 employees in the Netherlands. The new product provides NN with more opportunities to expand its presence in the corporate pension market. NN EssentiePensioen is managed in conjunction with ING Investment Management and NN-owned pension administration and service company, AZL.

In the Closed Book business, NN Services introduced a standardised processing and IT system (business process management layer) for several legacy lines of retail life businesses. The business focus is on process rationalisation, excellent customer service and lower administration costs.

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

Distribution

As part of the operational separation of banking and insurance, NN secured a ten-year exclusive distribution contract with ING Bank which came into effect on 1 January 2011. During the year, ING Bank transferred Mandema & Partners, a company of independent insurance brokers to Insurance Netherlands, and in addition, transferred its insurance sales force for SME clients to Mandema & Partners.

NN issued new distribution contracts to intermediaries and by year end had made solid progress in receiving acceptances. The new contracts were part of the implementation of NN's multi-channel distribution strategy, which involved the integration of Dutch insurance companies RVS and IVR under the NN brand, and which aims to provide customers with more choice on how and where they buy products.

New products
NN continued to be active in the corporate market in 2011. This new pension product allows customers web-based access to their pension arrangements. This new pension product allows customers web-based access to their pension arrangements.

ING Life Luxembourg launched a new pension product called Clear Future in Denmark, supported by easy-to-access online marketing. In Belgium, a new Universal Life savings product was brought to the market, which gives customers tax benefits and offers short-term interest rate guarantees.

In non-life insurance, NN launched a new general insurance package (*Zekerheidspakket*) that covers all general risks and offers discounts for self-employed people and small enterprises. A new car insurance policy with a fast application process was introduced on www.ing.nl, the retail site of ING Bank in the Netherlands. NN's access to ING Bank's direct channels such as the internet is part of the commercial agreement between NN and ING Bank.

Customer driven
ING Life Luxembourg now gives policyholders access to their policy details on ING Bank Luxembourg's website. In the Netherlands, NN launched an internet tool for intermediaries (insurance agents and brokers) to assist them in generating advertising literature specifically tailored to particular types of clients.

NN Retail won best-in-class awards for its legal expenses insurance product and its home insurance product from the Consumentenbond, the Netherlands' primary consumer advocate organisation. NN was also awarded best pension insurer by Dutch management magazine *ManagementTeam.*

During the year, NN worked on many customer-centric initiatives, including a new remuneration policy for 2012 which links variable remuneration more closely to client satisfaction. Other initiatives included a review of all products in terms of their importance and clarity to the customer, which began in 2011 and will take place every three years, as well as a culture programme for staff which emphasised the core role the customer should play in all business activities.

CONCLUSIONS AND AMBITIONS
Insurance Benelux will continue to grow the business in all three countries by increasing efficiency, containing expenses, focusing on customer needs, standardising products and operations and pursuing exemplary service standards.
The first stage of the transformation of NN over the past two years has succeeded in significantly reducing costs and increasing efficiency. The next stage is under way after the business revealed a new strategy late in 2011. The strategy has a sharper focus on producing a flexible, transparent and low-cost product range, available through the customer's channel of choice. Investment in new and improved systems is also a core pillar of the strategy.

While intermediaries such as brokers and financial advisers remain very important, there will be an increased focus on the customer through the introduction of simpler products, such as *banksparen* products.

There will also be continued effort in capturing growth opportunities, particularly in corporate pensions due to market and regulatory changes. These market and regulation changes are reflected in the continuing trend away from company-based pension funds to insurance and industry pension funds.

INSURANCE CENTRAL AND REST OF EUROPE

> Growth through increased focus on life insurance
> Push to expand multi-channel distribution
> Cost control remains priority

Unfavourable regulatory change in the pension businesses in some countries together with sluggish economic conditions continued to have an impact on the operating result for the region. However, Insurance Central and Rest of Europe (CRE) focused successfully on expanding life insurance sales as part of its overall plan to return to growth. The business also concentrated on improving the customer experience which included operational efficiency improvements. In the second half of the year, ING's business growth picked up in Central European countries.

FINANCIAL DEVELOPMENTS
The underlying result before tax of Insurance Central and Rest of Europe was a loss of EUR 198 million compared to a EUR 253 million profit in 2010. In addition to a lower operating result, the gains/losses and impairments were EUR –404 million compared to EUR –29 million in 2010. This increase was mainly caused by EUR 324 million impairments of Greek governments bonds, EUR 34 million capital losses on sales of Italian sovereign bonds and EUR 18 million capital losses on sales of Portuguese bonds of financial institutions.

The operating result declined 29.3% to EUR 207 million from EUR 292 million in 2010. The decline was mainly driven by lower fees reflecting regulatory changes in the region's major pension markets (Poland, Hungary) and higher administrative expenses, mainly related to project costs.

The investment margin of EUR 76 million was flat compared with EUR 77 million in 2010. Fees and premium-based revenues declined 8.6% compared with 2010. This decline was driven by regulatory changes affecting pension funds in Poland and Hungary. In addition the decline reflects a reallocation of health insurance premiums in Greece to the technical margin.

The technical margin increased by 13.4% due to the reallocation of health insurance premiums in Greece from fees and premium-based revenues.
Life administrative expenses rose by 17.7% compared with 2010, mainly due to higher project-related costs such as Solvency II and building a regional IT organisation. The increase also reflects non-recurring restructuring expenses in Spain, Hungary and Greece. New sales (APE) increased 1.3% compared to 2010. Life sales

increased 7.2% compared to 2010, due to successful new product launches and improvements in multi-distribution and the tied agency channel. APE growth in Poland was 9.2%, in Romania 10.0%, in the Czech Republic 17.2%, in Slovakia 17.5%, and in Hungary it was 24.7%, due to a short-term savings-based insurance product. The regional increase was offset by 10.4% lower pension sales compared to 2010, reflecting the regulatory changes for pension funds in Poland and Hungary. Despite this, there was APE growth in pensions in some markets including Bulgaria (+25.1%), Turkey (+34.4%) and Romania (+159.4%).

BUSINESS DEVELOPMENTS

Insurance CRE operates in a market of approximately 220 million people with relatively low penetration rates for life insurance and pensions. It has businesses in Poland, Hungary, the Czech Republic, Slovakia, Romania, Bulgaria, Greece, Turkey and Spain. In 2011, market conditions in the region improved in some countries, but in other countries such as Greece and Spain, the macroeconomic environment remained very challenging.

Business activity in 2011 was affected by regulatory changes in the region's major pension markets such as Hungary and Poland. As a result Insurance CRE concentrated on increasing life insurance sales in the region, and pension business in specific markets.

Growth

The priorities for the business are achieving growth and containing costs. To grow the portfolio, Insurance CRE concentrated on further improving the customer experience through programmes such as the Net Promoter Score (NPS) and developing long-term customer relationships. It also focused on broadening its distribution base and strengthening its main distribution channel: the tied agent sales force. Tied agents remain the dominant distribution channel, but bancassurance and brokers are increasing in number and importance. In the bancassurance channel, new distribution agreements were signed with Raiffeisen Bank and Alior Bank in Poland.

Sales via the broker channel grew by double digits in the Czech Republic following the successful introduction of the Smart product, a unit-linked life insurance product. In Slovakia, ING launched a similar product. In Turkey, new business from the broker channel accounted for half of all new business.

The Tied Agency Overhaul Programme, which began in 2010 to improve the performance of tied agents, continued in many countries in 2011 including Spain, Romania, Hungary and Poland. In Spain, where the programme was first introduced, there was a substantial increase in productivity among agents who were included in the overhaul initiatives. In Poland, the introduction of a new structure and distribution model resulted in a significant increase in agent productivity.

Employee benefit markets recorded growth particularly in Spain, but also in Poland, the Czech Republic and Slovakia. In some countries in the Central and Rest of Europe region, the downsizing of the public sector, particularly in healthcare and pensions, together with the growth in the number of small and medium-sized enterprises (SME) mean the employee benefits business has solid growth prospects.

Operational refinement

Insurance Central and Rest of Europe has put in place a regional IT organisation. The goal of the organisation is to deliver cost-effective and high-quality regional IT services mainly for IT infrastructure and for cross-border programmes such as Solvency II. The regional IT hub is based in Prague and will expand gradually, providing IT services to all insurance businesses in CRE.

A comprehensive analysis of underwriting processes was conducted on a regional level. It has led to the implementation of improvements to standardise and simplify processes, such as streamlining medical tests and improved medical application forms.

All ING's insurance businesses in the region shared best practices and continued to work on improving processes and IT, especially with regard to the region's priority to achieve growth, further improve the customer experience and broaden the distribution base. This resulted in, among other initiatives, improved portals in Romania with new functionality for customers and agents in the portfolio overview; electronic claims registration over the internet; electronic applications for changes to agent contracts in the Czech Republic; more efficient processes for welcome calls; and SMS and email progressively replacing letters and paper in some customer services in Spain.

Awards

ING CRE continually strives to improve customer satisfaction by incorporating customer feedback from the NPS programme in new products and services. In 2011, many businesses in the region were awarded prizes and special mentions in recognition of their customer-centric focus. ING's Smart life insurance product was considered to be the most transparent as well as the most innovative product in Slovakia in a study by market research company Market Vision, which specialises in competitive market intelligence in the region. In the Czech Republic, the Smart product won the Best Insurance Product of the Year 2011 in the Fincentrum Bank of the Year awards. Fincentrum is one of the Czech Republic's largest financial advice companies. In Poland, ING was awarded the "Friendly Life Insurance Company" title for the second year in a row by leading financial publication *Gazeta Bankowa*. The award recognises excellence in quality of service including claims handling and payouts.

CONCLUSIONS AND AMBITIONS

ING CRE expects continued growth in the region's life insurance and savings markets, but changes to pension regulations in several countries remain a concern and could dampen growth in the short-term. The businesses in the region will continue to improve the customer experience and customer retention levels as well as developing multiple distribution channels and pursuing product innovation to meet changing consumer demands. There will be continued focus on driving policy costs lower by building more scale while keeping expenses under control. Although the economic climate and regulatory environment remain uncertain, ING's leading positions and strong reputation in the marketplace augur well.

INSURANCE US

> Solid business performance
> Preparations continue for stand-alone future
> Focus remains on customers and distribution partners

Insurance US continued to make steady progress on its key objectives: improving business performance, focusing on customers and distribution partners and preparing to become an independent, stand-alone operation. Despite flat equity markets and record low interest rates presenting significant challenges for the business, ING US delivered strong overall operating results from its core retirement and insurance businesses.

FINANCIAL DEVELOPMENTS

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

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

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

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

New sales (APE) in full service retirement plans and individual life business generated strong growth in 2011. Overall APE declined 5.9%, reflecting the de-emphasis of Stable Value and Fixed Annuities, as Insurance US maintained its disciplined pricing and risk standards.

Insurance US also continued to de-risk its investment portfolio by shedding EUR 1.5 billion of subprime RMBS and CMBS exposure and reducing super senior CDS exposure by 67% in 2011. This was accomplished while Insurance US increased its risk-based capital ratio from 426% to approximately 488% during the year.

BUSINESS DEVELOPMENTS

In 2011, the business concentrated on tightening and focusing its business strategy, strengthening the capital position, containing expenses, and developing products and services to help individual and institutional customers accumulate and protect their wealth. Insurance US is a market leader in providing retirement and life insurance services and products.

Retirement

ING is the third largest provider of defined contribution (DC) retirement plans in the US based on assets under management and administration, and the second largest based on the number of retirement plans administered and participants served. In a Cogent research survey, 84% of employer plan clients surveyed rated ING favourably, more than any other of the 36 providers in the survey.

In the US, ING is one of the few providers of retirement services with a major presence in all industry sectors of the employer-sponsored retirement plan market. The business has more than six million retirement plan (defined contribution and defined benefit) participants and a major presence in the corporate, education, government and healthcare markets, with 55,000 institutions that have an ING-administered retirement plan. ING offers the full spectrum of retirement plans from full-service plans to record-keeping services only. It also offers retail solutions to help plan participants and individuals supplement their employer-sponsored retirement savings, consolidate their assets and later manage the transition from retirement investment to retirement income-generation.

ING offers fixed and indexed annuities as well as tax-qualified Individual Retirement Accounts (IRAs). These products can be tailored to meet individual retirement needs. ING's annuities appeal to a broad range of consumers seeking asset accumulation and income, including those rolling from defined contribution plans provided by ING as well as individuals seeking retirement income options through financial advisors.

During 2011, ING added several significant new retirement plan clients and retained others, including numerous states and municipalities, well-known colleges and universities, and household-name companies.

Making retirement easier

According to a study by the ING Retirement Research Institute in 2011, a majority of Americans, while highly valuing the opportunity to save for retirement via the workplace, find retirement planning confusing and difficult to understand, and are seeking assistance.

ING is dedicated to helping individuals make beneficial retirement decisions and encouraging them to take ownership of their retirement funding needs. It does this by providing advice, guidance and planning services.

In 2011, a number of initiatives were introduced to make retirement saving easier.

A programme was launched which allows employees to instantly enroll in their employer's DC plan using a hand-held or tablet device. Strong initial results demonstrate the effectiveness of this innovative enrolment strategy.

A new website, RetireWithING.com, which helps people make informed decisions about retirement saving and income planning and connects them with ING retirement professionals for additional guidance, was also introduced. The site uses clear language with minimal jargon and is part of ING's commitment to making retirement easier for people.

In 2011, Insurance US also developed a new in-plan retirement income solution, which was launched in January 2012 as part of workplace retirement plans for companies in the corporate sector. It helps participants incorporate income planning into their overall retirement plan investment strategy – and ultimately helps them generate a stream of guaranteed income at retirement.

ING Retirement Research Institute
Because successful retirement planning often begins with investment in an employer's retirement plan, the ING Retirement Research Institute (the Institute) creates and makes publicly available (at INGRetirementResearch.com) a wide range of studies and materials that help advisers and employers better meet the needs of their clients and employees. In 2011, the Institute introduced a number of such studies, designed to help improve understanding of participant behaviour and the efficacy of employer plans, including: *Public Pensions in Focus*, for government employers who face increasing scrutiny of their retirement systems; *Mapping the Participant Mindset*, a study which covers the basics on the emotional and psychological barriers to successful retirement investing; and *Shining a Brighter Light on Retirement*, which examines participant and employee expectations of their employers' retirement plans.

In 2011, ING received several awards for high quality communication and education about retirement plans from well-respected organisations such as the Insurance and Financial Communicator's Association, Pensions & Investments, the National Association of Governmental Defined Contribution Administrators, the Profit Sharing Council of America, MarCom and Dalbar.

Insurance
Insurance US is the second largest provider of term life insurance and the sixth largest provider of universal life insurance, according to LIMRA's third quarter 2011 rankings of companies participating in its survey. In addition, the company is the fifth largest provider of medical stop-loss insurance based on in-force premiums, excluding companies in the managed care market.

The life insurance business focuses on competitive product manufacturing, effective distribution and efficient operations. ING has a comprehensive portfolio of retail life insurance product solutions, complemented by its institutional group life business. In the retail market, it manufactures a range of products from low-cost term insurance for the middle income market through to high-end universal life products for the affluent markets. The business has a strong multi-channel sales team with the capacity to reach almost all licensed life insurance agents in the US. It has over 80,000 independent producers and more than 1,500 intermediaries under contract or appointment. Its distribution organisation has a best-in-class sales support and illustration system. This model has allowed ING's Individual Life business to generate significant scale and to become a major writer of permanent life insurance.

ING continues to see growth opportunities in both the term and universal life markets. In September, a new indexed universal life product was launched, which has been well received by the market and is showing strong growth opportunities.

In 2011, ING launched Life Illustration Express Mobile, an innovative, new tool that brokers and agents can use on their tablets and mobile devices. This technology makes it easier to instantly run illustrations and compare premium quotes for multiple term and universal life insurance products. This helps their clients make informed choices on coverage. ING's new Life Illustration Express Mobile leverages the latest advances in mobile and smartphone technology and allows agents to respond to their clients in real time with illustrations and quotes.

Professional Life Advisors Network (PLAN) has added ING as an approved core carrier. PLAN is composed of prominent life brokerage agencies across the US that help financial professionals to provide appropriate insurance strategies for complex personal, business and estate-planning issues.

Employee Benefits business grows
Insurance US also offers group life, disability and medical stop-loss insurance as well as voluntary benefits insurance products through its Employee Benefits business. These are provided through benefits brokers and consultants to companies and organisations looking to provide their employees with high quality benefits. Voluntary benefits products include Universal Life, Whole Life, Critical Illness, as well as Accident and Disability insurance products.

Employee Benefits has a strong position in the group life and stop-loss markets. A major initiative is under way to build up the online service capabilities for large group life customers as well as to continually refine the stop-loss product strategy to maintain ING's leadership position in this market. Product development work is well under way in the voluntary product lines to improve the competitiveness of our offerings to better meet the needs of the changing voluntary market.

More than six million Americans own an individual life insurance policy or are covered by one or more employee benefits offered through one of ING's companies in the US.

CONCLUSIONS AND AMBITIONS
With approximately 12 million account and policyholders, Insurance US has leading franchises in retirement, life insurance and investment management, and remains strongly committed to its strategy to become the premier franchise in our industry in the US. The business will remain focused on customers' needs and providing retirement, life insurance and investment products and solutions through a broad set of distribution channels.

ING will continue to develop and sell products that make sense for customers and distribution partners, but also make sense for the company. Insurance US intends to prudently invest capital in initiatives that help it grow while delivering an appropriate risk-adjusted return.

In general, Insurance US intends to focus on profitable sales growth, disciplined pricing, prudent expense management, efficient capital usage, and preparation for the future as a stand-alone company.

US CLOSED BLOCK VA

> EUR 1.1 billion charge against profits following assumptions review
> Assumptions now reflect volatility of recent years and its impact on US policyholder behaviour
> Interest rate risk reduced by hedge programmes

In 2009, ING decided to cease selling variable annuity policies with living benefits in the US. Since then, ING has taken decisive action to reduce risk, earnings volatility and expenses for this legacy book. These actions have included reducing deferred acquisition costs, strengthening reserves, expanding hedging programmes and increasing transparency by reporting the US Closed Block VA as a separate business alongside the ING Insurance US business.

FINANCIAL DEVELOPMENTS
As announced on 7 December 2011, the completion of a comprehensive policyholder behaviour assumption review for the US Closed Block VA led to a charge of EUR 1.1 billion in the fourth quarter of 2011, which resulted in a loss of EUR 1,273 million on an underlying result before tax basis in 2011. The assumptions were updated for lapses, mortality, annuitisation, and utilisation rates, with the most significant revision coming from the adjustments of lapse assumptions. The impact of the assumption adjustments includes a charge to restore the reserve adequacy to the 50% confidence level for the US Closed Block VA business.

The operating result for the US Closed Block VA was EUR 19 million versus EUR 49 million in 2010. The investment margin was EUR 28 million compared with EUR –11 million in 2010.

BUSINESS DEVELOPMENTS
The Closed Block Variable Annuity business in the US is closed to new business and is now being managed in run-off. There are more than 500,000 contract holders and more than USD 42 billion in assets under management. From October 2010, ING began to report the US Closed Block VA business as a separate business line to improve transparency for both the Closed Block and ongoing businesses.

On 1 January 2011, ING moved towards fair value accounting on reserves for the Guaranteed Minimum Withdrawal Benefit (GMWB) and consequently implemented changes to the hedging programme. These hedging changes substantially reduced exposure to movements in interest rates. The impact of the change in accounting policy is disclosed in the Annual Accounts section at the back of this Annual Report.

Also from the first quarter, a mean reversion methodology was implemented to determine the short-term equity growth assumption in the company's DAC calculations, reducing the sensitivity of the 'market and other impacts' result to movements in equity markets going forward. As of 31 December 2011, the DAC has been reduced to zero.

During the year, ING conducted an annual review of its actuarial assumptions for the business and, as stated in the Financial Developments section above, this resulted in a EUR 1.1 billion charge against profits.

The review showed current US policyholder behaviour for Closed Block VA policies sold predominantly between 2003 and 2009 diverged from earlier assumptions made by ING, particularly given the ongoing volatility and challenging market circumstances. The revisions in 2011 brought the assumptions more in line with US policyholder experience and reflected to a much greater degree the market volatility of recent years.

INSURANCE ASIA/PACIFIC

> Double-digit sales growth
> Customer-focused product innovation
> Distribution expansion through tied agents and bancassurance

Insurance Asia/Pacific (IAP) recorded strong performance in 2011. Double-digit sales growth was driven by improved tied agency productivity, new product launches and a strong multi-distribution platform. The business continues to focus on its strategic priorities and enhancing value by increasing the focus on protection and long-term savings products for customers.

FINANCIAL DEVELOPMENTS
The underlying result before tax of Insurance Asia/Pacific increased by 14.0% to EUR 588 million compared with EUR 517 million in 2010.

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

The investment margin rose by 37.7%, supported by an improved spread between interest earned on general account assets and interest credited to reserves in Japan and Hong Kong. This was partly offset by lower dividend income.

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

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

Life administrative expenses increased 3.2% to support business growth. They also increased due to project expenses. The ratio of administrative expenses to operating income fell from 27.3% in 2010 to 26.3% in 2011.

New sales (APE) increased by 11.8% driven by growth in Japan, Malaysia, Hong Kong and China.

BUSINESS DEVELOPMENTS
Asia, excluding Japan, continued to report favourable economic growth throughout 2011. This growth translated into life insurance premium growth in most Asian markets, although premium growth in India and China was held back by regulatory changes affecting unit linked insurance products and bancassurance arrangements. Going forward, we believe that low life insurance penetration and

rising per capita income will continue to favour life premium growth in emerging Asian markets.

According to internal estimates based on surveys, 82% of middle-income earners in Asia felt a greater need to protect their income and lifestyle in 2011. In addition, one out of every two respondents (52%) also indicated their intention to buy an additional insurance policy in the next 12 months to insure against any potential economic downturn. This augurs well for the future of insurance growth in Asia.

ING is well positioned to capture the increased need for insurance. IAP is a major foreign life insurer in Asia with nine insurance companies in seven markets: China, Hong Kong, South Korea, Japan, Malaysia, India and Thailand. In the region, IAP offers a wide range of insurance products varying from traditional whole life, universal life, endowment, unit-linked, Corporate Owned Life Insurance (Japan) as well as employee and health benefit products. IAP's distribution is mainly through tied agency channels, although bancassurance is rapidly becoming more important as well as direct channels and independent agents.

Strategic priorities

IAP's overarching strategic priority continues to be to strengthen its multi-distribution platform and to drive performance through customer-focused product innovation and country-specific growth strategies. The country-specific strategies are all gaining traction. For example, in South Korea, the tied agency channel improved productivity while new sales in KB Life were driven by rapid expansion of other distribution channels as well as continued strong performance in the bancassurance channel. In Japan, ING is working towards broadening its distribution channels and diversifying its product portfolio, while continuing to strengthen its leading position in the independent agency channel

In April 2011, ING, together with its strategic partners, Public Bank Berhad (PBB) and Public Islamic Bank Berhad (PIBB), launched a joint venture in Malaysia called ING Public Takaful Ehsan Berhad, which will develop Takaful insurance products. Takaful is life insurance that is compliant with Islamic law. The early product focus will be on mortgage insurance products, medical and investment-linked products. The establishment of this Takaful joint venture will enable ING Malaysia to consolidate its existing market position and benefit from growth in Takaful by leveraging its existing domestic infrastructure and the bancassurance relationship with PBB.

On 23 June 2011, IAP completed the sale of its 50% stake in its second life insurance joint venture in China, the Pacific Antai Life Insurance Company (PALIC) to focus on strengthening the partnership with Bank of Beijing.

Customer-focused product innovation

IAP continued to focus on product innovations to capture new market opportunities and to differentiate its product line to meet changing customer demands. For example, in Hong Kong, a life insurance product tailored for high net-worth customers was successfully launched. Another example is, in India, where a new child life insurance plan was developed for parents who need to plan for their children's education or marriage.

A new initiative called 'First! Think Customer', which introduced tools to the business units to assist them in better understanding customer behaviour, was first launched in the region in Malaysia. The programme aims to provide better service, improve cross-selling and retain existing customers.

Improving and expanding distribution

In 2011, IAP continued its efforts to further strengthen its multi-distribution platform. In the tied agency channel, the 'Orange Way of Life', is being promoted in the region around the theme of 'quality', which is designed to lift the standard of professionalism. These initiatives focused on the quality of the agents recruited, quality of the training and development given to agents, and the quality of advice and service given to customers.

In terms of bank relationships, IAP's preferred banking partners give access to more than 50 million customers and provide differentiated bancassurance products and services based on the banks' customers' needs. During 2011, IAP made further progress in strengthening key relationships, including ING Life Hong Kong's renewal of a distribution agreement with China Construction Bank (CCB) for another 10 years.

In addition, ING broadened its reach in China with the opening of a branch in Tianjin, the seventh branch of ING's Chinese life insurance joint venture (ING-BoB), and the first since the Bank of Beijing replaced Beijing Capital Group as a joint venture partner in 2010.

CONCLUSIONS AND AMBITIONS

Insurance Asia/Pacific is on track with its business ambitions and is making good progress on performance improvement initiatives. The business is pursuing its vision of creating a best-in-class company for its customers, employees, agents and distribution partners through customer-focused product innovation, expanding and improving distribution and improving operational efficiency.

Investment management

> Assets under management (AuM) of EUR 321.7 billion
> 72% of AuM above three-year benchmark
> Measures implemented to align with the divestment of Insurance/Investment Management

In 2011, ING Investment Management (ING IM) continued to enhance its investment capabilities. ING IM used its investment expertise and strengths in products and distribution to deliver best-in-class performance and services for its customers.

FINANCIAL DEVELOPMENTS

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

The underlying result before tax increased 36.0% to EUR 204 million and the operating result increased 34.2% to EUR 193 million. Both increases were largely attributable to higher fee income in line with the increase in assets managed.

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

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

BUSINESS DEVELOPMENTS

ING IM is the principal investment manager of ING Group with activities in Europe, Americas, Asia Pacific and the Middle East.

In preparation for the divestment of ING Insurance/IM, ING IM Europe & Asia and ING IM US have been operating on an arm's-length basis from 2011, sharing fees and leveraging global client relationships. These cross-selling relationships will continue and develop into preferred provider relationships to service clients with a full range of global solutions.

ING IM announced the divestments of ING IM Philippines at the end of 2010, and ING IM Australia in June 2011. The sale of ING IM Philippines was closed in March 2011 and the sale of ING IM Australia was completed in October 2011. These transactions were in support of ING's objective to manage its capital and portfolio of businesses in preparation for the divestment of the insurance and investment management business.

ING IM provides a wide variety of actively-managed strategies, investment vehicles and advisory services in all major asset classes and investment styles. It delivers a wide range of investment strategies and services to ING's global network of businesses and third-party clients.

IMPROVING PERFORMANCE

Despite the market circumstances, ING IM's performance has improved in all client categories: general account (ING Insurance), affiliated distribution (business sold via ING channels) and third-party retail and institutional.

In 2011, the percentage of ING IM's funds which have 3 stars or more from Morningstar fund ratings agency (in Europe and the US) improved to 73%, higher than the industry average of 68%.

FIXED INCOME STRATEGIES

Emerging Market Debt (EMD) continued to be one of the main focus points of ING IM's investment strategies. In 2011, ING IM strengthened its presence in the EMD asset class with the launch of the ING (L) Renta Emerging Markets Corporate Debt fund. This fund gives investors exposure to corporate debt investment opportunities in emerging countries.

ING IM has one of the longest EMD track records in the industry, managing EMD Hard Currency since 1993, EMD Local Currency since 1998 and EMD Corporate since 2003. In the second half of 2011, ING launched the ING Patrimonial Emerging Markets Debt Opportunities fund. This fund of funds structure provides access to a strategic but flexible mix of emerging market debt.

The Emerging Market Asian Debt team, which has been based in Hong Kong for the past few years, was consolidated with the existing fixed income team based in Singapore in October 2011 to pool expertise and strengthen operations.

In the Netherlands, ING IM broadened its core fixed income fund range with the launch of the ING Covered Bond Basis fund in April. Since its launch, the fund has recorded EUR 1.4 billion of inflows.

In Thailand, ING Funds Thailand's fixed income managers have been ranked in the Top 10 Most Astute Investors in the Asian Currency Bond sector by *The Asset* magazine for two consecutive years.

ING IM ASIA/PACIFIC

ING IM Asia/Pacific continued to focus on developing and launching emerging markets focused funds. It launched the first China leverage fund in South Korea and in Japan it launched the new ING Turkey Equity Fund, which along with the existing Indonesia Equity Fund, offer exposure to key non-BRIC emerging markets.

ING IM Asia/Pacific pitched for new business in the increasingly attractive market for government pension and sovereign wealth funds, and won, among others, an on-shore equity mandate from one of the largest government pension funds in Taiwan.

ING IM Asia/Pacific further developed distribution relationships. It commenced fund distribution through Citibank in Japan, which is a key strategic relationship partner for the business in Asia.

ING IM EUROPE

In the first half of the year, ING IM Europe won a mandate to provide an integrated client solution package to a major Dutch insurance company. This solution provides strategic asset allocation, risk monitoring and balance sheet analysis taking into account Solvency I and II requirements for life and non-life insurers. This solution is an asset management platform developed by ING IM Europe for tackling the challenges posted by the Solvency II directive for insurance companies.

ING IM continues to invest in best-in-class IT systems so that it can continue to operate effectively in dynamic and increasingly complex financial markets. In Europe, the business signed a contract to implement the BlackRock Aladdin IT platform system. The Aladdin platform combines different functional areas in one integrated platform, covering among other things, portfolio management, position keeping, risk management tooling, static data management, compliance set up, and trading. This system will further improve ING IM's capabilities to service new and existing clients, and it will enhance data quality of the data used. It will enable portfolio managers to concentrate more on delivering excellent investment performance.

ING IM US

In 2011, ING IM US continued to build strong long-term investment performance across all platforms despite market volatility, the eurozone crisis and the uncertainties of the US economic recovery.

The group also continued to deliver strong investment income results to the US General Account and added over USD 6 billion in net new assets in 2011 exclusive of market performance.

The collaboration with ING's US retirement businesses enhanced relationships with key pension consultants, plan sponsors and financial intermediaries. The work with the retirement and annuity businesses also resulted in the transition of more than USD 3 billion in assets from outside sub-advisers to ING IM managers. In addition, efforts continued to build and strengthen the Institutional and Intermediary distribution organisations in anticipation of increased activity in 2012.

ING IM US has organisationally realigned back into ING US while preserving strong commercial partnerships with ING IM in Europe and Asia. As part of the separation of ING IM into two businesses, IM US's Senior Loan platform team will open a London office. US based Pomona Capital will open offices in Hong Kong and Australia, while the US-run sections of the Emerging Market Equity and Emerging Market Debt investment teams will come under the direction of ING IM in Europe and Asia. Several late-year deals, finalised by the US-based Mortgage Investment Fund, sourced out of Asia, proved that the different parts of the organisation continued to work closely together during the separation process.

CONCLUSIONS AND AMBITIONS

In 2012, ING IM will continue to focus on delivering best-in-class performance and services for its customers.

On 12 January 2012, ING announced an update on the restructuring of the insurance and investment management businesses. Due to the uncertain economic outlook and volatile markets, especially in Europe, ING has decided to review other strategic options for its Asian Insurance and Investment Management businesses. Within ING IM, ING IM Europe, ING IM Asia/Pacific and ING IM US will continue to operate in partnership to ensure continued commercial collaboration and cross-selling arrangements among the regional ING IM businesses.

During this period of change, ING's investment management business will remain focused on delivering excellent service, generating superior returns and providing a broad range of products and investment solutions in a wide variety of asset classes for its clients.

Report of the Executive Board

The Corporate governance section starting on page 61 and the paragraphs of the Remuneration report 'Remuneration policy for senior management' and '2012 remuneration structure senior management' on page 85 are incorporated by reference in this Report of the Executive Board.

AMSTERDAM, 12 MARCH 2012
THE EXECUTIVE BOARD

Report of the Supervisory Board

The Supervisory Board and the Executive Board met for eight regular meetings and one additional meeting in 2011. The strategy, the progress in executing the Restructuring Plan of the European Commission as well as the impact of the sovereign debt crisis in the eurozone for the bank and the insurance/investment management (IM) operations were important topics on the agenda.
The Committees of the Supervisory Board discussed a range of subjects on which the Supervisory Board received information, the main ones being the quarterly results, risk management, corporate governance, the adjustments to the remuneration policy and human resources.

GENERAL

SUPERVISORY BOARD MEETINGS

The Supervisory Board met nine times in 2011 of which eight meetings were regular meetings. On average, 94% of the Supervisory Board members were present at the scheduled meetings. Apart from closely monitoring the financial results in 2011, the Supervisory Board also frequently discussed the strategy, the progress in executing the restructuring plan of the European Commission (EC) including the preparation of the initial public offerings (IPOs) for Insurance EurAsia and Insurance US as well as the repayment to the Dutch State. In the second half of 2011 the sovereign debt crisis in the eurozone and the impact on the banking and insurance businesses were also important topics on the agenda.

During the annual Supervisory Board Knowledge Day in January 2011 presentations were given on regulatory developments in Europe and the US, the implementation of Basel III and the measures ING has taken to improve its duty of care towards customers. Furthermore, several educational sessions on specific topics were organised for the Supervisory Board during the year.

Also in January, the Supervisory Board held its annual full-day meeting on ING's strategy including the further execution of the EC restructuring plan, as well as the medium-term plan (MTP) and related risks. The medium-term plan addresses the plans and the financial and non-financial targets for the bank and the insurance businesses and for the Group as a whole. The Supervisory Board discussed the strategic ambitions for ING Bank, ING Insurance/IM and ING Group while taking into account the regulatory changes, the economic developments, the emerging sovereign debt crisis in the eurozone, the execution of the EC restructuring plan and the intended repayment to the Dutch State. The Supervisory Board approved the medium-term plans and the proposed strategic directions for ING Bank, ING Insurance/IM as well as for ING Group.

The 4Q 2010 and the 2010 annual figures were discussed in February, including the related reports from the external auditors and the assessment of the Executive Board of the adequacy and effectiveness of ING's risk management and control systems. The Supervisory Board was informed that the operational separation of ING Bank and Insurance/IM was completed and various measures had been taken in preparation for the two IPOs. The Supervisory Board was also updated on potential divestment options, discussed the intended repayment to the Dutch State in May 2011 and supported a proposal not to make funds available for indexation for the pension fund. The draft agenda of the annual General Meeting was discussed and approved, including the proposal to amend the Articles of Association of ING Groep N.V. and the publication on the application of the Dutch Banking Code. The investor feedback on ING's performance over 2010 was presented to the Supervisory Board.

The successive quarterly figures of 2011 were discussed in May, August and November, respectively. The Annual Accounts and the SOX 404 sign-off were approved in March. The 2011 General Meeting was evaluated in May.

In May, the Supervisory Board discussed the impact on employees, customers and the public in general as a result of the public debate about the decision of the Executive Board not to accept variable remuneration for 2010 and decided to address this issue at the General Meeting. The Supervisory Board was updated on the preparation for the IPOs and the divestment intentions. The Supervisory Board approved the amended Group decision structure in which the empowerment of the boards of Insurance EurAsia and Insurance US was reflected. A presentation was given on the developments within ING Real Estate in the second half of 2010 and the expected developments for the first half of 2011.

In June, the key timelines for the Insurance EurAsia and the Insurance US IPOs were discussed. Several divestment transactions were proposed and the Supervisory Board mandated the Executive Board to execute those transactions within the terms and conditions approved. The Supervisory Board was also updated in detail on the progress of the divestment of ING Direct USA and the subsequent restructuring of the Illiquid Assets Back-up Facility (IABF) agreement with the Dutch State. The Supervisory Board approved the proposed divestment of ING Direct USA and mandated the Executive Board to finalise the transaction within the terms and conditions approved by the Supervisory Board.

In August, the Supervisory Board was informed that the preparation for the Insurance EurAsia and the Insurance US IPOs and the expected divestments were on track. The Supervisory Board was informed on the hearing of ING before the European Court regarding the EC restructuring agreement case. An update of the transformation plan ING Belgium was presented.

In September, the Supervisory Board visited the insurance and banking businesses in Madrid, Spain. During this visit the Supervisory Board was informed extensively on the various operations of ING in Spain and met with clients and national authorities. Furthermore, the Supervisory Board approved the first phase in the legal restructuring of Insurance in preparation of the envisaged IPOs.

Given the new regulatory and changing economic environment, a first framework for an adjusted business plan for ING Bank and ING Insurance/IM in the Netherlands was presented to the Supervisory Board in September followed by a final business plan for ING Bank and ING Insurance/IM in November. The Supervisory Board approved both business plans in its November meeting. In December, the Supervisory Board met to discuss the first outline of the Medium Term Plan for 2012–2015 as well as possible changes to the strategy including alternatives for an IPO of EurAsia.

During the internal meetings of the Supervisory Board – which the CEO joined, except when the annual evaluation of the Supervisory Board was tabled or the performance of the CEO was discussed – the Executive Board 2010 performance assessments and the CEO performance objectives for 2011 were approved. The main topic during the year was succession planning as well as the possible changes to the ING remuneration policy following the Capital Requirements Directive III (CRD III) regulation and the *Regeling beheerst beloningsbeleid* (Rbb, regulation on controlled remuneration policy). In May, the Supervisory Board reviewed the discussions on the Executive Board remuneration in Dutch society. In September, the Dutch central bank (DNB) requirements to implement a global remuneration framework were discussed and approved, with some issues still under discussion. In September, the implementation of a new joint rule of the AFM (the Netherlands Authority for the Financial Markets) and DNB on expertise requirements for Supervisory Board members was discussed followed by approval of a Supervisory Board nomination procedure in November. The Supervisory Board decided on the nomination of new candidates for the Supervisory Board in November and approved the remuneration framework for ING Group as well as the format for the 2011 Supervisory Board self assessment. An external consultant advised on the self-assessment procedure and drafted the various questionnaires as well as the report based on the outcome of the questionnaires. The assessment of the Supervisory Board, its committees and its members was conducted in December 2011 through questionnaires and bilateral meetings between the chairman and each Supervisory Board member. The self assessment resulted in action points concerning the meeting documents, the structure and organisation of the meetings, contacts with senior management and HR topics.

Audit Committee meetings

In 2011 the Audit Committee met five times, with one absentee once, to discuss the annual and quarterly results, the annual US GAAP results and the reports from the external auditor.

The exposures on the Southern European countries, and more specifically the restructuring and impairment of Greek government bonds, were a topic of frequent debate during the year. Cost development within ING, as well as management actions concerned, were discussed several times during the year.

Next to financial reporting, the Audit Committee also discussed topics such as internal controls over financial reporting, the implementation of a new payments control framework for commercial payments, capital management and regulatory matters.

In November, a proposal for evaluation of the performance of the external auditor Ernst & Young was discussed. The results of this evaluation were discussed in the February 2012 Audit Committee meeting.

Directly following the Audit Committee meetings, the members of the Audit Committee met with the internal and external auditors to confirm that all relevant topics were discussed in the Audit Committee meeting.

Risk Committee meetings

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

Nomination Committee meetings

The Nomination Committee met four times in 2011, with one absentee once, to discuss the future composition of the Supervisory Board as well as the succession planning of the Executive Board and the Management Boards. The Nomination Committee discussed various appointments in the Management Boards Banking and Insurance as well as the nomination of a candidate for the Executive

Board which were publicly announced in October. The Nomination Committee advised positively on a number of Supervisory Board candidates for appointment in the 2012 annual General Meeting. The Nomination Committee advised positively on the proposed Supervisory Board Nomination Procedure.

Remuneration Committee meetings
In 2011, the Remuneration Committee met seven times, with twice one absentee. In February, the 2010 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 advised positively on the 2010 variable remuneration pools and reviewed the individual compensation proposals for the Board members and identified staff. After the publication of the variable remuneration of the Executive Board in the 2010 Annual Report, the Committee discussed the public reaction on the Executive Board variable remuneration at various occasions. The proposed 2011 performance objectives for the CEO were decided upon as well. The impact of the new EU Capital Requirements Directive III and the regulation on controlled remuneration policy was discussed throughout the year, resulting in positive advice on the proposed remuneration frameworks and implementation plans for ING Group, ING Bank and Insurance EurAsia in September, taking into account that some issues are still under discussion.

Corporate Governance Committee meetings
The Corporate Governance Committee met twice in 2011 and one member was absent once. In February, the Corporate Governance Committee discussed the agenda for the 2011 annual General Meeting, including the publication on the application of the Dutch Banking Code by ING Bank N.V. In November, the Committee advised to approve the proposed governance structure for Insurance and discussed the implementation of the Dutch Insurance Code within Insurance.

COMPOSITION OF THE EXECUTIVE BOARD AND THE MANAGEMENT BOARDS

As of 1 October 2011, Eric Boyer de la Giroday retired from the Management Board Banking as vice-chairman. Koos Timmermans succeeded him as vice-chairman Management Board Banking and stepped down from his roles as chief risk officer and member of the Executive Board of ING Group and as member of the Management Board Insurance as of 1 October 2011. Koos Timmermans was succeeded by Wilfred Nagel, who was appointed chief risk officer and member of the Management Board Banking and Management Board Insurance per 5 October 2011. The Supervisory Board also nominated Wilfred Nagel as member of the Executive Board and chief risk officer of ING Group for decision at the annual General Meeting in May 2012. Until that moment, Patrick Flynn (CFO of ING Group) has assumed the responsibility for Risk at ING Group level.

COMPOSITION OF THE SUPERVISORY BOARD AND ITS COMMITTEES

Claus Dieter Hoffmann retired from the Supervisory Board at the end of the annual General Meeting in May 2011. Joan Spero stepped down from the Supervisory Board for personal reasons on 27 May 2011. Sjoerd van Keulen, Joost Kuiper and Luc Vandewalle were appointed to the Supervisory Board on 9 May 2011.

Following the annual General Meeting, Jeroen van der Veer succeeded Peter Elverding as chairman of the Supervisory Board and became chairman of the Nomination Committee. Peter Elverding became chairman of the Remuneration Committee and was appointed vice-chairman. Joost Kuiper joined the Audit Committee, taking over the chair from Jeroen van der Veer, who had temporarily chaired this committee, and became a member of the Risk Committee. Luc Vandewalle joined the Audit Committee and the Risk Committee as well. Sjoerd van Keulen became a member of the Risk Committee and the Remuneration Committee. Piet Klaver succeeded Peter Elverding as chairman of the Risk Committee and Henk Breukink succeeded Peter Elverding as chairman of the Corporate Governance Committee. Please see page 8 for the current composition of the Supervisory Board Committees.

The Supervisory Board has nominated three candidates for appointment at the 2012 General Meeting: Yvonne van Rooy, Jan Holsboer and Robert Reibestein. For the proposed appointments approval has been obtained from DNB.

Information on the members of the Supervisory Board is provided on pages 70–71.

Currently, only one Supervisory Board member, Luc Vandewalle qualifies as 'non-independent' as defined in best practice provision III.2.1 of the Dutch Corporate Governance Code. Mr. Vandewalle is considered to be not independent, because of his previous position at ING Bank Belgium.

ANNUAL ACCOUNTS AND DIVIDEND

The Executive Board has prepared the Annual Accounts and discussed these with the Supervisory Board. The Annual Accounts will be submitted for adoption at the 2012 General Meeting as part of the Annual Report. ING will not propose to pay a dividend over 2011 at the 2012 annual General Meeting.

APPRECIATION FOR THE EXECUTIVE BOARD AND ING EMPLOYEES

The Supervisory Board would like to thank the members of the Executive Board and the Management Boards for their continued commitment to ING in 2011. During 2011 decisive steps were taken in executing the EC restructuring agreement. The Supervisory Board would also like to thank the over 97,000 employees of ING who have continued to serve customers with their best efforts and made a large contribution to ING's results in the past year.

ADDITIONAL INFORMATION

For more information, see the section on Corporate governance (pages 61–72) and the Remuneration report (pages 80–87), which are deemed to be incorporated by reference here.

AMSTERDAM, 12 MARCH 2012
THE SUPERVISORY BOARD

Corporate governance

This section discusses the application by ING Groep N.V. ('ING Group') of the Dutch Corporate Governance Code effective as from 1 January 2009 ('Corporate Governance Code') and provides information on the share capital and control, the Executive Board, the Supervisory Board and the external auditor.

This section, including the parts of this Annual Report incorporated by reference, together with the separate publication 'ING's implementation of the Dutch Corporate Governance Code' dated April 2010, on the website of the Company (www.ing.com), also serves as the 'corporate governance statement' referred to in section 2a of the Decree with respect to the contents of the annual report (*Besluit tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag*).[1]

RECENT DEVELOPMENTS

LEGISLATIVE AND REGULATORY DEVELOPMENTS

On 6 June 2011, the bill on management and supervision (*wet aanpassing regels bestuur en toezicht in naamloze en besloten vennootschappen*) was enacted. In anticipation of that bill coming into force, a proposal to align the articles of association of ING Group will be submitted to the 2012 annual General Meeting. Also, the Governance Principles (*Insurers' Code*), adopted by the Dutch Association of Insurers became effective on 1 January 2011. For more information, please refer to the paragraph 'Corporate Governance Codes' starting on page 62.

In addition, several legislative proposals with corporate governance implications were under discussion, or were adopted, in 2011 by the Lower House of the Dutch Parliament, or were under discussion in the Upper House of the Dutch Parliament. These proposals concern, among other things, the bill on revision and claw back of executive bonuses and profit-sharing of directors (*wetsvoorstel aanpassing en terugvordering van bonussen en winstdelingen van bestuurders en dagelijks beleidsbepalers*), the bill on the limitation of liability of supervisors of financial markets and the rules on executive bonuses of directors of financial institutions receiving financial assistance by the Dutch government (*wetsvoorstel in verband met het invoeren van een aansprakelijkheidsbeperking voor de toezichthouders op de financiële markten en het opnemen van regels met betrekking tot de beloning van bestuurders van financiële ondernemingen die staatssteun genieten*) and the bill on corporate investigation proceedings (*wetsvoorstel in verband met de aanpassing van het recht van enquête*).

TRANSACTIONS WITH THE DUTCH STATE

On 12 November 2008, ING Group issued one billion core Tier 1 securities ('Securities') for a total consideration of EUR 10 billion to the Dutch State. Following the repurchase of 500 million Securities on 21 December 2009 and the repurchase of 200 million Securities on 13 May 2011, another 300 million of Securities representing EUR 3 billion remain outstanding. The Securities do not form part of ING Group's share capital; accordingly they do not carry voting rights in the General Meeting. The financial entitlements of the Securities are described in note 33 to the consolidated annual accounts.

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

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

These arrangements entail, among other things, that the Dutch State may recommend two candidates ('State Nominees') for appointment to the Supervisory Board. Certain decisions of the Supervisory Board require approval of the State Nominees (these decisions are specified in the section on the Supervisory Board on page 68).

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

Furthermore, in line with these arrangements a sustainable remuneration policy for the Executive Board and Senior Management was introduced in 2010, which contains certain specific arrangements in relation to the remuneration of members of the Executive Board.

For more information on the State Nominees, please refer to the section on the Supervisory Board; for more information on ING's remuneration policy, please refer to the Remuneration report, starting on page 80.

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

During the years 2008–2011, participation of shareholders, excluding the ING Trust Office, and depositary-receipt holders in annual General Meetings consistently increased from 38.7% to 47.1%. Only the extraordinary General Meeting of 25 November 2009 showed a deviation from this trend with a markedly lower turnout of 31.1%.

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

CORPORATE GOVERNANCE CODES

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For its corporate governance structure and practices, ING Group uses the Corporate Governance Code as reference. The Corporate Governance Code can be downloaded from the website of the Monitoring Commission Dutch Corporate Governance Code (www.commissiecorporategovernance.nl/Corporate_Governance_Code).

The application of the Corporate Governance Code by ING is described in the publication 'ING's implementation of the Dutch Corporate Governance Code', dated April 2010, on the website of the Company (www.ing.com), which is to be read in conjunction with this section and is deemed to be incorporated into this section.

DUTCH BANKING CODE

The Banking Code is applicable to ING Bank N.V. and not to ING Group. The Banking Code can be downloaded from the website of the Dutch Banking Association (www.nvb.nl). The principles of the Banking Code as a whole are considered as a reference by ING Bank N.V. and their application is described in the publication 'Application of the Dutch Banking Code by ING Bank N.V.' available on the website of the Company (www.ing.com). ING Group voluntarily applies the principles of the Banking Code regarding remuneration with respect to the members of its Executive Board, and considers these principles as a reference for its own corporate governance. ING Group's remuneration policy for the Executive Board and Senior Management is in agreement with these principles.

DUTCH INSURERS' CODE

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

DIFFERENCES BETWEEN DUTCH AND US CORPORATE GOVERNANCE PRACTICES

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

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

- ING Group has a two-tier board structure, in contrast to the one-tier board structure used by most US companies. In the Netherlands, a public limited liability company (naamloze vennootschap) has an Executive Board as its management body and a Supervisory Board which advises and supervises the Executive Board. In general, members of the Executive Board are employees of the company while members of the Supervisory Board are often former state or business leaders and sometimes former members of the Executive Board. Members of the Executive Board and other officers and employees cannot simultaneously be a member of the Supervisory Board. The Supervisory Board must approve specified decisions of the Executive Board. Under the Corporate Governance Code, all members of the Supervisory Board with the exception of not more than one person, should be independent. All members of ING Group's Supervisory Board, with the exception of Luc Vandewalle, are independent within the meaning of the Corporate Governance Code. The definitions of independence under the Corporate Governance Code, however, differ in their details from the definitions of independence under the NYSE listing standards. In some cases the Dutch requirements are stricter and in other cases the NYSE listing standards are the stricter of the two. The Audit Committee, Risk Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee of ING Group are comprised of members of the Supervisory Board.
- In contrast to the Sarbanes-Oxley Act of 2002, the Corporate Governance Code contains an 'apply-or-explain' principle, offering the possibility to deviate from the Corporate Governance Code as long as any such deviations are explained. To the extent that such deviations are approved by the General

Meeting, the company is deemed to be in full compliance with the Corporate Governance Code.
- Dutch law requires that the company's external auditors be appointed at the general meeting and not by the Audit Committee.
- The articles of association of ING Group ('Articles of Association') provide that there are no quorum requirements to hold a general meeting, although certain shareholder actions and certain resolutions may require a quorum.
- The shareholder approval requirements for equity compensation plans under Dutch law and the Corporate Governance Code differ from those applicable to US companies which are subject to the NYSE's listing rules. Under Dutch company law and the Corporate Governance Code, shareholder approval is only required for equity compensation plans (or changes thereto) for members of the Executive Board and Supervisory Board, and not for equity compensation plans for other groups of employees.

CAPITAL AND SHARES

CAPITAL STRUCTURE, SHARES

The authorised capital of ING Group consists of ordinary shares and cumulative preference shares. Currently, only ordinary shares are issued, while a call option to acquire cumulative preference shares has been granted to ING Continuity Foundation (Stichting Continuïteit ING). The acquisition of cumulative preference shares pursuant to the call option is subject to the restriction that, immediately after the issue of cumulative preference shares, the total amount of cumulative preference shares outstanding may not exceed one-third of the total issued share capital of ING Group (see page 10). The purpose of the call option is to protect the independence, the continuity and the identity of ING Group against influences which are contrary to the interests of ING Group, its enterprise and the enterprises of its subsidiaries and all stakeholders (including, but not limited to, hostile takeovers). The ordinary shares are not used for protective purposes. The ordinary shares, which are all registered shares, are not listed on a stock exchange.

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

For more information on ING Continuity Foundation, see page 76.

DEPOSITARY RECEIPTS

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

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

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

The Board of ING Trust Office reports on its activities through an annual report, which has been included on pages 73–75.

ISSUANCE OF SHARES

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

Share issues are to be decided by the General Meeting, which may also delegate its authority. Each year, the General Meeting is asked to delegate authority to the Executive Board to issue new ordinary shares or to grant rights to subscribe for new ordinary shares, both with and without pre-emptive rights for existing shareholders. The powers delegated to the Executive Board are limited:
- in time: powers are delegated for a period of 18 months;
- by number: insofar as sufficient unissued ordinary shares are available in the authorised capital, ordinary shares may be issued up to a maximum of 10% of the issued share capital, or, in the event of a merger or takeover or to safeguard or conserve the capital position of the Company, up to a maximum of 20% of the issued capital; and
- in terms of control: resolutions by the Executive Board to issue shares require the approval of the Supervisory Board.

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

The purpose of this delegation of authority is to allow the Company to respond promptly to developments in the financial markets. Without such delegation, if the Company wished to issue new shares, there would be an increased risk that conditions in the financial markets may have changed during the time needed for convening a general meeting, especially as the statutory convocation period was extended to 42 days. In view of the importance of flexibility with respect to the issue of shares, the Executive Board and the Supervisory Board will periodically evaluate the delegation of authority to issue shares and, if necessary, make adjusted proposals to the General Meeting.

TRANSFER OF SHARES AND DEPOSITARY RECEIPTS AND TRANSFER RESTRICTIONS

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

REPURCHASE OF SHARES

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

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

SPECIAL RIGHTS OF CONTROL

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

SHAREHOLDERS' STRUCTURE

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

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

INVESTOR RELATIONS AND BILATERAL CONTACTS WITH INVESTORS

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

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

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

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

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

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

ING Group may decide not to accommodate or accept any request or invitation for entering into a dialogue with (potential) investors, or to accommodate or accept such request or invitation under certain conditions.

ING Group is actively covered by approximately 25 analysts who frequently issue reports on the company. A list of these analysts can be found within the Investor Relations section of the company website. During 2011, ING Group did not provide any form of compensation to parties that are directly or indirectly involved with the production or publication of analysts' reports, with the exception of credit-rating agencies.

ING Group presented at seven industry conferences throughout the course of the year. In total, there were 364 meetings (including conference calls) with institutional investors and/or analysts. Combined, conference presentations and face-to-face meetings with investors and/or analysts took place in 32 different cities across the globe. In 2011, ING Group did not host any Investor Days.

The geographical distribution of ING Group's investor base is diverse – an estimated 48% of shares outstanding are held in the US, 30% in the Benelux, 18% in the UK, 1% in Switzerland and 3% in the rest of the world. Please refer to the 'ING share' chapter for more details.

GENERAL MEETING

FREQUENCY, NOTICE AND AGENDA OF GENERAL MEETINGS

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

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

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

PROPOSALS BY SHAREHOLDERS AND HOLDERS OF DEPOSITARY RECEIPTS

Proposals to include items on the agenda for a general meeting that have been adequately substantiated under applicable Dutch law can be made by shareholders and holders of depositary receipts representing a joint total of at least 0.1% of the share capital or representing together, on the basis of the stock prices on Euronext Amsterdam by NYSE Euronext, a share value of at least EUR 50 million. Given the periods of notice required for proxy voting, proposals have to be submitted in writing at least 60 days before the date of the meeting. Properly submitted proposals will be included on the agenda for the general meeting.

DIALOGUE WITH SHAREHOLDERS AND HOLDERS OF DEPOSITARY RECEIPTS

In 2011, shareholders and holders of depositary receipts were allowed to ask questions about items on the agenda for the annual General Meeting and they will similarly be allowed to do so in 2012. Shareholders and holders of depositary receipts can visit the website of ING Group (www.ing.com) to submit their questions.

RECORD DATE

Pursuant to Dutch law, the record date for attending a general meeting and voting on the proposals in that general meeting is the twenty-eighth day before the day of the general meeting.

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

ATTENDING GENERAL MEETINGS

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

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

VOTING RIGHTS ON SHARES

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

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

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

The following restrictions apply in respect of grants of voting proxies to holders of depositary receipts by ING Trust Office:

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

VOTING INSTRUCTIONS OF HOLDERS OF DEPOSITARY RECEIPTS TO ING TRUST OFFICE

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

ING Trust Office has made it easier for votes to be cast this way by putting arrangements in place for proxy voting and e-voting.

VOTING ON THE ORDINARY SHARES BY ING TRUST OFFICE

ING Trust Office has discretion to vote in respect of shares for which it has not issued voting proxies to holders of depositary receipts and has not received any voting instructions.

According to its articles of association and the Trust Conditions, ING Trust Office is guided primarily by the interests of the holders of depositary receipts, taking into account the interests of ING Group and its affiliated enterprises.

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

PROXY VOTING FACILITIES

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

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

MAIN POWERS OF THE GENERAL MEETING

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

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

Moreover, the approval of the General Meeting is required for Executive Board decisions that would be considered to greatly change the identity or nature of ING Group or its enterprise. This includes resolutions to transfer or otherwise assign all or substantially all of the enterprise of ING Group or its subsidiaries as a consequence of which such resolutions ING Group or the group of companies over which ING Group exercises control would cease to engage in either insurance or banking activities.

REPORTING

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

EXECUTIVE BOARD

APPOINTMENT AND DISMISSAL

Members of the Executive Board are appointed by the General Meeting from a binding list to be drawn up by the Supervisory Board. The list will be rendered non-binding if a resolution of the General Meeting to that effect is adopted by an absolute majority of the votes cast which majority represents more than one-third of the issued share capital. Candidates for appointment to the Executive Board must comply with the expertise and reliability requirements set out in the Dutch Financial Supervision Act.

Pursuant to current Dutch law, this list is to mention at least two candidates for each vacancy, and if not, the list will be non-binding. With respect to the second candidate, ING Group's policy is to propose (retired) senior managers or other high ranking officers who, in view of the forthcoming abolition of this requirement, do not have to meet the requirements of the Executive Board Profile.

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

FUNCTION OF THE EXECUTIVE BOARD

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

PROFILE OF MEMBERS OF THE EXECUTIVE BOARD

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

REMUNERATION AND SHARE OWNERSHIP

Members of the Executive Board are permitted to hold shares and depositary receipts for shares in the share capital of ING Group for long-term investment purposes. Transactions by members of the Executive Board in these shares and these depositary receipts for shares are subject to the ING regulations for insiders. These regulations are available on the website of ING Group (www.ing.com). Details of the remuneration of members of the Executive Board, including shares and/or option rights granted to them, together with additional information thereto, are provided in the Remuneration report, starting on page 80.

ANCILLARY POSITIONS/CONFLICTING INTERESTS

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

TRANSACTIONS INVOLVING ACTUAL OR POTENTIAL CONFLICTS OF INTEREST

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

Significant conflicting interests are considered to be absent and are not reported if a member of the Executive Board obtains financial products and services, other than loans, which are provided by ING Group subsidiaries in the ordinary course of their business on terms that apply to all employees. In connection with the foregoing, 'loans' does not include financial products in which the granting of credit is of a subordinated nature, e.g. credit cards and overdrafts in current account, because of a lack of materiality (for an overview of loans granted to members of the Executive Board see page 84).

INFORMATION ON MEMBERS OF THE EXECUTIVE BOARD

JAN H.M. HOMMEN, CHIEF EXECUTIVE OFFICER

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

PATRICK G. FLYNN, CHIEF FINANCIAL OFFICER

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

CHANGES IN THE COMPOSITION

Koos Timmermans was appointed vice-chairman of the Management Board Banking as of 1 October 2011. Considering his new role, he stepped down as chief risk officer and member of the Executive Board of ING Group as per the same date. The Supervisory Board intends to propose that Wilfred F. Nagel (born 1956, Dutch nationality, male) be appointed as a member of the Executive Board and chief risk officer of ING Group at the annual General Meeting on 14 May 2012. From 1 October 2011 until the appointment of Wilfred Nagel, Patrick Flynn has assumed the responsibility for Risk at ING Group level.

SUPERVISORY BOARD

APPOINTMENT AND DISMISSAL

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

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

In connection with the issue of the Securities to the Dutch State, ING Group and the Dutch State agreed that the Dutch State may recommend candidates for appointment to the Supervisory Board in such a way that upon appointment of all recommended candidates by the General Meeting, the Supervisory Board would comprise two State Nominees among its members. The Dutch State may recommend a Supervisory Board member already in office.

The recommendation right of the Dutch State is subject to applicable law and to corporate governance practices, generally accepted under stock exchange listing regimes applicable to ING Group and continues as long as the Dutch State holds at least 250 million Securities, or as long as the IABF continues (whichever occurs last). Should the holding of the Dutch State decrease below 250 million Securities and the IABF have expired, the State Nominees will remain in office and complete their term of appointment.

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

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

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

FUNCTION OF THE SUPERVISORY BOARD

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

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

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

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

PROFILE OF MEMBERS OF THE SUPERVISORY BOARD

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

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

After being appointed to the Supervisory Board, a former member of the Executive Board may also be appointed to one of the Supervisory Board's committees. However, appointment to the position of chairman of a committee is only possible if the individual in question resigned from the Executive Board at least four years prior to such appointment.

TERM OF APPOINTMENT OF MEMBERS OF THE SUPERVISORY BOARD

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

ANCILLARY POSITIONS/CONFLICTING INTERESTS

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

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

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

TRANSACTIONS INVOLVING ACTUAL OR POTENTIAL CONFLICTS OF INTEREST

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

Significant conflicting interests are considered to be absent in case of a relationship that a member of the Supervisory Board may have with ING Group subsidiaries as an ordinary, private individual, with the exception of any loans that may have been granted (for an overview of loans granted to members of the Supervisory Board see page 87).

INDEPENDENCE

Annually, the members of the Supervisory Board are requested to assess whether the criteria of dependence set out in the Corporate Governance Code do not apply to them and to confirm this in writing. On the basis of these criteria, all members of the Supervisory Board, with the exception of Luc Vandewalle, are to be regarded as independent on 31 December 2011. Luc Vandewalle is not to be regarded as independent because of his former position at ING Belgium. Members of the Supervisory Board to whom the independence criteria of the Corporate Governance Code do not apply, and members of the Supervisory Board to whom the criteria do apply but who can explain why this does not undermine their independence, are deemed to be independent.

COMPANY SECRETARY

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

COMMITTEES OF THE SUPERVISORY BOARD

On 31 December 2011, the Supervisory Board had five standing committees: the Audit Committee, the Risk Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee.

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

The Audit Committee assists the Supervisory Board in monitoring the integrity of the financial statements of ING Group, ING Verzekeringen N.V. and ING Bank N.V., in monitoring the compliance with legal and regulatory requirements and in monitoring the independence and performance of ING's internal and external auditors. On 31 December 2011, the members of the Audit Committee were: Joost Kuiper (chairman), Tineke Bahlmann, Henk Breukink, Aman Mehta and Luc Vandewalle.

The Supervisory Board has determined that Sjoerd van Keulen, Joost Kuiper and Aman Mehta are financial experts as referred to in the Corporate Governance Code. Joost Kuiper and Aman Mehta were appointed to the Audit Committee per 9 May 2011 and 14 February 2011, respectively. Sjoerd van Keulen was appointed to the Risk Committee per 9 May 2011.

Sjoerd van Keulen and Joost Kuiper are considered by the Supervisory Board as financial experts due to their broad experience in the banking and insurance business and the Dutch financial sector while Aman Mehta has gathered his experience by serving as chief executive officer of Hong Kong & Shanghai Banking Corporation (HSBC) in Hong Kong.

The Risk Committee assists and advises the Supervisory Board in monitoring the risk profile of ING as a whole as well as the structure and operation of the internal risk management and control systems. On 31 December 2011, the members of the Risk Committee were: Piet Klaver (chairman), Tineke Bahlmann, Sjoerd van Keulen, Joost Kuiper, Luc Vandewalle and Jeroen van der Veer.

The Remuneration Committee advises the Supervisory Board, among other things, on the terms and conditions of employment (including remuneration) of the members of the Executive Board and on the policies and general principles on which the terms and conditions of employment of the members of the Executive Board and of senior managers of ING and its subsidiaries are based. On 31 December 2011, the members of the Remuneration Committee were: Peter Elverding (chairman), Sjoerd van Keulen, Piet Klaver, Jeroen van der Veer and Lodewijk de Waal.

The Nomination Committee advises the Supervisory Board, among other things, on the composition of the Supervisory Board and Executive Board. On 31 December 2011, the members of the Nomination Committee were: Jeroen van der Veer (chairman), Peter Elverding, Sjoerd van Keulen, Piet Klaver and Lodewijk de Waal.

The Corporate Governance Committee assists the Supervisory Board in monitoring and evaluating the corporate governance of ING as a whole and the reporting thereon in the Annual Report and to the General Meeting and advises the Supervisory Board on improvements. On 31 December 2011, the members of the Corporate Governance Committee were: Henk Breukink (chairman), Aman Mehta, Jeroen van der Veer and Lodewijk de Waal.

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

REMUNERATION AND SHARE OWNERSHIP

The remuneration of the members of the Supervisory Board is determined by the General Meeting and is not dependent on the results of ING Group. Details of the remuneration are provided in the Remuneration report on pages 86 and 87. Members of the Supervisory Board are permitted to hold shares and depositary receipts for shares in the share capital of ING Group for long-term investment purposes. Details are given on page 87. Transactions by members of the Supervisory Board in these shares and these depositary receipts for shares are subject to the ING regulations for insiders. These regulations are available on the website of ING Group (www.ing.com).

INFORMATION ON MEMBERS OF THE SUPERVISORY BOARD

JEROEN VAN DER VEER (CHAIRMAN)

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

PETER A.F.W. ELVERDING (VICE-CHAIRMAN)

(*Born 1948, Dutch nationality, male; appointed in 2007, term expires in 2015*)
Former chairman of the Managing Board of Directors of Koninklijke DSM N.V. Former vice-chairman of the Supervisory Board of De Nederlandsche Bank N.V. (Dutch central bank).
Other business activities: chairman of the Supervisory Board of Océ N.V. and chairman of the Supervisory Board of Koninklijke BAM Groep N.V. (listed companies). Vice-chairman of the Supervisory Board of SHV Holdings N.V. Chairman of the Supervisory Board of Q-Park N.V. Member of the Supervisory Board of Koninklijke FrieslandCampina N.V. Member of the Board of Stichting Instituut GAK.

J.P. (TINEKE) BAHLMANN

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

HENK W. BREUKINK

(*Born 1950, Dutch nationality, male; appointed in 2007, term expires in 2015*)
Former managing director of F&C and country head for F&C Netherlands (asset management firm).
Other business activities: member of the Supervisory Board of NSI N.V. (real estate fund) and non-executive director of F&C Sapphire hedge fund, Ireland (listed companies). Non-executive director of Brink Groep BV. Non-executive chairman of Heembouw Holding B.V. Chairman of the Supervisory Board of Omring (health care institution). Member of the Supervisory Board of HaagWonen (housing corporation). Chairman of the Supervisory Board of Inholland University.

SJOERD VAN KEULEN
(*Born 1946, Dutch nationality, male; appointed in 2011, term expires in 2015*)
Former chairman of the Executive Board of SNS Reaal N.V. Chairman of Holland Financial Centre.
Other business activities: member of the Supervisory Board of Heijmans N.V. and chairman of the Supervisory Board of Mediq N.V. (listed companies). Member of the Supervisory Board of APG Groep N.V. and Vado Beheer B.V. Member of the Supervisory Committee of World Wildlife Fund. Chairman of the Board of Investment Fund for Health in Africa. Member of the Supervisory Board of Stichting PharmAccess International. Chairman of the Supervisory Board of Access to Medicine Foundation. Board member of Stichting Health Insurance Fund.

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

JOOST CH.L. KUIPER
(*Born 1947, Dutch nationality; male; appointed in 2011, term expires in 2015*)
Former member of the Executive Board of ABN AMRO Bank N.V.
Other business activities: chairman of the Supervisory Board of IMC B.V. Member of the Supervisory Board of each of Hespri Holding B.V., AutoBinck Holding N.V. and Nexus Institute. Board member of each of Stichting voor Ooglijders, Prins Bernhard Cultuurfonds and Stichting Democratie en Media. Treasurer of Mondriaan Stichting.

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

LUC A.C.P. VANDEWALLE
(*Born 1944, Belgian nationality, male; appointed in 2011, term expires in 2014*)
Former chairman and non-executive member of ING Belgium NV/SA.
Other business activities:
Chairman of the Supervisory Board of each of Bakker Hillegom B.V., Domo Real Estate, Matexi Groep, Plu Holding and Transics International. Member of the Supervisory Board of each of Allia Insurance Brokers, Arseus, Besix Groep, Galloo, Masureel Veredeling, Sea-Invest, Sioen Industries, Vergroup, Veritas and Willy Naessens Industriebouw.

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

CHANGES IN THE COMPOSITION

Jackson Tai, Godfried van der Lugt and Joan Spero resigned from the Supervisory Board as of 6 January 2011, 24 January 2011 and 1 June 2011 respectively. Claus Dieter Hoffmann retired at the end of the 2011 annual General Meeting.

The current term of appointment of Aman Mehta will expire at the end of the 2012 annual General Meeting. At this meeting, Aman Mehta will be nominated for reappointment. In addition, the Supervisory Board has nominated three candidates for appointment: Yvonne van Rooy (born 1951, Dutch nationality, female), Jan Holsboer (born 1946, Dutch nationality, male) and Robert Reibestein (born 1956, Dutch nationality, male). The proposed appointments have been approved by the Dutch central bank (DNB).

More information can be found in the convocation for the 2012 annual General Meeting, available on the website of ING Group (www.ing.com) from 29 March 2012.

FINANCIAL REPORTING

A description of the main features of ING Group's internal control and risk management systems in relation to the financial reporting process is included in the statement with respect to Section 404 Sarbanes-Oxley Act on page 78, which is deemed to be incorporated by reference herein.

CHANGE OF CONTROL PROVISIONS

LEGAL PROVISIONS

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

CHANGE OF CONTROL CLAUSES IN MATERIAL AGREEMENTS

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

SEVERANCE PAYMENTS TO MEMBERS OF THE EXECUTIVE BOARD

The employment contracts entered into with the members of the Executive Board provide for severance payments, which become due upon termination of the applicable board member's contract in connection with a public bid as defined in section 5:70 of the Dutch Financial Supervision Act. For the amounts due, it is not relevant whether or not termination of the contract is related to a public bid. Severance payments to the members of the Executive Board are limited to a maximum of one year's fixed salary, in line with the Corporate Governance Code.

AMENDMENT OF THE ARTICLES OF ASSOCIATION

The General Meeting may resolve to amend the Articles of Association, provided that the resolution is adopted on a proposal of the Executive Board, which has been approved by the Supervisory Board. Such a resolution of the General Meeting requires a majority of at least two-thirds of the votes cast at a general meeting at which at least two-thirds of the issued share capital is represented. An amendment of the Articles of Association has to be passed by notarial deed.

EXTERNAL AUDITOR

At the annual General Meeting held on 22 April 2008, Ernst & Young was appointed to audit the financial statements of ING Group for the financial years 2008 to 2011 inclusive, to report on the outcome of these audits to the Executive Board and the Supervisory Board and to provide an audit opinion on the financial statements of ING Group. Furthermore, Ernst & Young also audited and reported on the effectiveness of internal control over financial reporting on 31 December 2011. The external auditor attended the meetings of the Audit Committee and the 2011 annual General Meeting.

In the 2012 annual General Meeting it will be proposed to extend the appointment of Ernst & Young by two more years, i.e. for the financial years 2012 and 2013. This proposal is based on an evaluation of the performance of the external auditor by the Audit Committee over the past four years. In addition to its own observations, the Audit Committee took into account feedback given by Senior Management and Internal Auditors on themes including quality of services, costs, business understanding, team composition, integrity, objectivity and independence. A large majority of respondents expressed its satisfaction with the performance of the external auditor. The Audit Committee has also taken notice of the press release of the AFM of 26 January 2012 by which the AFM announced that a fine was imposed on Ernst & Young for not exercising its duty of care. The Audit Committee has discussed the findings of the AFM and the measures taken by Ernst & Young to prevent shortcomings in the future.

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

The external auditor may be questioned at the annual general meeting in relation to its audit opinion on the annual accounts. The external auditor will therefore attend and be entitled to address this meeting. The external auditor may only provide audit, audit related, tax and other services to ING Group and its subsidiaries with the permission of the Audit Committee. The Audit Committee generally pre-approves certain types of audit, audit-related, tax and non-audit services to be provided by the external auditor on an annual basis. Services that have not been pre-approved by the Audit Committee should not be provided by the external auditor unless they are specifically pre-approved by the Audit Committee at the recommendation of local management.

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

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

Report of ING Trust Office

The following report is issued in compliance with the provisions of article 14 of the trust conditions for registered shares in the share capital of ING Groep N.V. and best-practice provision IV.2.6 of the Dutch Corporate Governance Code.

OBJECT

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

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

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

ACTIVITIES

BOARD MEETINGS

During the 2011 reporting year, the board of ING Trust Office (the 'Board') held eight meetings.

In these meetings, among other things, the following topics were discussed:

- The evaluation of the meeting of holders of depositary receipts of 24 November 2010 and the preparation of the meeting of holders of depositary receipts of 23 November 2011.
- The annual General Meeting of ING Group of 9 May 2011 ('AGM'), the items on the agenda of the AGM (including, among other things, the remuneration report and the remuneration policy for members of the Executive Board of ING Group), the proxy voting results and the voting by ING Trust Office.
- The promotion of participation of shareholders and holders of depositary receipts and the exercise of voting rights in general.
- The functioning of ING Trust Office, the composition of the Board, the 2010 balance sheet and statement of income and expenses of ING Trust Office and the amendments to the trust conditions for registered shares in the share capital of ING Group (the 'Trust Conditions') in order to align the Trust Conditions with the Securities Giro Act (*Wet giraal effectenverkeer*), as amended 1 January 2011.

MEETINGS WITH ING GROUP

During the 2011 reporting year, the Board had four meetings with the chairmen of the Executive Board and the Supervisory Board of ING Group.

In these meetings, among other things, the following topics were discussed:

- The activities and performance of ING Group in 2010 on the basis of the press release of 16 February 2011 and the 2010 figures, the activities and performance of ING Group over the first six months of 2011 on the basis of the press release of 4 August 2011 and the activities and performance of ING Group over the first nine months of 2011 on the basis of the press release of 3 November 2011.
- The appeal with the General Court of the European Union against specific elements of the European Commission's decision regarding ING's restructuring plan.
- Several items on the agenda of the AGM.
- The progress in the restructuring of ING Group.

ANNUAL GENERAL MEETING ING GROUP, VOTES CAST AND VOTING BEHAVIOUR

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

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

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

In accordance with the Articles of Association and the Trust Conditions, ING Trust Office voted at its own discretion on the shares for which it did not issue voting proxies and did not receive voting instructions, representing 52.9% of the total votes that might be cast at the AGM. In voting such shares, ING Trust Office was guided primarily by the interests of all holders of depositary receipts, taking into account the interests of ING Group and its affiliated enterprise. As a result, ING Trust Office voted on these shares in favour of all voting items on the agenda of the AGM.

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

MEETING OF HOLDERS OF DEPOSITARY RECEIPTS

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

The Board convened a meeting of holders of depositary receipts, which was held on 23 November 2011. 0.05% of the total number of depositary receipts issued was present or represented during this meeting. During the meeting a report was made on the activities of ING Trust Office. In addition, the Board answered various questions of holders of depositary receipts attending the meeting. The minutes of the aforementioned meeting are published on the website of ING Trust Office (www.ingtrustoffice.com).

DEPOSITARY-RECEIPTS STRUCTURE

During the years 2008-2011, participation of shareholders, excluding ING Trust Office, and holders of depositary receipts in annual general meetings of ING Group continually increased from 38.7% to 47.1%. Only the extraordinary General Meeting of 25 November 2009 deviates from this trend with a markedly lower turnout of 31.1%.

In 2010, ING evaluated the position of ING Trust Office and the depositary-receipts structure, and concluded that it would be premature to change or abolish the depositary-receipts structure in 2010 and that it would be more appropriate to reconsider this as part of a re-evaluation of ING Group's entire governance structure following the current restructuring and the completion of the divestments approved in the extraordinary General Meeting in 2009, the outcome of which was discussed in the annual General Meeting of 27 April 2010.

OUTSTANDING DEPOSITARY RECEIPTS

On 31 December 2011, the nominal value of administered ordinary shares amounted to EUR 919,266,828.96 for which 3,830,278.454 depositary receipts were issued, each with a nominal value of EUR 0.24. During the reporting year, the net number of depositary receipts increased with 51,427.

The increase came about as follows:

add:	
conversion of shares into depositary receipts	58,927
less:	
conversion of depositary receipts into shares	7,500

COMPOSITION AND REMUNERATION BOARD

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

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

Mick den Boogert was appointed as a member of the Board as of 8 February 2011 for a term ending per 1 January 2015. Further, Jan Veraart, Carel van den Driest, Paul Frentrop and Herman Hazewinkel were reappointed as members of the Board as of 1 January 2011, for terms ending per 1 May 2013, 1 May 2012, 1 May 2014 and 1 January 2015 respectively.

A profile and an overview of relevant positions held by the members of the Board can be found on the website of ING Trust Office (www.ingtrustoffice.com).

All members of the Board stated that they meet the conditions regarding independence as referred to in the Articles of Association and in the Dutch Corporate Governance Code.

The annual remuneration for the chairman of the Board amounts to EUR 25,000.00 and for the other members of the Board to EUR 20,000.00.

COSTS

In 2011, the costs of the activities of ING Trust Office amounted to EUR 433,787.21 (2010: EUR 503,871.36).

OTHER

In 2011, ING Trust Office obtained external advice on how ING Trust Office could promote the solicitation of proxies and/or voting instructions.

The activities involved in the administration of shares are performed by Administratiekantoor van het Algemeen Administratie- en Trustkantoor B.V., Amsterdam.

CONTACT DETAILS

The contact details of ING Trust Office are:
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Website: www.ingtrustoffice.com

AMSTERDAM, 12 MARCH 2012
BOARD OF STICHTING ING AANDELEN

Report of ING Continuity Foundation

Stichting Continuïteit ING ('ING Continuity Foundation'), a foundation organised under the laws of the Netherlands, established in Amsterdam, was founded on 22 January 1991.

A call-option agreement concluded between ING Continuity Foundation and ING Groep N.V. ('ING Group') vests ING Continuity Foundation with the right to acquire cumulative preference shares in the share capital of ING Group up to a maximum of 4.5 billion cumulative preference shares. The acquisition of cumulative preference shares by ING Continuity Foundation is subject to the restriction that, immediately after the issue of cumulative preference shares, the total amount of cumulative preference shares may not exceed one-third of the total issued share capital of ING Group. If new shares other than cumulative preference shares are subsequently issued, ING Continuity Foundation may again exercise its right, subject to the provisions of the preceding sentence. On acquisition of cumulative preference shares, at least 25% of the nominal value must be paid on said shares.

In 2011, the board of ING Continuity Foundation (the 'Board') held two meetings, on 22 April and 7 December.

On 26 January 2011, the Articles of Association of ING Continuity Foundation were amended.

The composition of the Board is currently as follows: Bas Kortmann, chairman of the Board, Rob van den Bergh, appointed as of 10 February 2011, Allard Metzelaar, who was reappointed as of 12 May 2011 and Wim van Vonno.

All members of the Board stated that they meet the conditions regarding independence as referred to in the Articles of Association of ING Continuity Foundation.

AMSTERDAM, 12 MARCH 2012
BOARD OF STICHTING CONTINUÏTEIT ING

Conformity statement

The Executive Board is required to prepare the Annual Accounts and the Annual Report of ING Groep N.V. for each financial year in accordance with applicable Dutch law and those International Financial Reporting Standards (IFRS) that were endorsed by the European Union.

CONFORMITY STATEMENT PURSUANT TO SECTION 5:25C PARAGRAPH 2(C) OF THE DUTCH FINANCIAL SUPERVISION ACT *(Wet op het financieel toezicht)*

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

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

AMSTERDAM, 12 MARCH 2012

Jan H.M. Hommen
CEO, CHAIRMAN OF THE EXECUTIVE BOARD

Patrick G. Flynn
CFO, MEMBER OF THE EXECUTIVE BOARD

Section 404 Sarbanes-Oxley Act

Internal control over financial reporting

Due to the listing of ING shares on the New York Stock Exchange, ING Group is required to comply with the SEC regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act, or SOX 404. These regulations require that the CEO (the chairman of the Executive Board) and the CFO of ING Group report and certify on an annual basis on the effectiveness of ING Group's internal controls over financial reporting. Furthermore, the external auditors are required to provide an opinion on the effectiveness of ING Group's internal controls over financial reporting.

ING Group has long-established Business Principles and a strong internal control culture, which all staff must adhere to. SOX 404 activities are organised along the lines of the governance structure, and involve the participation of senior management across ING. Following the SOX 404 process, ING is in the position to publish an unqualified statement which denotes that the Company's internal control over financial reporting is effective as of 31 December 2011. The SOX 404 statement by the Executive Board is included below, followed by the report of the external auditor.

REPORT OF THE EXECUTIVE BOARD ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Executive Board is responsible for establishing and maintaining adequate internal control over financial reporting. ING's internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

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

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

The Executive Board assessed the effectiveness of our internal control over financial reporting as of 31 December 2011. In making this assessment, the Executive Board performed tests based on the criteria of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on the Executive Board's assessment and those criteria, the Executive Board concluded that the Company's internal control over financial reporting is effective as of 31 December 2011.

Our independent registered public accounting firm has audited and issued their report on ING's internal control over financial reporting, which appears on the following page.

AMSTERDAM, 12 MARCH 2012

Jan H.M. Hommen
CEO, CHAIRMAN OF THE EXECUTIVE BOARD

Patrick G. Flynn
CFO, MEMBER OF THE EXECUTIVE BOARD

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS, THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD OF ING GROEP N.V.

We have audited ING Groep N.V.'s internal control over financial reporting as of 31 December 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). ING Groep N.V.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of the Executive Board on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, ING Groep N.V. maintained, in all material respects, effective internal control over financial reporting as of 31 December 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of ING Groep N.V. as of 31 December 2011, the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended. Our report dated 12 March 2012 expressed an unqualified opinion thereon.

AMSTERDAM, 12 MARCH 2012
ERNST & YOUNG ACCOUNTANTS LLP

Remuneration report

This chapter sets out the remuneration for the Executive Board and the Supervisory Board. The remuneration policy for the Executive Board was adopted by the annual General Meeting (AGM) on 27 April 2010; adjustments to the remuneration policy in line with new regulatory developments were adopted by the AGM on 9 May 2011. In addition, the Remuneration report provides information on the remuneration paid for 2011. Furthermore, information is included on loans and advances to the Executive Board and Supervisory Board members as well as ING depositary receipts for shares held by members of both Boards.

REMUNERATION POLICY

The primary objective of the remuneration structure is to enable ING to retain and recruit qualified and expert leaders, senior staff and other highly qualified employees, who have a drive for excellence in serving the interests of the Company's various stakeholders.

ING endeavours to match compensation of the Company's leadership appropriately against a variety of factors, such as the complexity of functions, the scope of responsibilities, the alignment of risks and rewards, and the long-term objectives of the Company and its stakeholders, which is all the more important given the changing international standards regarding responsible remuneration. These factors differ for each role, line of business and country. This is especially the case for ING with its operations in over 40 countries and over 97,000 employees of whom around 71,000 are based outside the Netherlands (over 54% of senior management is non-Dutch). As much as possible for a global financial institution of this size, ING aims to take account of all these differences and also of the standards applied within similar financial institutions in the various countries in which it operates.

REMUNERATION POLICY FOR THE EXECUTIVE BOARD ADOPTED IN 2010

According to the remuneration policy of the Executive Board as adopted by the AGM on 27 April 2010 and amended by the AGM on 9 May 2011, remuneration of Executive Board members consists of a combination of fixed remuneration (base salary) and variable remuneration (together 'total direct compensation'), pension arrangements and benefits as described below.

Total direct compensation: moderation and reduced emphasis on variable remuneration

Total direct compensation levels are based on market data that include peers both inside and outside the financial sector in the international context in which ING operates. Total direct compensation is benchmarked against a peer group of companies that, in the opinion of the Supervisory Board, are comparable with ING in terms of size and scope. In line with the foregoing, the Supervisory Board has determined that the peer group consists of the companies in the Dow Jones EURO STOXX 50 index. These are 50 companies, in a range of financial and non-financial industries, which are based in countries within the Economic and Monetary Union of the European Union. In accordance with the Dutch Banking Code, ING's new remuneration policy for the Executive Board aims for total direct compensation levels slightly below market median levels for comparable positions in the relevant markets.

In addition, the remuneration policy provides for a balanced mix between fixed and variable remuneration. Variable remuneration will not exceed 100% of fixed salary at the time of allocation. Fixed remuneration (i.e. the base salary levels) will be determined in line with the relevant market environment as an integral part of total direct compensation, and will be reviewed from time to time by the Supervisory Board. The policy provides for an at target variable remuneration of 40% in cash and 40% in stock (in total 80%) of base salary if performance criteria are met. If performance criteria (as predetermined by the Supervisory Board) are exceeded, the variable component can be increased from target to maximum, not exceeding 100% of base salary at the time of allocation.

Increased emphasis on long-term value creation

The remuneration policy for the Executive Board combines the short and long-term variable components into one structure. This structure intends to support both long-term value creation and short-term company objectives. The emphasis on long-term performance indicators within the variable component of the compensation package is increased by means of deferral, a reasonableness test and claw back mechanisms.

The allocation of variable remuneration is conditional on the achievement of a number of performance objectives. The short-term component, at maximum 40% of total variable remuneration, is equally divided between cash and stock and awarded in the year following the performance year. The other 60% of the total variable remuneration is deferred and also equally divided between cash and stock. This long-term component is intended to serve the objective of retaining the members of the Executive Board for a longer period of time. The value of the stock award is set such that total variable remuneration at the time that the maximum number of shares to be granted is determined stays within the 100% limit.

The long-term component, consisting of two equal portions of cash and stock, will be subject to a tiered vesting on the first, second and third anniversary of the grant date (one-third per annum). The entire long-term component is subject to an ex-post performance assessment by the Supervisory Board. The ex-post performance assessment cannot lead to an upward adjustment of the value of the cash deferred portion or the number of deferred shares. Executive Board members are not allowed to sell depositary receipts obtained within a period of five years from the grant date. However, they are allowed to sell part of their depositary receipts at the date of vesting to pay tax over the vested share award.

Increased focus on risk and non-financial performance

Variable remuneration is linked to risk and non-financial performance and will take into consideration both individual and company performance criteria. Performance measurement will account for estimated risks and costs of capital. In addition to financial indicators, performance will also be assessed based on non-financial drivers, by means of a number of targets regarding economic, environmental, customer satisfaction and social criteria.

Pensions Executive Board members

Members of the Executive Board, who are employed on the basis of a Dutch employment contract, will participate in the defined contribution pension plans introduced in 2010 as part of the remuneration policy. Individual Board members participating in the pension plan that existed before the introduction of the 2010 plans were given the choice to keep their existing pension arrangement. This existing pension arrangement, approved by the 2006 AGM, is based on a defined contribution plan. Alternatively, they can switch to the 2010 arrangements.

Members of the Executive Board will be required to pay a contribution to their pension premium in line with the contributions under ING's Collective Labour Agreement in the Netherlands.

Members of the Executive Board working on a non-Dutch employment contract will be offered pensions in line with local practices.

Benefits

Executive Board members will continue to be eligible for a range of additional benefits (e.g. the use of company cars, contributions to company savings plans and, if applicable, expatriate allowances). Executive Board members may obtain banking and insurance services from ING Group subsidiaries in the ordinary course of their business and on terms that apply to most other comparable employees of ING. In addition, tax and financial planning services will be provided to ensure compliance with the relevant legislative requirements.

Tenure

The contract of employment for Executive Board members provides for an appointment for a period of four years and allows for reappointment by the General Meeting. In the case of an involuntary exit, Executive Board members are eligible for an exit-arrangement limited to one-year base salary.

OTHER ITEMS FOR SUPERVISORY BOARD DISCRETION

CLAW BACK AND ADJUSTMENTS

The Supervisory Board has the authority to reclaim variable remuneration allocated to a member of the Executive Board based on inaccurate data and/or behaviour that led to significant harm to the company. The Supervisory Board also has the authority to adjust variable remuneration if application of the predetermined performance criteria results in undesired outcomes. Accordingly, the Supervisory Board has decision authority in situations not addressed in the policy.

SPECIAL EMPLOYMENT CONDITIONS

Special employment conditions, such as commitments made to secure the recruitment of new executives, may be used in exceptional circumstances subject to strict control by the Supervisory Board.

SUPERVISORY BOARD DISCRETION TO REVIEW THE POLICY AND THE REMUNERATION PAID

ING as a company is expected to undergo significant changes during the coming years. Moreover, the relevant international employment market is very much in flux. In order to ensure that ING can adapt to these two uncertain factors, the Supervisory Board indicated in 2010 and 2011 that it may re-evaluate in 2012, whether the remuneration policy adopted in 2010 and amended on 9 May 2011, is in line with the long-term objectives of the Company, the relevant international context, as well as the societal perception of ING as a company. As ING's restructuring is ongoing and the regulatory environment continues to be in flux, the Supervisory Board may determine to re-evaluate at a later stage.

Should it become clear, after such evaluation, that the new remuneration policy has led to an unintended or inequitable outcome, the Supervisory Board will have the discretion to correct the previously allocated variable remuneration. However, it is understood that any such correction could not lead to a deviation from the requirement that variable remuneration cannot exceed 100% of base salary during any year, as required under the Dutch Banking Code or be in violation of the Capital Requirements Directive III.

The remuneration policy is leading in the international financial markets in terms of moderation of pay. The Supervisory Board and the Executive Board also have an obligation to safeguard the continuity of the company. The Supervisory Board will therefore evaluate from time to time how these two responsibilities relate to each other. If and when appropriate, it can make adjustments.

2011 REMUNERATION

ONGOING PUBLIC DEBATE REGARDING REMUNERATION

Remuneration at ING is a topic of heated debate, particularly in the Netherlands. In 2011, following public discussion in the Netherlands after the Remuneration Committee had awarded the Executive Board of ING Group variable remuneration in relation to their 2010 performance, the members of the Executive Board decided not to accept this variable portion of their total direct compensation. Furthermore, they announced not to accept the proposed 2011 salary increase and any variable remuneration until the core Tier 1 securities that were issued to the Dutch State have been fully repaid even though the proposed salary increase and variable remuneration were in line with the remuneration policy as approved by the AGM in 2010.

The Supervisory Board regrets that it underestimated the signal that was sent to Dutch society by awarding the Executive Board variable remuneration and is keen on ensuring that remuneration at ING does not become the subject of public debate again. However, while the gesture made by the Executive Board members was appreciated by the public and the Supervisory Board, this does not solve the ongoing dilemmas faced by the Supervisory Board in general and the Remuneration Committee in particular.

It is the Remuneration Committee's responsibility to take the interests of all stakeholders, including shareholders and the global employee population into account, as well as business continuity when overseeing a company-wide remuneration policy and executing the Executive Board remuneration policy.

2011 REMUNERATION EXECUTIVE BOARD
The Executive Board remuneration for 2011 is based on the remuneration policy approved by the 2010 AGM and amended by the 2011 AGM.

2011 base salary Executive Board
The base salary of all Executive Board members was set at the time of the introduction of the remuneration policy in 2010 and the Executive Board decided not to accept a base salary increase in 2011 as ING had not completely repaid all outstanding core Tier 1 securities that were issued to the Dutch State. As a consequence the base salary level remained at the 2010 level

2011 variable remuneration Executive Board
In 2011 the Executive Board decided that it will not accept variable remuneration for as long as ING has not completely repaid all outstanding core Tier 1 securities that were issued to the Dutch State. As the full repayment did not occur during 2011, the Executive Board did not receive any variable remuneration in relation to performance year 2011.

It is noted that the total direct compensation levels of the Executive Board, even if variable remuneration had been accepted by the Executive Board, continue to be significantly below the market median. The fact that the Executive Board has only accepted base salary in 2011 (and not variable remuneration) makes the current gap between the market median and ING even more significant.

Compensation of the individual members of the Executive Board

amounts in thousands of euros	2011 [1] amount	2011 [1] number of shares	2010 amount	2010 number of options/ shares	2009 amount	2009 number of options/ shares
Jan Hommen						
Base salary [2]	**1,353**		1,353		923	
Variable remuneration in cash	**0**	**0**	0	0	0	0
Variable remuneration in stock	**0**	**0**	0	0	0	0
Patrick Flynn [3]						
Base salary	**750**		750		454	
Variable remuneration in cash	**0**	**0**	0	0	0	0
Variable remuneration in stock	**0**	**0**	0	0	0	0
Koos Timmermans [4]						
Base salary	**563**		750		665	
Variable remuneration in cash	**0**	**0**	0	0	0	0
Variable remuneration in stock	**0**	**0**	0	0	0	0

(1) It is noted that while the 2010 Annual Report indicated that the Board members would receive a salary increase and variable remuneration, they decided to forego the proposed increase in 2011 as well as the variable remuneration in relation to performance year 2010. The above table outlines the actual situation.
(2) Jan Hommen was appointed to the Executive Board on 27 April 2009. Jan Hommen has been remunerated as of 27 April 2009 in accordance with the 'new' remuneration policy adopted by the AGM in 2010. The figure for 2009 reflects a partial year as an Executive Board member and was paid in 2010 after the 'new' remuneration policy was adopted.
(3) Patrick Flynn was appointed to the Executive Board on 27 April 2009. The figures for this member reflect remuneration earned in the capacity as Executive Board member. Thus, the figure for 2009 reflects a partial year as an Executive Board member.
(4) Koos Timmermans stepped down from the Executive Board as per 1 October 2011. The figures for this member reflect remuneration earned in the capacity as Executive Board member. Thus, the figure for 2011 reflects a partial year as an Executive Board member.

Remuneration of former members of the Executive Board amounted to nil for 2011, nil for 2010 and EUR 2,842 thousand for 2009.

Pension costs
The table below shows the pension costs of the individual members of the Executive Board.

Pension costs of the individual members of the Executive Board

amounts in thousands of euros	2011	2010	2009
Jan Hommen [1]	**0**	0	0
Patrick Flynn [2]	**180**	134	78
Koos Timmermans [3]	**135**	158	115

(1) Jan Hommen does not participate in the pension plan.
(2) Patrick Flynn was appointed to the Executive Board on 27 April 2009. The 2009 pension costs for this member reflect the partial year as an Executive Board member.
(3) Koos Timmermans stepped down from the Executive Board as per 1 October 2011. The 2011 pension costs for this member reflect the partial year as an Executive Board member.

Pension costs of former members of the Executive Board amounted to nil for 2011, nil for 2010, and EUR 742 thousand for 2009.

Long-term incentives awarded in previous years

The long-term incentive plan (LTIP) at ING in place until 2010 includes both stock options and performance shares. The ING stock options have a total term of ten years and a vesting period of three years after which they can be exercised for the remaining seven years.

Information on the options outstanding and the movements during the financial year of options held by the members of the Executive Board as at 31 December 2011 (1)

number of options	Outstanding as at 31 December 2010	Granted in 2011	Exercised in 2011	Waived or expired in 2011 (2)	Outstanding as at 31 December 2011	Exercise price in euros	Vesting date	Expiry date
Jan Hommen		0	0	0	0			
Patrick Flynn		0	0	0	0			
Koos Timmermans (3)	13,674	0	0	0	13,674	22.57	11 Mar 2005	11 Mar 2012
	7,814	0	0	0	7,814	14.37	15 Mar 2007	15 Mar 2014
	11,460	0	0	0	11,460	17.88	30 Mar 2008	30 Mar 2015
	8,504	0	0	0	8,504	25.16	23 Mar 2009	23 Mar 2016
	46,157	0	0	0	46,157	24.72	22 Mar 2010	22 Mar 2017
	56,405	0	0	0	56,405	19.53	15 May 2011	15 May 2018
	20,675	0	0	0	20,675	14.36	17 Sept 2011	17 Sept 2018

(1) The number of options and the strike prices of these options reflect the number and strike prices adjusted for the effects of the rights issue of December 2009.
(2) Waived at vesting date or expired at expiry date.
(3) Koos Timmermans stepped down from the Executive Board as per 1 October 2011. The table above shows all options outstanding as at 31 December 2011.

Performance shares were conditionally granted. The number of ING depositary receipts that would ultimately be granted at the end of a three-year performance period depended on ING's Total Shareholder Return (TSR) performance over three years (return in the form of capital gains and reinvested dividends that shareholders received in that period) relative to the TSR performance of a predefined peer group.

ING's TSR ranking within this group of companies determines the final number of performance shares that vest at the end of the three-year performance period. The performance shares granted in 2008 had a three-year performance period of 2008-2010 and vested in 2011. The actual results of 57% are based upon ING's TSR ranking of 14th within the designated peer group. The results were determined by an independent third party. ING's external auditor has reviewed the calculations performed.

For Koos Timmermans, a number of 10,411 performance shares vested in 2011 (57% of the 18,266 shares awarded). The value at vesting amounted to EUR 79,139. The number of performance shares reflects the number adjusted for the effects of the rights issue of December 2009.

Patrick Flynn received a conditional grant of restricted stock in 2009 to a maximum of 130,230 shares. The cumulative value of the conditional share award is capped at EUR 1.3 million. The first vesting in the amount of 39,069 shares occurred at the 2010 AGM. The value at vesting amounted to EUR 288,329. A second vesting of 39,069 shares occurred at the 2011 AGM, the value at vesting amounted to EUR 347,323, and the remaining 52,092 shares will vest at the 2012 AGM, subject to satisfactory performance and the aforementioned cumulative value cap of EUR 1.3 million. The number of shares reflects the number adjusted for the effects of the rights issue of December 2009.

The Executive Board members are not allowed to sell depositary receipts obtained within a period of five years from the grant date. They are only allowed to sell part of their depositary receipts at the date of vesting to pay tax over the vested performance-share award. Depositary receipts obtained from exercised stock options may only be sold within a period of five years from the grant date of the options to pay tax over the exercised award.

Loans and advances to Executive Board members

The table below presents the loans and advances provided to Executive Board members and outstanding on 31 December 2011, 2010 and 2009. These loans were concluded in the normal course of business and on terms generally applicable to comparable Company personnel and were approved by the Supervisory Board.

Loans and advances to the individual members of the Executive Board

	Amount outstanding 31 December	Average interest rate	Repayments	Amount outstanding 31 December	Average interest rate	Repayments	Amount outstanding 31 December	Average interest rate	Repayments
amounts in thousands of euros			**2011**			2010			2009
Jan Hommen	**1,588**	**3.4%**		1,588	3.4%				
Koos Timmermans (1)	**380**	**4.6%**		380	4.6%		380	4.6%	

(1) Koos Timmermans stepped down from the Executive Board as per 1 October 2011. The table above shows all loans and advances outstanding at 31 December 2011.

ING depositary receipts for shares held by Executive Board members

Executive Board members are permitted to hold ING depositary receipts for shares as a long-term investment. The table below shows the holdings by members of the Executive Board.

ING depositary receipts for shares held by members of the Executive Board

number of shares	**2011**	2010	2009
Jan Hommen	**76,426**	76,426	46,426
Patrick Flynn	**51,339**	25,793	
Koos Timmermans (1)	**21,635**	16,504	14,457

(1) Koos Timmermans stepped down from the Executive Board as per 1 October 2011. The table above shows ING depositary receipts held by Koos Timmermans at 31 December 2011.

2012 REMUNERATION STRUCTURE EXECUTIVE BOARD

2012 BASE SALARY EXECUTIVE BOARD

In line with the Executive Board decision not to accept a base salary increase in 2011 as the repayment of core Tier 1 securities that were issued to the Dutch State has not been completed, the Supervisory Board does not propose a base salary increase with respect to the performance year 2012.

2012 VARIABLE REMUNERATION EXECUTIVE BOARD

The payment of variable remuneration to the Executive Board will be suspended for as long as the repayment of all outstanding core Tier 1 securities that were issued to the Dutch State has not been completed.

Executive compensation legislation

Currently a legislative proposal is under discussion in the Dutch Parliament relating to variable remuneration at financial institutions that have received state support for reasons of financial stability such as ING. If and when entered into force, the legislation is expected to prevent these financial institutions from granting variable remuneration (in cash or otherwise) to their Executive Board members. In addition, the legislation contains certain restrictions with respect to the possibility of increasing the fixed salaries of Executive Board members.

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2 Report of the Executive Board
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7 Additional information

REMUNERATION POLICY FOR SENIOR MANAGEMENT

As much as possible for a global financial institution of this size, ING aims to take account of all the differences and standards applied within similar financial institutions in the various countries in which it operates. The remuneration of members of the Management Boards and senior management will be in line with the general principles of the amended remuneration structure for the Executive Board, taking into account international and local practices.

TOTAL DIRECT COMPENSATION

Total direct compensation levels will be based on benchmark data in the international context in which ING operates. ING aims for compensation levels to be set at market median levels. Total compensation levels will be determined in line with the relevant market.

FOCUS ON LONG-TERM VALUE CREATION, RISK AND NON-FINANCIAL PERFORMANCE

Variable remuneration is linked to long-term value creation and risk. It is determined based on individual, business and company performance criteria. Performance measurement will increasingly account for estimated risks and costs of capital. There will be increased emphasis on long-term value creation by means of long-term incentives, deferral and claw back mechanisms.

Furthermore, and in addition to financial indicators, performance is also assessed based on non-financial drivers. The incorporation of non-financial indicators in the overall assessment is particularly aimed at further improving sustainable business practices within ING. Therefore, a number of action targets have been formulated regarding ING's performance in the area of, for example, workforce diversity, customer satisfaction, stakeholder engagement and sustainable business practices.

2012 REMUNERATION STRUCTURE SENIOR MANAGEMENT

Given the differences in the regulatory requirements for banking and insurance and the separation of ING's banking and insurance activities, the remuneration structures for senior management in ING's banking and insurance operations were determined separately in 2011 based on internal strategy and external regulatory developments.

The remuneration policy for the Executive Board, which permits a combination of fixed remuneration (base salary) and variable remuneration (together 'total direct compensation'), pension arrangements and benefits, will apply in full to members of the Management Board Banking. For senior management in banking, a gradual shift to a more balanced mix of fixed and variable remuneration, in line with the remuneration policy for the Executive Board, was initiated in 2010 and will continue during the coming year. Exceptions may exist for high value specialists and senior management working in certain divisions and/or geographical areas. In addition, the remuneration policy for senior management has been amended in line with the requirements of the Capital Requirements Directive III.

For the Management Board EurAsia and senior management in ING's EurAsia insurance operations, remuneration is in line with the general principles of the new remuneration policy for the Executive Board and the requirements under the Capital Requirements Directive III.

The remuneration for a select group of ING Bank and Insurance EurAsia employees has been reviewed and amended as necessary in order to comply with the Capital Requirements Directive III. The amendments relate to the allocation of variable remuneration and the ratio between fixed and variable remuneration and are intended to mitigate risk relating to remuneration. Measures include an ex-ante and ex-post assessment of variable remuneration prior to awarding and vesting respectively, significant deferral of variable remuneration, an equal divide between variable remuneration in cash and in shares, as well as retention periods on all equity remuneration as soon as it becomes unconditional.

Moreover, in light of the Capital Requirements Directive III compensation packages related to control functions (such as risk management functions) are structured so that they provide for a reduced emphasis on variable remuneration. To ensure the autonomy of the individual, financial performance metrics are dependent on objectives determined at the divisional level (i.e. not at the level of the relevant business unit). In addition, performance assessments are not only determined by business unit management, but also by the functional line.

By making the above changes, ING has taken an important step to further align its compensation philosophy and structure with its risk profile. The current structure will in most cases lead to a decrease in the cash component of variable remuneration and a decrease in the ratio between fixed and variable remuneration.

For the Insurance US operations the changes in the mix between fixed salary and variable remuneration as well as the allocation of variable remuneration will need to be weighted in light of the different regulatory requirements within the US insurance industry and the intended separation of these activities from ING.

The regulatory environment governing remuneration is still in development. The structure as set out above is based on information currently available. Should it become clear that adjustments are necessary, ING will amend the structure as deemed appropriate.

REMUNERATION SUPERVISORY BOARD

The annual remuneration of the Supervisory Board members as adopted by the General Meetings in 2006 and 2008 amounts to: chairman EUR 75,000, vice-chairman EUR 65,000, other members EUR 45,000. In addition to the remuneration each member receives an expense allowance. For the chairman and vice-chairman the annual amount is EUR 6,810. For the other members the amount is EUR 2,270.

The remuneration for the membership of committees is as follows: chairman of the Audit Committee EUR 8,000, members of the Audit Committee EUR 6,000, chairmen of other Supervisory Board committees EUR 7,500 and members of other Supervisory Board committees EUR 5,000. In addition to the fixed remuneration, committee members receive a fee for each meeting they attend. For the Audit Committee chairman this fee is EUR 2,000 per meeting and for its members EUR 1,500. For the chairman and members of other committees the attendance fee amounts to EUR 450 per meeting.

Supervisory Board members receive an additional fee of EUR 2,000 per attended Supervisory Board or Committee meeting in the event the meeting is held outside the country of residence of the Supervisory Board member, or an additional amount of EUR 7,500 per attended Supervisory Board or Committee meeting if intercontinental travel is required for attending the meeting.

2011 REMUNERATION SUPERVISORY BOARD

In 2009 and 2010 the chairman and vice-chairman of the Supervisory Board did not receive remuneration and attendance fees associated with committee membership. As announced in the 2010 Annual Report, effective 2011, the chairman and vice-chairman of the Supervisory Board did receive compensation for committee attendance. In 2011 more meetings were called than scheduled.

Jeroen van der Veer and Peter Elverding have voluntarily requested a lower level of compensation than their annual remuneration as adopted by the AGM and to cap the annual remuneration relating to 2011 at EUR 100,000 and EUR 90,000 respectively, inclusive attendance fees. At their request, the excess amounts of EUR 14,000 and EUR 13,000 respectively will be deducted from their compensation relating to 2012. In 2012 their compensation will also be capped at the aforementioned levels.

The table below shows the remuneration, expense allowances and attendance fees per Supervisory Board member for 2011 and previous years.

Compensation of the members of the Supervisory Board

amounts in thousands of euros	2011 (1)	2010 (1)	2009 (1)
Jeroen van der Veer (2) (3)	**114** (4)	74	35
Peter Elverding (5)	**103** (4)	84	79
Tineke Bahlmann (6)	**70**	69	46
Henk Breukink	**71**	69	61
Claus Dieter Hoffmann (7)	**30**	74	78
Piet Klaver	**72**	68	65
Godfried van der Lugt (8)	**0**	69	67
Aman Mehta	**126**	114	113
Joan Spero (9)	**47**	104	105
Jackson Tai (10)	**0**	139	152
Lodewijk de Waal (11)	**71**	66	50
Sjoerd van Keulen (12)	**49**		
Joost Kuiper (12)	**46**		
Luc Vandewalle (12)	**58**		

(1) In 2010 and 2009 the remuneration and attendance fees for the membership of a committee have not been paid to the chairman and vice-chairman of the Supervisory Board. Effective 2011 remuneration and attendance fees for the membership of a committee are paid to the chairman and vice-chairman of the Supervisory Board.
(2) Jeroen van der Veer has been chairman of the Supervisory Board since May 2011. From October 2009 until May 2011 he was vice-chairman of the Supervisory Board.
(3) Jeroen van der Veer is a member of the Supervisory Board as of July 2009. The compensation figure for 2009 reflects the partial year as a member of the Supervisory Board.
(4) In 2012 compensation will be capped at EUR 100,000 and EUR 90,000 for the chairman and vice-chairman respectively. Please see the paragraph above the table.
(5) Peter Elverding was chairman of the Supervisory Board from April 2009 until May 2011. He has been vice-chairman since May 2011.
(6) Tineke Bahlmann is a member of the Supervisory Board as of April 2009. The compensation figure for 2009 reflects the partial year as a member of the Supervisory Board.
(7) Claus Dieter Hoffmann retired in June 2011. The compensation figure for 2011 reflects the partial year as a member of the Supervisory Board. He did not receive any compensation in relation to 2011.
(8) Godfried van der Lugt retired in January 2011. He did not receive any compensation in relation to 2011.
(9) Joan Spero retired in June 2011. The compensation figure for 2011 reflects the partial year as a member of the Supervisory Board.
(10) Jackson Tai retired in January 2011. He did not receive any compensation in relation to 2011.
(11) Lodewijk de Waal is a member of the Supervisory Board as of April 2009. He acted as an observer in the Supervisory Board as of November 2008 until his appointment to the Board in April 2009. The compensation figure for 2009 reflects the partial year as a member of the Supervisory Board. Up to the appointment date Lodewijk de Waal has received remuneration, expense allowances and attendance fees in line with the remuneration of the Supervisory Board.
(12) Sjoerd van Keulen, Joost Kuiper and Luc Vandewalle are members of the Supervisory Board as of May 2011. The compensation figures for 2011 reflect the partial year as members of the Supervisory Board.

Compensation of former members of the Supervisory Board who are not included in the above table amounted to nil in 2011, EUR 80 thousand in 2010 and EUR 277 thousand in 2009.

LOANS AND ADVANCES TO SUPERVISORY BOARD MEMBERS

Supervisory Board members may obtain banking and insurance services from ING Group subsidiaries in the ordinary course of their business and on terms that are customary in the sector. The table below presents the loans and advances to Supervisory Board members outstanding on 31 December 2011, 2010 and 2009.

Loans and advances to members of the Supervisory Board

amounts in thousands of euros	Amount outstanding 31 December	Average interest rate	Repayments	Amount outstanding 31 December	Average interest rate	Repayments	Amount outstanding 31 December	Average interest rate	Repayments
			2011			2010			2009
Jeroen van der Veer [1]	**282**	**8.6%**		282	8.6%		282	8.6%	

[1] The amount reflects a housing mortgage loan granted in 1992, well before Jeroen van der Veer's appointment to the Supervisory Board (effective as of 1 July 2009).

ING DEPOSITARY RECEIPTS FOR SHARES AND OPTIONS HELD BY SUPERVISORY BOARD MEMBERS

Supervisory Board members are permitted to hold ING depositary receipts for shares as a long-term investment. The table below shows the holdings by members of the Supervisory Board. Supervisory Board members did not hold ING options at year-end 2011.

ING depositary receipts for shares held by members of the Supervisory Board [1]

number of shares	**2011**	2010	2009
Piet Klaver	**43,796**	43,796	13,796
Jeroen van der Veer	**119,469**	99,469	99,469
Sjoerd van Keulen [2]	**1,703**		
Luc Vandewalle [2] [3]	**80,000**		

[1] The numbers of depositary receipts for shares reflect the shares held by the members of the Supervisory Board and their partners.
[2] Sjoerd van Keulen and Luc Vandewalle were newly appointed in May 2011.
[3] The ING depositary receipts held by Luc Vandewalle are currently being held in usufruct.

Works councils

CENTRAL WORKS COUNCIL
on 31 December 2011

Rob Eijt, *chairman*
Alex Hoogendoorn, *secretary*
Goof Bode, *deputy chairman*
Rudie van Doorn, *deputy secretary*
Hans de Boer, Wim Bruijnes, Arno Daams, Jeffrey Dinsbach,
Erik Hoijtink, Aad Kant, Jan Krutzen, Job van Luyken, Sjaak Muller,
Hennie Post, Koos Rodenburg, Nancy Snijdewind, Henk Timmer,
Cindy Uit de Bulten, Gerard Veldman, Michel Vonk, Jelte Wiersinga,
Bernard Wolters, Bert Woltheus.

EUROPEAN WORKS COUNCIL
on 31 December 2011

Mathieu Blondeel, *chairman*, Belgium
Marcel Koopman, *secretary*, the Netherlands
Norbert Lucas, *deputy chairman*, Germany
Leo D Antuono, *deputy secretary*, Belgium
Otmar Haneder, Austria
Jean-Claude Van Den Abeele, Jean Pierre Lambert, Belgium
Biliana Petrova, Bulgaria
Petr Kupsa, Czech Republic
Mourad Benzaaza, France
Carolin Simonis, Germany
Nikolaos Ploumis, Greece
Csilla Dobos, Hungary
Anna Adinolfi, Nicola Cerruti, Italy
Arsène Kihm, Luxembourg
Jeffrey Dinsbach, Robert Milewski, Gerrit Riphagen, Havva Tasgil,
Gerard Veldman, Jelte Wiersinga, the Netherlands
Mieczyslaw Bielawski, Krystov Burnat, Mariusz Cieslik, Poland
Mihai Ailincai, Romania
Miguel Hernandez, Raul Lopez, Spain
Sam Chaudhuri, Rina Goldenberg, UK.

Contents

Consolidated balance sheet of ING Group

as at 31 December

amounts in millions of euros	2011	2010
ASSETS		
Cash and balances with central banks 1	**31,194**	13,072
Amounts due from banks 2	**45,323**	51,828
Financial assets at fair value through profit and loss 3		
– trading assets	**123,688**	125,675
– investments for risk of policyholders	**116,438**	120,481
– non-trading derivatives	**17,159**	11,722
– designated as at fair value through profit and loss	**5,437**	6,016
Investments 4		
– available-for-sale	**208,539**	222,547
– held-to-maturity	**8,868**	11,693
Loans and advances to customers 5	**602,525**	613,204
Reinsurance contracts 17	**5,870**	5,789
Investments in associates 6	**2,370**	3,925
Real estate investments 7	**1,670**	1,900
Property and equipment 8	**2,886**	6,132
Intangible assets 9	**3,558**	5,372
Deferred acquisition costs 10	**10,204**	10,499
Assets held for sale 11	**62,483**	681
Other assets 12	**31,016**	36,469
Total assets	**1,279,228**	1,247,005
EQUITY		
Shareholders' equity (parent) 13	**46,663**	40,904
Non-voting equity securities 13	**3,000**	5,000
	49,663	45,904
Minority interests	**777**	729
Total equity	**50,440**	46,633
LIABILITIES		
Subordinated loans 14	**8,858**	10,645
Debt securities in issue 15	**139,861**	135,604
Other borrowed funds 16	**19,684**	22,291
Insurance and investment contracts 17	**278,833**	271,128
Amounts due to banks 18	**72,233**	72,852
Customer deposits and other funds on deposit 19	**467,547**	511,362
Financial liabilities at fair value through profit and loss 20		
– trading liabilities	**107,682**	108,050
– non-trading derivatives	**22,165**	17,782
– designated as at fair value through profit and loss	**13,021**	12,707
Liabilities held for sale 11	**64,265**	424
Other liabilities 21	**34,639**	37,527
Total liabilities	**1,228,788**	1,200,372
Total equity and liabilities	**1,279,228**	1,247,005

Amounts for 2010 are restated for the change in accounting policy as disclosed in the section 'Changes in accounting policies' on page 99.

References relate to the notes starting on page 117. These form an integral part of the consolidated annual accounts.

Consolidated profit and loss account of ING Group

for the years ended 31 December

amounts in millions of euros	2011	2011	2010	2010	2009	2009
Continuing operations						
Interest income banking operations	**64,649**		68,334		79,850	
Interest expense banking operations	**–51,200**		–55,011		–67,475	
Interest result banking operations 35		**13,449**		13,323		12,375
Gross premium income 36		**27,198**		27,786		30,248
Investment income 37		**6,808**		7,463		3,158
Net result on disposals of group companies 38		**855**		310		287
Gross commission income	**6,003**		5,868		6,551	
Commission expense	**–1,966**		–1,720		–2,311	
Commission income 39		**4,037**		4,148		4,240
Valuation results on non-trading derivatives 40		**1,674**		–467		–4,743
Net trading income 41		**209**		627		1,125
Share of result from associates 6		**221**		311		–463
Other income 42		**1,343**		604		701
Total income		**55,794**		54,105		46,928
Gross underwriting expenditure 43	**33,716**		45,015		50,129	
Investment result for risk of policyholders	**1,246**		–10,492		–17,736	
Reinsurance recoveries	**–1,875**		–1,721		–1,700	
Underwriting expenditure 43		**33,087**		32,802		30,693
Addition to loan loss provisions 5		**1,670**		1,751		2,973
Intangible amortisation and other impairments 44		**379**		1,070		524
Staff expenses 45		**7,556**		7,692		7,271
Other interest expenses 46		**528**		786		711
Other operating expenses 47		**6,465**		6,076		6,593
Total expenses		**49,685**		50,177		48,765
Result before tax from continuing operations		**6,109**		3,928		–1,837
Taxation 48		**1,365**		1,228		–613
Net result from continuing operations		**4,744**		2,700		–1,224
Discontinued operations						
Net result from discontinued operations 25		**114**		216		100
Net result from disposal of discontinued operations 25		**995**				
Total net result from discontinued operations 25		**1,109**		216		100
Net result from continuing and discontinued operations (before minority interests)		**5,853**		2,916		–1,124

Consolidated profit and loss account of ING Group continued

amounts in millions of euros	2011	2010	2009
Net result attributable to:			
Equityholders of the parent	**5,766**	2,810	–1,006
Minority interests	**87**	106	–118
	5,853	2,916	–1,124
Net result from continuing operations attributable to:			
Equityholders of the parent	**4,662**	2,601	–1,099
Minority interests	**82**	99	–125
	4,744	2,700	–1,224
Total net result from discontinued operations attributable to:			
Equityholders of the parent	**1,104**	209	93
Minority interests	**5**	7	7
	1,109	216	100

amounts in euros	2011	2010	2009
Earnings per share 49			
Basic earnings per ordinary share	**1.12**	0.63	–0.60
Diluted earnings per ordinary share	**1.12**	0.63	–0.60
Earnings per share from continuing operations 49			
Basic earnings per ordinary share from continuing operations	**0.83**	0.57	–0.64
Diluted earnings per ordinary share from continuing operations	**0.83**	0.57	–0.64
Earnings per share from discontinued operations 49			
Basic earnings per ordinary share from discontinued operations	**0.29**	0.06	0.04
Diluted earnings per ordinary share from discontinued operations	**0.29**	0.06	0.04
Dividend per ordinary share 50	**0.00**	0.00	0.00

Amounts for 2010 and 2009 are restated for the change in accounting policy as disclosed in the section ‘Changes in accounting policies’ on page 99.

References relate to the notes starting on page 117. These form an integral part of the consolidated annual accounts.

Consolidated statement of comprehensive income of ING Group

for the years ended 31 December

amounts in millions of euros	2011	2010	2009
Net result	**5,853**	2,916	–1,124
Unrealised revaluations after taxation [(1)]	**1,139**	2,603	11,867
Realised gains/losses transferred to profit and loss [(1)]	**723**	86	1,554
Changes in cash flow hedge reserve	**1,124**	475	–805
Transfer to insurance liabilities/DAC	**–2,004**	–1,644	–2,079
Exchange rate differences	**–156**	2,859	56
Other revaluations	**–2**	–1	–10
Total amount recognised directly in equity (other comprehensive income)	**824**	4,378	10,583
Total comprehensive income	**6,677**	7,294	9,459
Comprehensive income attributable to:			
Equityholders of the parent	**6,594**	7,203	9,590
Minority interests	**83**	91	–131
	6,677	7,294	9,459

(1) Reference is made to Note 13 'Shareholders' equity (parent)/non-voting equity securities' for a breakdown of the individual components.

Amounts for 2010 and 2009 are restated for the change in accounting policy as disclosed in the section 'Changes in accounting policies' on page 99.

The Unrealised revaluations after taxation comprises EUR –16 million (2010: EUR –2 million; 2009: EUR 15 million) related to the share of other comprehensive income of associates.

The Exchange rate differences comprises EUR –35 million (2010: EUR 251 million; 2009: EUR 131 million) related to the share of other comprehensive income of associates.

Reference is made to Note 48 'Taxation' for the disclosure on the income tax effects on each component of the other comprehensive income.

Consolidated statement of cash flows of ING Group

for the years ended 31 December

amounts in millions of euros		2011	2010	2009
Result before tax		**7,248**	4,196	–1,634
Adjusted for:	– depreciation	**1,514**	1,723	1,701
	– deferred acquisition costs and value of business acquired	**277**	1,159	223
	– increase in provisions for insurance and investment contracts	**4,239**	4,278	2,585
	– addition to loan loss provisions	**1,670**	1,751	2,973
	– other	**–1,469**	3,047	6,014
Taxation paid		**–1,353**	–503	–412
Changes in:	– amounts due from banks, not available on demand	**2,208**	–4,333	8,611
	– trading assets	**1,754**	–14,782	47,963
	– non-trading derivatives	**1,988**	–1,590	864
	– other financial assets at fair value through profit and loss	**474**	832	2,196
	– loans and advances to customers	**–25,085**	–16,926	11,552
	– other assets	**–59**	2,003	6,948
	– amounts due to banks, not payable on demand	**–6,731**	–9,831	–67,410
	– customer deposits and other funds on deposit	**27,019**	21,202	21,073
	– trading liabilities	**–369**	9,804	–54,366
	– other financial liabilities at fair value through profit and loss	**–207**	1	–5,798
	– other liabilities	**–3,931**	–6,806	–10,483
Net cash flow from operating activities		**9,187**	–4,775	–27,400
Investments and advances:	– group companies			–5
	– associates	**–140**	–165	–181
	– available-for-sale investments	**–223,544**	–163,038	–165,771
	– held-to-maturity investments		–141	
	– real estate investments	**–32**	–73	–130
	– property and equipment	**–499**	–527	–639
	– assets subject to operating leases	**–1,188**	–1,284	–1,034
	– investments for risk of policyholders	**–57,130**	–52,370	–65,362
	– other investments	**–340**	–372	–338
Disposals and redemptions:	– group companies	**4,120**	1,757	2,643
	– associates	**383**	232	294
	– available-for-sale investments	**219,442**	154,640	167,074
	– held-to-maturity investments	**2,370**	2,620	1,675
	– real estate investments	**118**	295	656
	– property and equipment	**67**	96	82
	– assets subject to operating leases	**43**	53	93
	– investments for risk of policyholders	**61,898**	54,817	64,158
	– other investments	**936**	111	24
Net cash flow from investing activities **53**		**6,504**	–3,349	3,239
Proceeds from issuance of subordinated loans				
Repayments of subordinated loans		**–2,356**		
Proceeds from borrowed funds and debt securities		**428,381**	412,804	437,772
Repayments of borrowed funds and debt securities		**–429,997**	–405,120	–425,182
Issuance of ordinary shares				7,276
Repayment of non-voting equity securities		**–2,000**		–5,000
Repurchase premium (1)		**–1,000**		–346
Payments to acquire treasury shares			–136	–101
Sales of treasury shares		**41**	92	118
Dividends paid (2)				–684
Net cash flow from financing activities		**–6,931**	7,640	13,853
Net cash flow **54**		**8,760**	–484	–10,308
Cash and cash equivalents at beginning of year		**20,740**	20,959	31,271
Effect of exchange rate changes on cash and cash equivalents		**–200**	265	–4
Cash and cash equivalents at end of year **55**		**29,300**	20,740	20,959

(1) 2011 includes the repurchase premium paid on the repayment of EUR 2 billion non-voting equity securities. 2009 includes the repurchase premium paid on the repayment of EUR 5 billion non-voting equity securities.
(2) 2009 includes payments on non-voting equity securities (payment of the 2008 coupon of EUR 425 million and the coupon in the repayment of EUR 259 million).

Consolidated statement of cash flows of ING Group continued

As at 31 December 2011 Cash and cash equivalents includes cash and balances with central banks of EUR 31,194 million (2010: EUR 13,072 million; 2009: EUR 15,390 million). Reference is made to Note 55 'Cash and Cash equivalents'.

References relate to the notes starting on page 117. These form an integral part of the consolidated annual accounts.

Consolidated statement of changes in equity of ING Group

for the years ended 31 December

amounts in millions of euros	Share capital	Share premium	Reserves	Total shareholders' equity (parent)	Non-voting equity securities	Minority interests	Total equity
Balance as at 1 January 2009 (before change in accounting policy)	495	9,182	7,657	17,334	10,000	1,594	28,928
Effect of change in accounting policy (1)			–145	–145			–145
Balance as at 1 January 2009 (restated)	495	9,182	7,512	17,189	10,000	1,594	28,783
Unrealised revaluations after taxation			11,874	11,874		–7	11,867
Realised gains/losses transferred to profit and loss			1,554	1,554			1,554
Changes in cash flow hedge reserve			–805	–805			–805
Transfer to insurance liabilities/DAC			–2,079	–2,079			–2,079
Exchange rate differences			53	53		3	56
Other revaluations			–1	–1		–9	–10
Total amount recognised directly in equity			10,596	10,596		–13	10,583
Net result			–1,006	–1,006		–118	–1,124
Total comprehensive income			9,590	9,590		–131	9,459
Issuance costs incurred		–222		–222			–222
Employee stock option and share plans			64	64			64
Repayment of non-voting equity securities					–5,000		–5,000
Changes in the composition of the group						–546	–546
Dividend and repurchase premium (2)			–605	–605		–2	–607
Proceeds from rights issue	424	7,074		7,498			7,498
Purchase/sale of treasury shares			129	129			129
Balance as at 31 December 2009	919	16,034	16,690	33,643	5,000	915	39,558
Unrealised revaluations after taxation			2,607	2,607		–4	2,603
Realised gains/losses transferred to profit and loss			86	86			86
Changes in cash flow hedge reserve			475	475			475
Transfer to insurance liabilities/DAC			–1,644	–1,644			–1,644
Exchange rate differences			2,867	2,867		–8	2,859
Other revaluations			2	2		–3	–1
Total amount recognised directly in equity			4,393	4,393		–15	4,378
Net result			2,810	2,810		106	2,916
Total comprehensive income			7,203	7,203		91	7,294
Employee stock option and share plans			36	36			36
Changes in the composition of the group						–271	–271
Dividend						–6	–6
Purchase/sale of treasury shares			22	22			22
Balance as at 31 December 2010	919	16,034	23,951	40,904	5,000	729	46,633

(1) The change in accounting policy is disclosed in the section 'Changes in accounting policies' on page 99.
(2) The 2009 amount of EUR 605 million includes the coupon (EUR 259 million) and repurchase premium (EUR 346 million) on the repayment of EUR 5 billion non-voting equity securities.

Consolidated statement of changes in equity of ING Group continued

amounts in millions of euros	Share capital	Share premium	Reserves	Total shareholders' equity (parent)	Non-voting equity securities	Minority interests	Total equity
Balance as at 1 January 2011	919	16,034	23,951	40,904	5,000	729	46,633
Unrealised revaluations after taxation			1,138	1,138		1	1,139
Realised gains/losses transferred to profit and loss			723	723			723
Changes in cash flow hedge reserve			1,124	1,124			1,124
Transfer to insurance liabilities/DAC			–2,004	–2,004			–2,004
Exchange rate differences			–153	–153		–3	–156
Other revaluations						–2	–2
Total amount recognised directly in equity			828	828		–4	824
Net result			5,766	5,766		87	5,853
Total comprehensive income			6,594	6,594		83	6,677
Employee stock option and share plans			115	115			115
Repayment of non-voting equity securities					–2,000		–2,000
Repurchase premium			–1,000	–1,000			–1,000
Changes in the composition of the group						–1	–1
Dividend						–34	–34
Purchase/sale of treasury shares			50	50			50
Balance as at 31 December 2011	919	16,034	29,710	46,663	3,000	777	50,440

Reserves include Revaluation reserve of EUR 5,550 million (2010: EUR 4,752 million; 2009: EUR 2,466 million), Currency translation reserve of EUR 93 million (2010: EUR 79 million; 2009: EUR –2,011 million) and Other reserves of EUR 24,067 million (2010: EUR 19,120 million; 2009: EUR 16,235 million). Changes in individual components are presented in Note 13 'Shareholders' equity (parent)/non-voting equity securities'.

Accounting policies for the consolidated annual accounts of ING Group

AUTHORISATION OF ANNUAL ACCOUNTS

The consolidated annual accounts of ING Groep N.V. ('ING Group') for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Executive Board on 12 March 2012. The Executive Board may decide to amend the annual accounts as long as these are not adopted by the General Meeting of Shareholders. The General Meeting of Shareholders may decide not to adopt the annual accounts, but may not amend these. ING Groep N.V. is incorporated and domiciled in Amsterdam, the Netherlands. The principal activities of ING Group are described in the section 'ING at a glance' in section 1.

BASIS OF PRESENTATION

ING Group applies International Financial Reporting Standards as adopted by the European Union ('EU').

The following standards, interpretations and amendments to standards and interpretations became effective for ING Group in 2011:
- Amendment to IAS 32 'Classification of Rights Issues';
- Amendment to IAS 24 'Related Party Disclosures';
- Amendment to IFRIC 14 'Prepayments of a Minimum Funding Requirement';
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'; and
- 2010 Annual Improvements to IFRS.

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

The following new or revised standards and interpretations were issued by the IASB, which become effective for ING Group after 2011, if and when endorsed by the EU:
- Amendments to IFRS 7 'Disclosures – Transfers of Financial Assets', effective as of 2012;
- Amendments to IAS 12 'Deferred tax: Recovery of Underlying Assets', effective as of 2012;
- IFRS 10 'Consolidated Financial Statements', effective as of 2013;
- IFRS 11 'Joint Arrangements', effective as of 2013;
- IFRS 12 'Disclosure of Interests in Other Entities', effective as of 2013;
- IFRS 13 'Fair Value Measurement', effective as of 2013;
- IAS 28 'Investments in Associates and Joint Ventures', effective as of 2013;
- Amendments to IAS 1 'Presentation of Financial Statements – Presentation of Items of Other Income', effective as of 2013;
- Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities', effective as of 2013; and
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities', effective as of 2014.

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

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

In June 2011 the revised IAS 19 'Employee Benefits' was issued, which will become effective as of 2013 if endorsed by the EU. At this moment, the revised standard is being analysed and the full impact is not yet known. One of the changes in the revised standard results in immediate recognition in equity of 'unrecognised actuarial gains and losses' as of the effective date. Unrecognised actuarial gains and losses as at 31 December 2011 are disclosed in Note 21 'Other liabilities' and amount to EUR 481 million (pre-tax). The impact of the revised standard will be affected by movements in the unrecognised actuarial gains and losses until the effective date and the impact of other changes in the revised standard.

International Financial Reporting Standards as adopted by the EU provide several options in accounting policies. ING Group's accounting policies under these standards and its decision on the options available are set out in the section 'Principles of valuation and determination of results' below.

In this document the term 'IFRS-EU' is used to refer to International Financial Reporting Standards as adopted by the EU, including the decisions ING Group made with regard to the options available under International Financial Reporting Standards as adopted by the EU.

As explained in the section 'Principles of valuation and determination of results' and in Note 24 'Derivatives and hedge accounting' ING Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU.

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

The comparison of balance sheet items between 31 December 2011 and 31 December 2010 is impacted by the disposed companies as disclosed in Note 30 'Companies acquired and companies disposed' and by the held for sale classification as disclosed in Note 11 'Assets and liabilities held for sale'.

CHANGES IN ACCOUNTING POLICIES

ING Group changed its accounting policy for the insurance provisions for Guaranteed Minimum Withdrawal Benefits for Life (GMWBL) on the Insurance US Closed Block VA book as of 1 January 2011. The revised accounting better reflects the economic value of these guarantees and more closely aligns accounting practice with peers in the United States. Under the revised accounting policy, the insurance provisions reflect current market interest rates and current estimates for other assumptions, except for volatility and correlation (which remain unchanged). ING Group substantially increased hedging of interest rate risk in the Insurance US Closed Block VA book; the results from these hedging derivatives are expected to largely mirror the effect of interest changes on the guarantees in future periods. Implementation of the revised accounting for GMWBL represents a change in accounting policy under IFRS, with a transitional impact being reflected in shareholders' equity. Comparative years' results have been restated. Reference is made to Note 56 'Impact of change in accounting policy' for more information on comparative years. The combined impact on shareholders' equity as at 1 January 2011 is EUR 651 million (lower equity).

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

Impact on balance sheet

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

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

Impact on profit and loss account

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

Impact on basic earnings per ordinary share

	Amount (in millions of euros)		Weighted average number of ordinary shares outstanding during the period (in millions)		Per ordinary share (in euros)	
	2010	2009	2010	2009	2010	2009
Basic earnings (before change in accounting policy)	2,779	–1,540	3,781.5	2,686.0	0.73	–0.57
Impact on the profit and loss account	–409	–71				
Basic earnings (restated)	2,370	–1,611	3,781.5	2,686.0	0.63	–0.60

Impact on diluted earnings per ordinary share

	Amount (in millions of euros)		Weighted average number of ordinary shares outstanding during the period (in millions)		Per ordinary share (in euros)	
	2010	2009	2010	2009	2010	2009
Diluted earnings (before change in accounting policy)	2,779	–1,540	3,788.1	2,691.7	0.73	–0.57
Impact on the profit and loss account	–409	–71				
Diluted earnings (restated)	2,370	–1,611	3,788.1	2,691.7	0.63	–0.60

CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

LOAN LOSS PROVISIONS

Loan loss provisions are recognised based on an incurred loss model. Considerable judgement is exercised in determining the extent of the loan loss provision (impairment) and is based on the management's evaluation of the risk in the portfolio, current economic conditions, loss experience in recent years and credit, industry, geographical and concentration trends. Changes in such judgements and analyses may lead to changes in the loan loss provisions over time.

The identification of impairment and the determination of the recoverable amount are an inherently uncertain processes involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

Future cash flows in a portfolio of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Current observable data may include changes in unemployment rates, property prices and commodity prices. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

FAIR VALUES 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.

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

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

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

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

Reference is made to Note 34 'Fair value of financial assets and liabilities' for the basis of the determination of the fair value of financial instruments and related sensitivities.

IMPAIRMENTS

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

All debt and equity securities (other than those carried at fair value through profit and loss) are subject to impairment testing every reporting period. The carrying value is reviewed in order to determine whether an impairment loss has been incurred. Evaluation for impairment includes both quantitative and qualitative considerations. For debt securities, such considerations include actual and estimated incurred credit losses indicated by payment default, market data on (estimated) incurred losses and other current evidence that the issuer may be unlikely to pay amounts when due. Equity securities are impaired when management believes that, based on (the combination of) a significant or prolonged decline of the fair value below the acquisition price, there is sufficient reason to believe that the acquisition cost may not be recovered. 'Significant' and 'prolonged' are interpreted on a case-by-case basis for specific equity securities. Generally 25% and 6 months are used as triggers. Upon impairment, the full difference between (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 held-to-maturity investments) are part of the loan loss provision as described above.

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

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

EMPLOYEE BENEFITS

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

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

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

The actuarial assumptions may differ significantly from the actual results due to changes in market conditions, economic and mortality trends, and other assumptions. Any changes in these assumptions could have a significant impact on the defined benefit plan liabilities and future pension costs. The effects of changes in actuarial assumptions and experience adjustments are not recognised in the profit and loss account unless the accumulated changes exceed 10% of the greater of the defined benefit obligation and the fair value of the plan assets. If such is the case the excess is then amortised over the employees' expected average remaining working lives. Reference is made to Note 21 'Other liabilities' for the weighted averages of basic actuarial assumptions in connection with pension and other post-employment benefits.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULTS

CONSOLIDATION

ING Group ('the Group') comprises ING Groep N.V. ('the Company'), ING Verzekeringen N.V., ING Bank N.V. and all other subsidiaries. The consolidated financial statements of ING Group comprise the accounts of ING Groep N.V. and all entities in which it either owns, directly or indirectly, more than half of the voting power or over which it has control of their operating and financial policies through situations including, but not limited to:

- Ability to appoint or remove the majority of the board of directors;
- Power to govern such policies under statute or agreement; and
- Power over more than half of the voting rights through an agreement with other investors.

A list of principal subsidiaries is included in Note 29 'Principal subsidiaries'.

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

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

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

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

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

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 discontinued operations. 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 and 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

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

ANALYSIS OF INSURANCE BUSINESS

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

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Exchange rate differences resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as part of qualifying cash flow hedges or qualifying net investment hedges.

Exchange rate differences on non-monetary items, measured at fair value through profit and loss, are reported as part of the fair value gain or loss. Non-monetary items are retranslated at the date fair value is determined. Exchange rate differences on non-monetary items measured at fair value through the revaluation reserve are included in the revaluation reserve in equity.

Exchange rate differences in the profit and loss account are generally included in Net trading income. Reference is made to Note 41 'Net trading income', which discloses the amounts included in the profit and loss account. Exchange rate differences relating to the disposal of available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in Investment income. As mentioned below in Group companies relating to the disposals of group companies, any exchange rate difference deferred in equity is recognised in the profit and loss account in Net result on disposals of group companies. Reference is also made to Note 13 'Shareholders' equity (parent)/non-voting equity securities', which discloses the amounts included in the profit and loss account.

Group companies
The results and financial positions of all group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- Assets and liabilities included in each balance sheet are translated at the closing rate at the date of that balance sheet;
- Income and expenses included in each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange rate differences are recognised in a separate component of equity.

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

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

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES
The fair 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 the Group is the current bid price; the quoted market price used for financial liabilities is the current ask price.

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

Reference is made to Note 34 'Fair value of financial assets and liabilities' for the basis of the determination of the fair value of financial instruments.

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

Derecognition of financial assets
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement. The extent of continuing involvement is determined by the extent to which the Group is exposed to changes in the value of the asset.

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

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

A financial asset is classified as at fair value through profit and loss if acquired principally for the purpose of selling in the short term or if 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 Interest income banking operations and Investment income in the profit and loss account, using the effective interest method.

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

Investments
Investments (including loans quoted in active markets) are classified either as held-to-maturity or available-for-sale and are initially recognised at fair value plus transaction costs. Investment debt securities and loans quoted in active markets with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities and actively traded loans intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale.

Available-for-sale financial assets
Available-for-sale financial assets include available-for-sale debt securities and available-for-sale equity securities. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. For available-for-sale debt securities, the difference between cost and redemption value is amortised. Interest income is recognised using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value. Interest income from debt securities classified as available-for-sale is recognised in Interest income banking operations and Investment income in the profit and loss account using the effective interest method. Dividend income from equity instruments classified as available-for-sale is generally recognised in Investment income in the profit and loss account when the dividend has been declared. Unrealised gains and losses arising from changes in the fair value are recognised in equity. When the securities are disposed of, the related accumulated fair value adjustments are included in the profit and loss account as Investment income. For impairments of available-for-sale financial assets reference is made to the section 'Impairments of other financial assets'. Investments in prepayment sensitive securities such as Interest-Only and Principal-Only strips are generally classified as available-for-sale.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Group has the positive intent and ability to hold to maturity and which are designated by management as held-to-maturity assets are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from debt securities classified as held-to-maturity is recognised in Interest income in the profit and loss account using the effective interest method. Held-to-maturity investments include only debt securities.

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

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

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

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

The manner in which ING Group 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 option pricing models), as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair values are negative.

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

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

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

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

ING Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve-out' macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket.

ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve-out' to its retail operations. The net exposures of retail funding (savings and current accounts) and retail lending (mortgages) are hedged. The hedging activities are designated under a portfolio fair value hedge on the mortgages. Changes in the fair value of the derivatives are recognised in the profit and loss account, together with the fair value adjustment on the mortgages (hedged items) insofar as attributable to interest rate risk (the hedged risk).

Fair value hedges

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

Cash flow hedges

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

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

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

OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES
Financial assets and financial liabilities are offset, and the net amount reported, in the balance sheet when the Group has a current legally enforceable right to set off the recognised amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Offsetting is applied to certain interest rate swaps for which the services of a central clearing house are used. Furthermore, offsetting is also applied to certain current accounts for which the product features and internal procedures allow net presentation under IFRS-EU.

REPURCHASE TRANSACTIONS AND REVERSE REPURCHASE TRANSACTIONS
Securities sold subject to repurchase agreements ('repos') are retained in the consolidated financial statements. The counterparty liability is included in Amounts due to banks, Other borrowed funds, Customer deposits and other funds on deposit, or Trading as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recognised as Loans and advances to customers or Amounts due from banks, as appropriate. The difference between the sale and repurchase price is treated as interest and amortised over the life of the agreement using the effective interest method.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REAL ESTATE INVESTMENTS

Real estate investments are 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 Group are monitored as part of the validation procedures to test the indexation methodology. Valuations performed earlier in the year are updated if necessary to reflect the situation at the year-end. All properties are valued independently at least every five years and more frequently if necessary.

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

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

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

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

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

PROPERTY AND EQUIPMENT

Property in own use

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

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

Property obtained from foreclosures

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

Property development

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

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

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

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

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

Assets under operating leases
Assets leased out under operating leases in which ING Group is the lessor are stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight-line basis over the lease term. Reference is made to the section 'Leases'.

Disposals
The difference between the proceeds on disposal and net 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 Group as the lessee
The leases entered into by ING Group are primarily operating leases. The total payments made under operating leases are recognised in 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 penalty payment to be made to the lessor is recognised as an expense in the period in which termination takes place.

ING Group as the lessor
When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable under Loans and advances to customers or Amounts due from banks. The difference between the gross receivable and the present value of the receivable is unearned lease finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. When assets are held subject to an operating lease, the assets are included under Assets under operating leases.

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

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

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

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

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

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

Adjustments to the fair value as at the date of acquisition of acquired assets and liabilities that are identified within one year after acquisition are recognised as an adjustment to goodwill; any subsequent adjustment is recognised as income or expense. On disposal of group companies, the difference between the sale proceeds and 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 reflects the present value of estimated net cash flows embedded in the insurance contracts of an acquired company, which existed at the time the company was acquired. It represents the difference between the fair value of insurance liabilities and their carrying value. VOBA is amortised in a similar manner to the amortisation of deferred acquisition costs as described in the section 'Deferred acquisition costs'.

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

DEFERRED ACQUISITION COSTS

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

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

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

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

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

TAXATION

Income tax on the result for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account but it 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 the Group and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are 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: preference shares, other borrowed funds, debt securities in issue, subordinated loans, amounts due to banks and customer deposits and other funds on deposit.

Borrowings are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss comprise the following sub-categories: trading liabilities, non-trading derivatives and other financial liabilities designated at fair value through profit and loss by management. Trading liabilities include equity securities, debt securities, funds on deposit and derivatives. Designation by management will take place only if it eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis. ING Group has designated an insignificant part of the issued debt, related to market-making activities, at fair value through profit and loss. This issued debt consists mainly of own bonds. The designation as fair value through profit and loss eliminates the inconsistency in the timing of the recognition of gains and losses. All other financial liabilities are measured at amortised cost.

Financial guarantee contracts

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

INSURANCE, INVESTMENT AND REINSURANCE CONTRACTS

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 in 2005, ING Group decided to continue the then existing accounting principles for insurance contracts under IFRS. ING Group 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 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.

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 all changes in the insurance provisions are recognised in the profit and loss account.

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

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

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

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

Provisions for life insurance for risk of policyholders
For insurance contracts for risk of policyholders the provisions are generally shown at the balance sheet value of the 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, the Group remains liable to its policyholders for the portion reinsured. Consequently, provisions are made for receivables on reinsurance contracts which are deemed uncollectible.

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

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

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

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

As at 31 December 2009, the Closed Block Variable Annuity business in the United States was inadequate at the 90% confidence level. As there were offsetting amounts within other Group business units, the Group remained adequate at the 90% confidence level. In line with the above policy, specific measures were defined to mitigate the inadequacy in the Closed Block Variable Annuity business in the United States. These specific measures are effective as of 2010 and result in a limitation of additions to DAC that would otherwise result from negative amortisation and unlocking. This limitation of DAC is applied on a quarterly basis and in any year if and when a reserve inadequacy existed at the start of the year. The impact on 2010 was EUR 610 million lower DAC and consequently lower result before tax. Net result in 2011 includes a charge to restore the adequacy of the Insurance US Closed Block VA segment to the 50% confidence level. Reference is made to Note 43 '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
Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses, and unrecognised past service costs. The defined benefit obligation is calculated annually by internal and external actuaries using the projected unit credit method.

The expected value of the assets is calculated using the expected rate of return on plan assets. Differences between the expected return and the actual return on these plan assets and actuarial changes in the deferred benefit obligation are not recognised in the profit and loss account, unless the accumulated differences and changes exceed 10% of the greater of the defined benefit obligation and the fair value of the plan assets. The excess is 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.

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

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

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

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

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

INCOME RECOGNITION

Gross premium income

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

Interest

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

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

Fees and commissions

Fees and commissions are generally recognised as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as income when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds and investment contract fees are recognised on a pro-rata basis over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Fees received and paid between banks for payment services are classified as commission income and expenses.

Lease income

The proceeds from leasing out assets under operating leases are recognised on a straight-line basis over the life of the lease agreement. Lease payments received in respect of finance leases when ING Group is the lessor are divided into an interest component (recognised as interest income) and a repayment component.

EXPENSE RECOGNITION

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

Share-based payments

Share-based payment expenses are recognised as a staff expense over the vesting period. A corresponding increase in equity is recognised for equity-settled share-based payment transactions. A liability is recognised for cash-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions is measured at the grant date and the fair value of cash-settled share-based payment transactions is measured at each balance sheet date. 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.

EARNINGS PER ORDINARY SHARE

Earnings per ordinary share is calculated on the basis of the weighted average number of ordinary shares outstanding. In calculating the weighted average number of ordinary shares outstanding:

- Own shares held by group companies are deducted from the total number of ordinary shares in issue;
- The computation is based on daily averages; and
- In case of exercised warrants, the exercise date is taken into consideration.

The non-voting equity securities are not ordinary shares, because their terms and conditions (especially with regard to coupons and voting rights) are significantly different. Therefore, the weighted average number of ordinary shares outstanding during the period is not impacted by the non-voting equity securities.

Diluted earnings per share data are computed as if all convertible instruments outstanding at year-end were exercised at the beginning of the period. It is also assumed that ING Group uses the assumed proceeds thus received to buy its own shares against the average market price in the financial year. The net increase in the number of shares resulting from the exercise is added to the average number of shares used to calculate diluted earnings per share.

Share options with fixed or determinable terms are treated as options in the calculation of diluted earnings per share, even though they may be contingent on vesting. They are treated as outstanding on the grant date. Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

FIDUCIARY ACTIVITIES

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

STATEMENT OF CASH FLOWS

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

For the purposes of the statement of cash flows, Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, amounts due from other banks and amounts due to banks. Investments qualify as a cash equivalent if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

The net cash flow shown in respect of Loans and advances to customers relates only to transactions involving actual payments or receipts. The Addition to loan loss provision which is deducted from the item Loans and advances to customers in the balance sheet has been adjusted accordingly from the result before tax and is shown separately in the statement of cash flows.

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

Notes to the consolidated annual accounts of ING Group

amounts in millions of euros, unless stated otherwise

ASSETS

1 CASH AND BALANCES WITH CENTRAL BANKS

Cash and balances with central banks	2011	2010
Amounts held at central banks	**26,481**	7,983
Cash and bank balances	**3,974**	4,264
Short term deposits insurance operations	**739**	825
	31,194	13,072

2 AMOUNTS DUE FROM BANKS

Amounts due from banks	Netherlands		International		Total	
	2011	2010	**2011**	2010	**2011**	2010
Loans and advances to banks	**13,752**	14,416	**29,556**	34,640	**43,308**	49,056
Cash advances, overdrafts and other balances	**1,322**	1,754	**700**	1,039	**2,022**	2,793
	15,074	16,170	**30,256**	35,679	**45,330**	51,849
Loan loss provisions			**–7**	–21	**–7**	–21
	15,074	16,170	**30,249**	35,658	**45,323**	51,828

As at 31 December 2011, Amounts due from banks included receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 2,925 million (2010: EUR 4,621 million) and receivables related to finance lease contracts amounting to EUR 76 million (2010: EUR 82 million).

As at 31 December 2011, the balance sheet value included debt securities which were lent or sold in repurchase transactions amounting to nil (2010: nil) and EUR 2,267 million (2010: EUR 1,381 million), respectively.

As at 31 December 2011, the non-subordinated receivables amounted to EUR 45,304 million (2010: EUR 51,788 million) and the subordinated receivables amounted to EUR 19 million (2010: EUR 40 million).

No individual amount due from banks has terms and conditions that materially affect the amount, timing or certainty of consolidated cash flows of the Group. For details on significant concentrations see 'Risk management' section.

3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial assets at fair value through profit and loss	2011	2010
Trading assets	**123,688**	125,675
Investments for risk of policyholders	**116,438**	120,481
Non-trading derivatives	**17,159**	11,722
Designated as at fair value through profit and loss	**5,437**	6,016
	262,722	263,894

Trading assets by type	2011	2010
Equity securities	**3,732**	5,861
Debt securities	**18,251**	27,979
Derivatives	**59,139**	42,390
Loans and receivables	**42,566**	49,445
	123,688	125,675

The increase in trading derivatives and other non-trading derivatives for which no hedge accounting is applied is mainly due to changes in fair value resulting from changes in market interest rates. The increase is substantially mitigated by a similar increase in Trading derivates and Other non-trading derivatives (liabilities) as disclosed in Note 20 'Financial liabilities at fair value through profit and loss'.

As at 31 December 2011, the balance sheet value included equity securities which were lent or sold in repurchase transactions amounting to EUR 591 million (2010: EUR 69 million) and nil (2010: nil), respectively. As at 31 December 2011, the balance sheet value included debt securities which were lent or sold in repurchase transactions amounting to EUR 47 million (2010: EUR 65 million) and EUR 1,752 million (2010: EUR 667 million), respectively.

As at 31 December 2011, Trading assets included receivables of EUR 40,904 million (2010: EUR 47,894 million) with regard to reverse repurchase transactions.

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

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

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

Non-trading derivatives by type		
	2011	2010
Derivatives used in		
– fair value hedges	**3,192**	4,127
– cash flow hedges	**6,641**	4,440
– hedges of net investments in foreign operations	**141**	81
Other non-trading derivatives	**7,185**	3,074
	17,159	11,722

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

Designated as at fair value through profit and loss by type		
	2011	2010
Equity securities	**45**	392
Debt securities	**2,967**	3,672
Loans and receivables	**1,000**	570
Other	**1,425**	1,382
	5,437	6,016

Included in the Financial assets designated as at fair value through profit and loss is a portfolio of loans and receivables which is economically hedged by credit derivatives. The hedges do not meet the criteria for hedge accounting and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans and receivables included in Financial assets designated as at fair value through profit and loss approximates its carrying value. The cumulative change in fair value of the loans attributable to changes in credit risk is not significant.

The notional value of the related credit derivatives is EUR 64 million (2010: EUR 205 million). The change in fair value of the credit derivatives attributable to changes in credit risk since the loans were first designated amounts was EUR –1 million (2010: nil) and the change for the current year was nil (2010: nil).

The changes in fair value of the (designated) loans attributable to changes in credit risk have been calculated by determining the changes in credit spread implicit in the fair value of bonds issued by entities with similar credit characteristics.

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

4 INVESTMENTS

Investments by type	2011	2010
Available-for-sale		
– equity securities	**9,305**	9,754
– debt securities	**199,234**	212,793
	208,539	222,547
Held-to-maturity		
– debt securities	**8,868**	11,693
	8,868	11,693
	217,407	234,240

The fair value of the securities classified as held to maturity amounts to EUR 8,835 million as at 31 December 2011 (2010: EUR 11,854 million).

Exposure to debt securities

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

Debt securities	2011	2010
Available-for-sale investments	**199,234**	212,793
Held-to-maturity investments	**8,868**	11,693
Loans and advances to customers	**29,117**	34,251
Due from banks	**7,321**	8,122
Available-for-sale investments and Assets at amortised cost	**244,540**	266,859
Trading assets	**18,251**	27,979
Investments for risk of policyholders	**9,612**	8,944
Designated as at fair value through profit and loss	**2,967**	3,672
Financial assets at fair value through profit and loss	**30,830**	40,595
	275,370	307,454

ING Group's total exposure to debt securities included in available-for-sale investments and assets at amortised cost of EUR 244,540 million (2010: EUR 266,859 million) is specified as follows by type of exposure and by banking and insurance operations:

Debt securities by type and balance sheet line (banking operations)

	Available-for-sale investments		Held-to-maturity investments		Loans and advances to customers		Due from banks		Total Banking operations	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Government bonds	**47,256**	49,973	**881**	950	**1,081**	1,037			49,218	51,960
Covered bonds	**6,537**	4,974	**7,209**	9,212	**7,468**	7,818	**6,591**	6,943	27,805	28,947
Corporate bonds	**1,088**	904			**425**	162			1,513	1,066
Financial institution bonds	**15,192**	24,015	**421**	425	**134**	244	**736**	1,179	16,483	25,863
Bond portfolio (excluding ABS)	**70,073**	79,866	**8,511**	10,587	**9,108**	9,261	**7,327**	8,122	95,019	107,836
US agency RMBS	**402**	10,921		9					402	10,930
US prime RMBS	**18**	706							18	706
US Alt-A RMBS	**156**	2,431							156	2,431
US subprime RMBS	**22**	87							22	87
Non-US RMBS	**1,127**	1,382		50	**9,551**	13,245	**–6**		10,672	14,677
CDO/CLO	**55**	77			**416**	497			471	574
Other ABS	**441**	592	**357**	358	**2,190**	3,540			2,988	4,490
CMBS	**175**	397		689	**1,171**	1,323			1,346	2,409
ABS portfolio	**2,396**	16,593	**357**	1,106	**13,328**	18,605	**–6**		16,075	36,304
	72,469	96,459	**8,868**	11,693	**22,436**	27,866	**7,321**	8,122	111,094	144,140

In 2011, changes in debt securities (banking operations) include the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 11 'Assets and liabilities held for sale'.

Debt securities by type and balance sheet line (insurance operations)

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

Notes to the consolidated annual accounts of ING Group continued

Debt securities by type and balance sheet line (total)

	Available-for-sale investments		Held-to-maturity investments		Loans and advances to customers		Due from banks		Total Banking and Insurance operations	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Government bonds	**101,988**	98,428	**881**	950	**1,081**	1,037			**103,950**	100,415
Covered bonds	**7,655**	6,301	**7,209**	9,212	**7,468**	7,818	**6,591**	6,943	**28,923**	30,274
Corporate bonds	**46,348**	39,308			**425**	162			**46,773**	39,470
Financial institution bonds	**26,892**	37,062	**421**	425	**134**	244	**736**	1,179	**28,183**	38,910
Bond portfolio (excluding ABS)	**182,883**	181,099	**8,511**	10,587	**9,108**	9,261	**7,327**	8,122	**207,829**	209,069
US agency RMBS	**5,630**	15,720		9					**5,630**	15,729
US prime RMBS	**1,398**	2,331							**1,398**	2,331
US Alt-A RMBS	**451**	2,789							**451**	2,789
US subprime RMBS	**774**	1,647							**774**	1,647
Non-US RMBS	**1,640**	1,952		50	**14,066**	17,848	**–6**		**15,700**	19,850
CDO/CLO	**238**	406			**921**	899			**1,159**	1,305
Other ABS	**1,900**	1,910	**357**	358	**3,536**	4,652			**5,793**	6,920
CMBS	**4,320**	4,939		689	**1,486**	1,591			**5,806**	7,219
ABS portfolio	**16,351**	31,694	**357**	1,106	**20,009**	24,990	**–6**		**36,711**	57,790
	199,234	212,793	**8,868**	11,693	**29,117**	34,251	**7,321**	8,122	**244,540**	266,859

Asset backed security portfolio

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

Exposures, revaluations and losses on pressurised ABS bonds

	31 December 2011		Change in 2011			31 December 2010	
	Balance sheet value [1]	Pre-tax revaluation reserve	Changes through equity (pre-tax)	Changes through profit and loss (pre-tax)	Other changes	Balance sheet value [1]	Pre-tax revaluation reserve
US Subprime RMBS	**774**	**–190**	**37**	**–75**	**–835**	1,647	–227
US Alt-A RMBS	**501**	**–15**	**–252**	**–93**	**–2,001**	2,847	237
CDO/CLOs	**1,390**	**–59**	**–51**	**–22**	**–67**	1,530	–9
CMBS	**5,901**	**–464**	**69**	**–13**	**–1,485**	7,330	–533
Total pressurised ABS	**8,566**	**–729**	**–197**	**–203**	**–4,388**	13,354	–532

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

Other changes includes mainly redemptions/prepayments and the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 11 'Assets and liabilities held for sale'.

Reference is made to Note 34 'Fair value of financial assets and liabilities' for disclosure by fair value hierarchy and Note 37 'Investment income' for impairments on available-for-sale debt securities.

Greece, Italy, Ireland, Portugal and Spain

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

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

2011	Balance sheet value	Pre-tax revaluation reserve	Pre-tax impairments [2]	Amortised cost value	Fair value of investments held-to-maturity
Greece					
Government bonds available-for-sale	255	0	–940	1,195	
Italy					
Government bonds available-for-sale	2,033	–443	0	2,476	
Government bonds at amortised cost (loans)	97			97	
Financial institutions available-for-sale	684	–88		772	
Financial institutions at amortised cost (held-to-maturity)	30			30	28
Financial institutions at amortised cost (loans)	131			131	
Ireland					
Government bonds available-for-sale	43	–10		53	
Financial institutions available-for-sale	44	–1		45	
Financial institutions at amortised cost (held-to-maturity)	34			34	35
Financial institutions at amortised cost (loans)	122			122	
Portugal					
Government bonds available-for-sale	533	–299		832	
Financial institutions available-for-sale	125	–32		157	
Spain					
Government bonds available–for-sale	1,190	–203		1,393	
Government bonds at amortised cost (held-to-maturity)	170			170	170
Financial institutions available-for-sale	277	–37		314	
Financial institutions at amortised cost (loans)	85	–1		86	
Total	5,853	–1,114	–940	7,907	233

(1) Exposures are included based on the parent country of the issuer.
(2) Pre-tax impairments relate to bonds held at 31 December 2011. In addition, EUR 38 million and EUR 189 million impairments were recognised in 2011 on Greek government bonds and Irish unsecured Financial institutions' bonds that were no longer held at 31 December 2011. The total amount of impairments recognised on Greek Government bonds and Irish unsecured Financial institutions' bonds in 2011 is therefore EUR 978 million and EUR 189 million as explained below.

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

On 21 July 2011 a Private Sector Initiative to support Greece was announced. This initiative involves a voluntary exchange of existing Greek government bonds together with a Buyback Facility. Based on this initiative, ING Group impaired its Greek government bonds maturing up to 2020 in the second quarter of 2011 (Bank: EUR 187 million, Insurance: EUR 123 million). The decrease in market value in the third quarter of 2011 of these impaired bonds was recognised as re-impairment (Bank: EUR 90 million, Insurance: 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 (Bank: EUR 177 million, Insurance: EUR 130 million). ING Group 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 200 million (Bank: EUR 133 million, Insurance: EUR 67 million), bringing the total impairments on Greek government bonds to EUR 978 million (Bank: EUR 588 million, Insurance: EUR 390 million). The total Greek government bond portfolio has now been written down by approximately 80%.

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

Reference is made to Note 34 'Fair value of financial assets and liabilities' for disclosure by fair value hierarchy and Note 37 'Investment income' for impairments on available-for-sale debt securities.

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

Changes in available-for-sale and held-to-maturity investments

	Available-for-sale equity securities		Available-for-sale debt securities		Held-to-maturity		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Opening balance	**9,754**	8,853	**212,793**	188,850	**11,693**	14,409	**234,240**	212,112
Additions	**1,525**	2,381	**222,020**	160,658		141	**223,545**	163,180
Amortisation			**–226**	–103	**–14**	–13	**–240**	–116
Transfers and reclassifications	**1,288**	12		282		–282	**1,288**	12
Changes in the composition of the group and other changes	**–188**	–5	**–23,232**	–23	**–444**		**–23,864**	–28
Changes in unrealised revaluations	**–845**	642	**5,645**	5,000			**4,800**	5,642
Impairments	**–253**	–75	**–1,485**	–735			**–1,738**	–810
Reversals of impairments			**79**	11			**79**	11
Disposals and redemptions	**–2,023**	–2,228	**–219,023**	–150,569	**–2,370**	–2,620	**–223,416**	–155,417
Exchange rate differences	**47**	174	**2,663**	9,422	**3**	58	**2,713**	9,654
Closing balance	**9,305**	9,754	**199,234**	212,793	**8,868**	11,693	**217,407**	234,240

In 2011, Changes in the composition of the group and other changes relates mainly to the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 11 'Assets and liabilities held for sale'.

Reference is made to Note 37 'Investment income' for details on Impairments.

Transfers and reclassifications of available-for-sale and held-to-maturity investments

	Available-for-sale equity securities		Available-for-sale debt securities		Held-to-maturity		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
To/from held-to-maturity				282				282
To/from available-for-sale						–282		–282
To/from investment in associates	**1,288**	12					**1,288**	12
	1,288	12		282		–282	**1,288**	12

In 2011, To/from investment in associates in relation to available-for-sale equity securities relates mainly to the real estate funds for which significant influence ceased to exist due to the sale of ING Real Estate Investment Management.

Held-to-maturity debt securities – sale and reclassification to available-for-sale investments (2010)
In the second quarter of 2010 EUR 51 million of Greek government bonds that were classified as held-to-maturity investments were sold. Furthermore, EUR 282 million of Greek government bonds were reclassified from held-to-maturity to available-for-sale investments. As the decisions to sell and reclassify were based on the significant deterioration in the issuer's creditworthiness compared to the credit rating at initial recognition, this sale and reclassification does not impact the intent for the remainder of the held-to-maturity investment portfolio.

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

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Reclassifications to Loans and advances to customers and Amounts due from banks	Q2 2009	Q1 2009	Q4 2008
As per reclassification date			
Fair value	6,135	22,828	1,594
Range of effective interest rates (weighted average)	1.4%–24.8%	2.1%–11.7%	4.1%–21%
Expected recoverable cash flows	7,118	24,052	1,646
Unrealised fair value losses in shareholders' equity (before tax)	–896	–1,224	–69
Recognised fair value gains (losses) in shareholders' equity (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	173	nil	–79
Recognised fair value gains (losses) in shareholders' equity (before tax) in the year prior to reclassification	–971	–192	–20
Recognised impairment (before tax) between the beginning of the year in which the reclassification took place and the reclassification date	nil	nil	nil
Recognised impairment (before tax) in the year prior to reclassification	nil	nil	nil
Impact on the financial years after reclassification:			
2011			
Carrying value as at 31 December	**6,734**	**14,419**	**633**
Fair value as at 31 December	**6,524**	**13,250**	**648**
Unrealised fair value losses recognised in shareholders' equity (before tax) as at 31 December	**–307**	**–446**	**–8**
Effect on shareholders' equity (before tax) if reclassification had not been made	**–210**	**–1,169**	**15**
Effect on result (before tax) if reclassification had not been made	**nil**	**nil**	**nil**
Effect on result (before tax) for the year (mainly interest income)	**127**	**390**	**28**
Recognised impairments (before tax)	**nil**	**nil**	**nil**
Recognised provision for credit losses (before tax)	**nil**	**nil**	**nil**
2010			
Carrying value as at 31 December	6,418	16,906	857
Fair value as at 31 December	6,546	16,099	889
Unrealised fair value losses recognised in shareholders' equity (before tax) as at 31 December	–491	–633	–65
Effect on shareholders' equity (before tax) if reclassification had not been made	128	–807	32
Effect on result (before tax) if reclassification had not been made	nil	nil	nil
Effect on result (before tax) for the year (mainly interest income)	78	467	34
Recognised impairments (before tax)	nil	nil	nil
Recognised provision for credit losses (before tax)	nil	nil	nil
2009			
Carrying value as at 31 December	6,147	20,551	1,189
Fair value as at 31 December	6,472	20,175	1,184
Unrealised fair value losses in shareholders' equity (before tax) as at 31 December	–734	–902	–67
Effect on shareholders' equity (before tax) if reclassification had not been made	325	–376	–5
Effect on result (before tax) if reclassification had not been made	nil	nil	nil
Effect on result (before tax) after the reclassification until 31 December (mainly interest income)	54	629	n/a
Effect on result (before tax) for the year (mainly interest income)	n/a	n/a	47
Recognised impairments (before tax)	nil	nil	nil
Recognised provision for credit losses (before tax)	nil	nil	nil
2008			
Carrying value as at 31 December			1,592
Fair value as at 31 December			1,565
Unrealised fair value losses recognised in shareholders' equity (before tax) as at 31 December			–79
Effect on shareholders' equity (before tax) as at 31 December if reclassification had not been made			–28
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)			9
Recognised impairments (before tax)			nil
Recognised provision for credit losses (before tax)			nil

Available-for-sale equity securities by banking and insurance operations		Listed		Unlisted		Total
	2011	2010	**2011**	2010	**2011**	2010
Banking operations	**1,722**	2,159	**744**	582	**2,466**	2,741
Insurance operations	**3,807**	4,438	**3,032**	2,575	**6,839**	7,013
	5,529	6,597	**3,776**	3,157	**9,305**	9,754

Debt securities by banking and insurance operations		Available-for-sale		Held-to-maturity		Total
	2011	2010	**2011**	2010	**2011**	2010
Banking operations	**72,469**	96,459	**8,868**	11,693	**81,337**	108,152
Insurance operations	**126,765**	116,334			**126,765**	116,334
	199,234	212,793	**8,868**	11,693	**208,102**	224,486

As at 31 December 2011, the balance sheet value included equity securities which were lent or sold in repurchase transactions amounting to nil (2010: nil) and nil (2010: nil), respectively, and debt securities which were lent or sold in repurchase transactions amounting to EUR 909 million (2010: EUR 3,302 million) and EUR 21,183 million (2010: EUR 14,617 million), respectively.

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

5 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers by banking and insurance operations		
	2011	2010
Banking operations	**577,919**	589,039
Insurance operations	**32,972**	31,065
	610,891	620,104
Eliminations	**–8,366**	–6,900
	602,525	613,204

Loans and advances to customers by type – banking operations		Netherlands		International		Total
	2011	2010	**2011**	2010	**2011**	2010
Loans to, or guaranteed by, public authorities	**29,281**	28,671	**25,867**	27,282	**55,148**	55,953
Loans secured by mortgages	**168,382**	161,938	**160,404**	172,801	**328,786**	334,739
Loans guaranteed by credit institutions	**379**	308	**8,260**	8,356	**8,639**	8,664
Personal lending	**5,012**	5,125	**19,389**	16,618	**24,401**	21,743
Asset backed securities			**13,328**	18,605	**13,328**	18,605
Corporate loans	**48,851**	53,785	**103,709**	100,724	**152,560**	154,509
	251,905	249,827	**330,957**	344,386	**582,862**	594,213
Loan loss provisions	**–2,002**	–1,932	**–2,941**	–3,242	**–4,943**	–5,174
	249,903	247,895	**328,016**	341,144	**577,919**	589,039

Loans and advances to customers analysed by subordination – banking operations		
	2011	2010
Non-subordinated	**572,320**	583,616
Subordinated	**5,599**	5,423
	577,919	589,039

As at 31 December 2011, the balance sheet value included debt securities which were lent or sold in repurchase transactions amounting to nil (2010: nil) and EUR 1,778 million (2010: EUR 727 million), respectively.

Loans and advances to customers by type – insurance operations

	Netherlands		International		Total	
	2011	2010	**2011**	2010	**2011**	2010
Policy loans	**44**	47	**3,308**	3,180	**3,352**	3,227
Loans secured by mortgages	**6,450**	6,594	**7,692**	7,169	**14,142**	13,763
Unsecured loans	**2,187**	3,046	**5,135**	3,137	**7,322**	6,183
Asset backed securities	**6,681**	6,385			**6,681**	6,385
Other	**355**	442	**1,244**	1,182	**1,599**	1,624
	15,717	16,514	**17,379**	14,668	**33,096**	31,182
Loan loss provisions	**–80**	–71	**–44**	–46	**–124**	–117
	15,637	16,443	**17,335**	14,622	**32,972**	31,065

As at 31 December 2011, Loans and advances to customers included receivables with regard to securities which have been acquired in reverse repurchase transactions related to the banking operations amounting to EUR 1,228 million (2010: EUR 1,609 million).

No individual loan or advance has terms and conditions that materially affect the amount, timing or certainty of the consolidated cash flows of the Group. For details on significant concentrations see 'Risk management' section.

Loans and advances to customers and Amounts due from banks include finance lease receivables, are detailed as follows:

Finance lease receivables

	2011	2010
Maturities of gross investment in finance lease receivables		
– within 1 year	**5,386**	5,060
– more than 1 year but less than 5 years	**9,407**	9,700
– more than 5 years	**5,875**	6,089
	20,668	20,849
Unearned future finance income on finance leases	**–3,228**	–3,328
Net investment in finance leases	**17,440**	17,521
Maturities of net investment in finance lease receivables		
– within 1 year	**4,697**	4,363
– more than 1 year but less than 5 years	**8,035**	8,294
– more than 5 years	**4,708**	4,864
	17,440	17,521
Included in Amounts due from banks	**76**	82
Included in Loans and advances to customers	**17,364**	17,439
	17,440	17,521

The allowance for uncollectible finance lease receivables included in the loan loss provisions amounted to EUR 223 million as at 31 December 2011 (2010: EUR 177 million).

No individual finance lease receivable has terms and conditions that materially affect the amount, timing or certainty of the consolidated cash flows of the Group.

Loan loss provisions analysed by type – banking operations

	Netherlands 2011	2010	International 2011	2010	Total 2011	2010
Loans to, or guaranteed by, public authorities	**1**		**2**	3	**3**	3
Loans secured by mortgages	**503**	416	**712**	1,183	**1,215**	1,599
Loans guaranteed by credit institutions	**4**	1	**5**	22	**9**	23
Personal lending	**119**	131	**597**	536	**716**	667
Asset backed securities			**2**		**2**	
Corporate loans	**1,375**	1,384	**1,630**	1,519	**3,005**	2,903
Other						
	2,002	1,932	**2,948**	3,263	**4,950**	5,195
The closing balance is included in						
– Amounts due from banks			**7**	21	**7**	21
– Loans and advances to customers	**2,002**	1,932	**2,941**	3,242	**4,943**	5,174
	2,002	1,932	**2,948**	3,263	**4,950**	5,195

Changes in loan loss provisions

	Banking operations 2011	2010	Insurance operations 2011	2010	Total 2011	2010
Opening balance	**5,195**	4,399	**117**	111	**5,312**	4,510
Changes in the composition of the group	**–3**		**–2**		**–5**	
Write-offs	**–1,304**	–1,166	**–24**	–42	**–1,328**	–1,208
Recoveries	**112**	105	**2**	1	**114**	106
Increase in loan loss provisions	**1,670**	1,751	**33**	41	**1,703**	1,792
Exchange rate differences	**–83**	155	**–2**	6	**–85**	161
Other changes	**–637**	–49			**–637**	–49
Closing balance	**4,950**	5,195	**124**	117	**5,074**	5,312

The increase in loan loss provisions relating to insurance operations is presented under Investment income. The increase in the loan loss provisions relating to banking operations is presented under Addition to loan loss provisions on the face of the profit and loss account.

In 2011, Other changes relates for EUR 565 million to the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 11 'Assets and liabilities held for sale'.

6 INVESTMENTS IN ASSOCIATES

Investments in associates

2011	Interest held (%)	Fair value of listed investment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	30	509	580	16,100	14,847	377	301
Sul America S.A.	36	641	394	5,353	4,292	3,941	3,662
CBRE Retail Property Fund Iberica LP	29		147	1,666	1,146	96	65
CBRE Lionbrook Property Partnership LP	27		102	604	225	50	17
CBRE Property Fund Central Europe LP	25		90	897	536	87	4
ING Real Estate Asia Retail Fund	26		87	868	512	81	37
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			631				
			2,370				

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

Accumulated impairments of EUR 38 million (2010: EUR 71 million) have been recognised.

As a result of the sale of ING Real Estate Investment Management in 2011, as disclosed in Note 30 'Companies acquired and companies disposed', ING is no longer the investment manager of certain funds. For some of the funds significant influence therefore ceased to exist. Significant influence remained for certain funds in which the interest held is below 20% based on the combination of ING Group's financial interest for own risk and other arrangements, such as participation in the advisory board.

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

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

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

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Investments in associates

2010	Interest held (%)	Fair value of listed investment	Balance sheet value	Total assets	Total liabilities	Total income	Total expenses
TMB Public Company Limited	30	773	565	14,055	12,826	321	262
Sul America S.A.	36	948	388	5,223	4,178	3,749	3,307
CBRE DRET Master Fund C.V. (1)	15		201	1,643	267	146	34
CBRE DOF Master Fund I C.V. (1)	16		195	1,480	268	67	24
CBRE Retail Property Fund Iberica LP (1)	29		144	1,635	1,122	149	86
CBRE DRES Master Fund C.V. (1)	13		111	1,004	180	52	20
ING Real Estate Asia Retail Fund	28		107	782	450	51	53
CBRE DOF Master Fund II C.V. (1)	16		101	755	129	45	29
CBRE Lionbrook Property Partnership LP (1)	21		96	620	171	77	19
CBRE Vastgoed Kantoren C.V. (1)	10		90	945	46	75	40
CBRE Vastgoed Winkels C.V. (1)	10		89	900	5	90	20
Lion Properties Fund	4		86	3,412	1,428	1,606	1,150
Lion Industrial Trust	8		85	2,691	1,583	247	130
ING Industrial Fund Australia	8	81	85	1,830	756	162	86
CBRE French Residential Fund C.V. (1)	45		76	233	63	20	8
CBRE Property Fund Central Europe LP (1)	25		74	806	510	66	37
Steadfast Capital Fund II LP	68		74	145		3	2
CBRE Retail Property Fund France. Belgium C.V. (1)	15		70	1,382	916	102	56
Lion Value Fund	30		69	341	109	53	10
CBRE DRES Master Fund II C.V. (1)	13		63	612	143	22	18
CBRE Nordic Property Fund FGR (1)	15		61	940	543	81	59
ING REI Investment DOF B.V.	3		59	2,235	414	199	175
CBRE Retail Property Partnership Southern Europe C.V. (1)	21		52	1,001	759	48	67
CBRE European Industrial Fund C.V. (1)	15		50	647	308	42	28
Other investments in associates			934				
			3,925				

(1) The name of this associate changed in 2011.

Changes in Investments in associates

	2011	2010
Opening balance	**3,925**	3,699
Additions	**140**	165
Changes in the composition of the group	**16**	–26
Transfers to and from Investments	**–1,288**	–12
Revaluations	**–19**	–2
Share of results	**241**	314
Dividends received	**–174**	–229
Disposals	**–383**	–232
Impairments	**–20**	–3
Exchange rate differences	**–68**	251
Closing balance	**2,370**	3,925

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

In 2011, share of results of EUR 241 million (2010: EUR 314 million) and impairments of EUR 20 million (2010: EUR 3 million) are presented in the profit and loss account in Share of result from associates for EUR 221 million (2010: EUR 311 million).

7 REAL ESTATE INVESTMENTS

Changes in real estate investments		
	2011	2010
Opening balance	**1,900**	3,638
Additions	**32**	73
Changes in the composition of the group	**–88**	–1,632
Transfers to and from Property in own use	**–31**	
Transfers to and from Other assets		–23
Fair value gains/(losses)	**–19**	–98
Disposals	**–118**	–295
Exchange rate differences	**–6**	237
Closing balance	**1,670**	1,900

In 2010, Changes in the composition of the group comprises the sale of ING Summit Industrial Fund LP. Reference is made to Note 30 'Companies acquired and companies disposed'.

Real estate investments by banking and insurance operations		
	2011	2010
Banking operations	**716**	837
Insurance operations	**954**	1,063
	1,670	1,900

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2011 was EUR 184 million (2010: EUR 304 million). The total amount of contingent rent recognised in the profit and loss account for the year ended 31 December 2011 was nil (2010: EUR 14 million).

The total amount of direct operating expenses (including repairs and maintenance) in relation to Real estate investments that generated rental income for the year ended 31 December 2011 was EUR 101 million (2010: EUR 113 million). The total amount of direct operating expenses (including repairs and maintenance) incurred on Real estate investments that did not generate rental income for the year ended 31 December 2011 was EUR 3 million (2010: EUR 6 million).

Real estate investments by year of most recent appraisal by independent qualified valuers	
in percentages	**2011**
Most recent appraisal in 2011	**93**
Most recent appraisal in 2010	**7**
	100

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

Real estate exposure		
	2011	2010
Real estate investments	**1,670**	1,900
Investments in associates	**1,193**	2,568
Other assets – property development and obtained from foreclosures	**1,584**	2,153
Property and equipment – property in own use	**1,535**	1,642
Investments – available-for-sale	**1,773**	633
	7,755	8,896

Furthermore, the exposure is impacted by third party interests, leverage in funds and off-balance commitments, resulting in an overall exposure of EUR 10.0 billion (2010: EUR 11.1 billion) of which EUR 4.1 billion (2010: EUR 5.2 billion) relates to banking operations and EUR 5.9 billion (2010: EUR 5.9 billion) relates to insurance operations. Reference is made to the section 'Risk management'.

8 PROPERTY AND EQUIPMENT

Property and equipment by type	2011	2010
Property in own use	**1,535**	1,642
Equipment	**1,345**	1,435
Assets under operating leases	**6**	3,055
	2,886	6,132

Property in own use by banking and insurance operations	2011	2010
Banking operations	**1,244**	1,329
Insurance operations	**291**	313
	1,535	1,642

Changes in property in own use	2011	2010
Opening balance	**1,642**	1,686
Additions	**41**	51
Changes in the composition of the group	**–28**	
Transfers to and from Real estate investments	**31**	
Transfers to and from Other assets	**–31**	–4
Depreciation	**–28**	–31
Revaluations	**–21**	–20
Impairments	**–29**	–27
Reversal of impairments	**11**	5
Disposals	**–27**	–43
Exchange rate differences	**–26**	25
Closing balance	**1,535**	1,642
Gross carrying amount as at 31 December	**2,366**	2,487
Accumulated depreciation as at 31 December	**–674**	–700
Accumulated impairments as at 31 December	**–157**	–145
Net carrying value as at 31 December	**1,535**	1,642
Revaluation surplus		
Opening balance	**528**	531
Revaluation in year	**–28**	–3
Released in year	**–2**	
Closing balance	**498**	528

The cost or the purchase price amounted to EUR 1,868 million (2010: EUR 1,959 million). Cost or the purchase price less accumulated depreciation and impairments would have been EUR 1,036 million (2010: EUR 1,114 million) had property in own use been valued at cost instead of at fair value.

Property in own use by year of most recent appraisal by independent qualified valuers	
in percentages	**2011**
Most recent appraisal in 2011	**54**
Most recent appraisal in 2010	**13**
Most recent appraisal in 2009	**10**
Most recent appraisal in 2008	**15**
Most recent appraisal in 2007	**8**
	100

Changes in equipment

	Data processing equipment		Fixtures and fittings and other equipment		Total	
	2011	2010	**2011**	2010	**2011**	2010
Opening balance	**376**	344	**1,059**	1,098	**1,435**	1,442
Additions	**191**	192	**267**	284	**458**	476
Changes in the composition of the group	**–11**	–4	**–29**	–7	**–40**	–11
Disposals	**–16**	–12	**–24**	–41	**–40**	–53
Depreciation	**–176**	–167	**–236**	–262	**–412**	–429
Impairments		–1	**–1**		**–1**	–1
Exchange rate differences	**–6**	12	**–14**	20	**–20**	32
Other changes	**5**	12	**–40**	–33	**–35**	–21
Closing balance	**363**	376	**982**	1,059	**1,345**	1,435
Gross carrying amount as at 31 December	**1,659**	1,707	**2,620**	2,642	**4,279**	4,349
Accumulated depreciation as at 31 December	**–1,295**	–1,330	**–1,638**	–1,583	**–2,933**	–2,913
Accumulated impairments as at 31 December	**–1**	–1			**–1**	–1
Net carrying value as at 31 December	**363**	376	**982**	1,059	**1,345**	1,435

Changes in assets under operating leases

	Cars		Other leased-out assets		Total	
	2011	2010	**2011**	2010	**2011**	2010
Opening balance	**3,053**	2,986	**2**	5	**3,055**	2,991
Additions	**1,188**	1,284			**1,188**	1,284
Changes in the composition of the group	**–3,250**	–3			**–3,250**	–3
Disposals	**–43**	–53			**–43**	–53
Depreciation	**–594**	–784	**–2**	–3	**–596**	–787
Exchange rate differences	**–12**	13			**–12**	13
Transfer and other changes	**–336**	–390			**–336**	–390
Closing balance	**6**	3,053		2	**6**	3,055
Gross carrying amount as at 31 December	**16**	4,617		18	**16**	4,635
Accumulated depreciation as at 31 December	**–10**	–1,564		–16	**–10**	–1,580
Net carrying value as at 31 December	**6**	3,053		2	**6**	3,055

In 2011, Changes in the composition of the group comprises the sale of ING Car Lease. Reference is made to Note 30 'Companies acquired and companies disposed'.

Transfer and other changes relates mainly to the transfer of cars under operating lease to Other assets due to the expiration of the lease contract.

Depreciation of assets under operating leases is included in the profit and loss account in Other income as a deduction from operating lease income.

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

The Group leases assets to third parties under operating leases as lessor. The future minimum lease payments to be received under non-cancellable operating leases are as follows:

Future minimum lease payments by maturity

	2011	2010
Within 1 year	**1**	1,155
More than 1 year but less than 5 years	**4**	1,887
More than 5 years	**1**	13
	6	3,055

9 INTANGIBLE ASSETS

Changes in intangible assets

	Value of business acquired		Goodwill		Software		Other		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Opening balance	**1,320**	1,502	**2,765**	3,071	**754**	803	**533**	645	**5,372**	6,021
Additions					**207**	223	**2**	1	**209**	224
Capitalised expenses	**81**	90			**131**	148			**212**	238
Amortisation and unlocking	**–244**	–113			**–391**	–358	**–87**	–118	**–722**	–589
Impairments			**–32**	–540	**–49**	–31	**–1**		**–82**	–571
Effect of unrealised revaluations in equity	**–250**	–286							**–250**	–286
Changes in the composition of the group	**–43**		**–680**	11	**–5**	–49	**–126**	–19	**–854**	–57
Exchange rate differences	**7**	127	**–212**	238	**–8**	13	**–26**	48	**–239**	426
Disposals				–7	**–9**	5		–12	**–9**	–14
Other			**–47**	–8	**–19**		**–13**	–12	**–79**	–20
Closing balance	**871**	1,320	**1,794**	2,765	**611**	754	**282**	533	**3,558**	5,372
Gross carrying amount as at 31 December	**2,244**	2,449	**2,436**	3,370	**2,597**	2,557	**570**	1,013	**7,847**	9,389
Accumulated amortisation as at 31 December	**–1,373**	–1,129			**–1,926**	–1,751	**–242**	–426	**–3,541**	–3,306
Accumulated impairments as at 31 December			**–642**	–605	**–60**	–52	**–46**	–54	**–748**	–711
Net carrying value as at 31 December	**871**	1,320	**1,794**	2,765	**611**	754	**282**	533	**3,558**	5,372

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

A goodwill impairment of EUR 32 million was recognised in 2011. The impairment relates to the reporting unit ING Real Estate. A goodwill impairment of EUR 540 million was recognised in 2010. The impairment relates to the reporting unit Insurance US. In 2011, Changes in composition of the group relates mainly to the disposal of ING Car Lease and the disposal of the Latin American pensions, life insurance and investment management operations. Other changes includes EUR 97 million related to the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 11 'Assets and liabilities held for sale'.

Allocation of Goodwill to reporting units

Goodwill is allocated to reporting units as follows:

Goodwill allocation to reporting units

	2011	2010
Retail Central Europe	**738**	870
Retail Belgium	**50**	49
Retail Netherlands	**1**	1
ING Direct	**364**	468
Commercial Banking – Lease	**11**	68
ING Real Estate		32
Commercial Banking – Other	**14**	14
Insurance Benelux	**48**	48
Insurance Central & Rest of Europe	**112**	123
Insurance Latin America		680
Insurance Asia/Pacific – South Korea	**192**	192
Insurance Asia/Pacific – Rest of Asia	**44**	2
ING Investment Management	**220**	218
	1,794	2,765

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 transaction in the market for comparable businesses. Earnings and carrying values are equal to or derived from the relevant measure under IFRS-EU. If the outcome of this first step indicates that the difference between recoverable amount and carrying value may not be sufficient to support the amount of goodwill allocated to the reporting unit, an additional analysis is performed in order to determine a recoverable amount in a manner that better addresses the specific characteristics of the relevant reporting unit.

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

ING Real Estate
During 2011 the ING Real Estate business changed significantly. The Real Estate Development business was reduced by selling/closing development projects and ING sold REIM (the ING Real Estate Investment Management business). As a consequence, there were indications in the fourth quarter of 2011 that the recoverable amount of the reporting unit ING Real Estate had fallen below book value. A full goodwill impairment review was performed for the reporting unit ING Real Estate in the fourth quarter of 2011. The reporting unit Real Estate equals the segment ING Real Estate as disclosed in Note 51 'Operating segments'. The 2010 impairment test for ING Real Estate showed that the recoverable amount based on fair value using market multiples for Price/Book was at least equal to book value. The outcome of the impairment test performed in the fourth quarter of 2011 indicated that the fair value has become less than book value by an amount that exceeded the goodwill of ING Real Estate, indicating that the full amount of goodwill relating to ING Real Estate is impaired. As a result, the goodwill of EUR 32 million (pre-tax) was written down. The related charge is included in the profit and loss account in the line Intangibles amortisation and other impairments. Goodwill is recognised in the Corporate Line segment and, therefore, this charge is included in the segment reporting in the Corporate Line Bank segment.

Retail Central Europe
For the reporting unit Retail Central Europe the recoverable amount is determined as the sum of the recoverable amounts of the most important components. For certain components, a market price is available based on listed equity securities. In such case, the listed market price is used to determine the recoverable amount. For certain other components, the recoverable amount is determined by a cash flow model taking into account recent market related developments. The most important assumptions in the model are the estimated expected profit based on internal financial budgets/forecasts (4 years medium term plan plus additional 2 years longer term forecast), the terminal growth rate thereafter (approximately 3.5%), the required capital level (ultimately migrating to approximately 10%) and the discount rate (between approximately 10% and 13%). It was concluded that the goodwill allocated to Retail Central Europe is not impaired.

Insurance US
Due to the unfavourable market circumstances for Insurance, including the low interest rate environment, there were indications in the third quarter of 2010 that the recoverable amount of the reporting unit Insurance US had fallen below carrying value. As a result, a full goodwill impairment review was performed for the reporting unit Insurance US in the third quarter of 2010. The reporting unit Insurance US equals the segment Insurance US as disclosed in Note 51 'Operating segments'. The 2009 impairment test for Insurance US showed that the recoverable amount based on fair value (using market multiples for Price/Book and Price/Earnings of listed peer companies) was at least equal to carrying value. The outcome of the impairment test performed in the third quarter of 2010 indicated that the fair value has become less than carrying value by an amount that exceeded the goodwill of Insurance US, indicating that the full amount of goodwill relating to Insurance US is impaired. Further analysis of the recoverable amount confirmed the impairment. As a result, the goodwill of EUR 540 million (pre-tax) was written down. The related charge is included in the profit and loss account in the line 'Intangibles amortisation and other impairments'. Goodwill is recognised in the Corporate Line segment and, therefore, this charge is included in the segment reporting in the Corporate Line Insurance segment.

10 DEFERRED ACQUISITION COSTS

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

For flexible life insurance contracts the growth rate assumption used to calculate the amortisation of the deferred acquisition costs for 2011 is 8.4% gross and 4.2% net of investment management fees (2010: 8.3% gross and 4.8% net of investment management fees).

In 2011, Amortisation and unlocking include EUR 488 million relating to the assumption review for the Insurance US Closed Block Variable Annuity (VA) business. Reference is made to Note 43 'Underwriting expenditure'.

Amortisation and unlocking in 2010 includes a EUR 975 million DAC write-off as explained in Note 51 'Operating segments'. The remaining amount includes unlocking of EUR –538 million, which mainly relates to Insurance US and amortisation of EUR –1,184 million.

11 ASSETS AND LIABILITIES HELD FOR SALE

Assets and liabilities held for sale include disposal groups whose carrying amount will be recovered principally through a sale transaction rather than through continuing operations. This relates to businesses for which a sale is agreed upon or a sale is highly probable at the balance sheet date but for which the transaction has not yet fully closed. For 31 December 2011 this relates to ING Direct USA. For 31 December 2010 this relates mainly to Pacific Antai Life Insurance Company Ltd., ING Arrendadora S.A. de C.V., ING Real Estate Investment Management (ING REIM) and Clarion Real Estate Securities. Reference is made to Note 30 'Companies acquired and companies disposed' for more details on occurred and expected significant disposals.

Assets held for sale	**2011**	2010
Cash and balances with central banks	**4,980**	28
Amounts due from banks	**314**	
Financial assets at fair value through profit and loss	**3**	16
Available-for-sale investments	**22,605**	144
Loans and advances to customers	**444**	
Reinsurance contracts	**31,805**	244
Investments in associates		43
Property and equipment	**75**	12
Intangible assets	**166**	15
Deferred acquisition costs		43
Other assets	**2,091**	136
	62,483	681

Liabilities held for sale	**2011**	2010
Other borrowed funds		35
Insurance and investments contracts		217
Customer deposits and other funds on deposit	**64,103**	
Other liabilities	**162**	172
	64,265	424

Cumulative other comprehensive income includes EUR 244 million (2010: EUR 7 million) related to Assets and liabilities held for sale.

In addition to the entities presented as Held for sale above, ING is considering potential divestments, including those that are listed under the European Commission Restructuring plan in Note 33 'Related parties'. However, none of these businesses qualify as held for sale as at 31 December 2011 as the potential divestments are not yet available for immediate sale in their present condition and/or a sale is not yet highly probable to occur.

12 OTHER ASSETS

Other assets by type	2011	2010
Reinsurance and insurance receivables	**1,971**	2,201
Deferred tax assets	**2,801**	3,425
Property development and obtained from foreclosures	**1,584**	2,153
Income tax receivable	**542**	527
Accrued interest and rents	**14,387**	16,194
Other accrued assets	**2,200**	2,888
Pension assets	**3,762**	3,458
Other	**3,769**	5,623
	31,016	36,469

Other includes EUR 1,840 million (2010: EUR 1,875 million) related to transactions still to be settled at balance sheet date.

Disclosures in respect of deferred tax assets and pension assets are provided in Note 21 'Other liabilities'.

Accrued interest and rents includes EUR 6,388 million (2010: EUR 7,113 million) accrued interest on assets measured at amortised cost under the IAS 39 classification Loans and receivables.

The total amount of borrowing costs relating to Property development and obtained from foreclosures, capitalised in 2011 is EUR 7 million (2010: EUR 18 million).

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

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

Property development and obtained from foreclosures	2011	2010
Property under development	**400**	821
Property developed	**1,055**	1,024
Property obtained from foreclosures	**129**	308
	1,584	2,153
Gross carrying amount as at 31 December	**2,720**	3,240
Accumulated impairments as at 31 December	**–1,136**	–1,087
Net carrying value	**1,584**	2,153

EQUITY

13 SHAREHOLDERS' EQUITY (PARENT)/NON-VOTING EQUITY SECURITIES

Shareholders' equity (parent)	2011	2010	2009
Share capital	**919**	919	919
Share premium	**16,034**	16,034	16,034
Revaluation reserve	**5,550**	4,752	2,466
Currency translation reserve	**93**	79	–2,011
Other reserves	**24,067**	19,120	16,235
Shareholders' equity (parent)	**46,663**	40,904	33,643

The following equity components cannot be freely distributed: Revaluation reserve, Share of associates reserve (included in Other reserves), Currency translation reserve and the part of the Other reserves that relates to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN.

As at 31 December 2011, Other reserves included an amount of EUR 836 million (2010: EUR 741 million; 2009: EUR 645 million) related to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN.

Share capital						Ordinary shares (par value EUR 0.24)
			Number x1,000			Amount
	2011	2010	2009	**2011**	2010	2009
Authorised share capital	**14,500,000**	4,500,000	4,500,000	**3,480**	1,080	1,080
Unissued share capital	**10,668,439**	668,439	668,439	**2,561**	161	161
Issued share capital	**3,831,561**	3,831,561	3,831,561	**919**	919	919

Changes in issued share capital		Ordinary shares (par value EUR 0.24)
	Number x1,000	Amount
Issued share capital as at 1 January 2009	2,063,148	495
Issue of shares	1,768,413	424
Issued share capital as at 31 December 2009	3,831,561	919

No changes have occurred in the issued share capital in 2011 and 2010.

Share premium

Changes in Share premium are disclosed in the Consolidated statement of changes in equity of ING Group.

Rights issue (2009)

On 27 November 2009 existing holders of (depositary receipts for) ordinary shares were offered rights entitling to subscribe for new (depositary receipts for) ordinary shares subject to applicable securities laws. Eligible rights holders could subscribe for six new (depositary receipts for) ordinary shares in relation to every seven subscription rights that they hold. The issue price was set at EUR 4.24 per share. This represented a discount of 37.3% to the Theoretical Ex-Rights Price (TERP), based on the closing price of EUR 8.92 of ING Groep N.V.'s, (depositary receipts for) shares on Euronext Amsterdam and on Euronext Brussels on 26 November 2009.

A total of 1,768,412,544 (depositary receipts for) ordinary shares were offered and sold, of which approximately 97% through the exercise of rights and the remainder through placements to institutional investors. As a result, ING received approximately EUR 7.3 billion in proceeds, net of fees and expenses.

Ordinary shares

All ordinary shares are in registered form. No share certificates have been issued. Ordinary shares may be transferred by means of a deed of transfer. A transfer of ordinary shares requires written acknowledgement by ING Groep N.V. The par value of ordinary shares is EUR 0.24. The authorised ordinary share capital of ING Groep N.V. currently consists of 14,500 million ordinary shares. It increased in 2011 from 4,500 million ordinary shares to 14,500 million ordinary shares as a result from an amendment made to the Articles of Association on 15 June 2011. As at 31 December 2011, 3,832 million of ordinary shares were issued and fully paid.

Depositary receipts for ordinary shares
More than 99.9% of the ordinary shares issued by ING Groep N.V. is held by Stichting ING Aandelen (ING Trust Office). In exchange for these shares, ING Trust Office has issued depositary receipts in bearer form for these shares. The depositary receipts are listed on various stock exchanges. Depositary receipts can be exchanged upon request of the holders of depositary receipts for (non-listed) ordinary shares without any restriction, other than payment of an administrative fee of EUR 0.01 per depositary receipt with a minimum of EUR 25 per exchange transaction.

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

In addition, the holder of a depositary receipt is entitled to attend and to speak at the General Meeting of Shareholders of ING Groep N.V. either in person or by proxy. A holder of a depositary receipt, who thus attends the General Meeting of Shareholders, is entitled to vote as a proxy of the ING Trust Office but entirely at his own discretion for a number of shares equal to the number of his depositary receipts.

A holder of depositary receipts who does not attend the General Meeting of Shareholders in person or by proxy is entitled to give a binding voting instruction to the Trust Office for a number of shares equal to the number of his depositary receipts.

Depositary receipts for ordinary shares held by ING Group (Treasury shares)
As at 31 December 2011, 49.3 million (2010: 51.3 million; 2009: 47.0 million) depositary receipts for ordinary shares ING Groep N.V. with a par value of EUR 0.24 were held by ING Groep N.V. or its subsidiaries. These depositary receipts for ordinary shares were purchased to hedge option rights granted to the Executive Board members and other employees. In December 2010 ING Groep N.V. announced that it will no longer rebalance its hedge portfolio. This decision is an effort to simplify the management and administration of ING's various employee share and option programmes. The remaining shares in the hedge portfolio will be used to fund the obligations arising out of exercise and vesting. Once all shares in the hedge portfolio are used ING will fund these obligations by issuing new shares.

Restrictions with respect to dividend and repayment of capital
ING Groep N.V. is subject to legal restrictions regarding the amount of dividends it can pay to the holders of its ordinary shares. Pursuant to the Dutch Civil Code, dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital, and reserves required by law.

Moreover, ING Groep N.V.'s ability to pay dividends is dependent on the dividend payment ability of its subsidiaries and associates. ING Groep N.V. is legally required to create a non-distributable reserve insofar profits of its subsidiaries and associates are subject to dividend payment restrictions which apply to those subsidiaries and associates themselves. Such restrictions may among others be of a similar nature as the restrictions which apply to ING Groep N.V. Furthermore there can be restrictions as a result of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, or other limitations which may exist in certain countries.

Without prejudice to the authority of the Executive Board to allocate profits to reserves and to the fact that the ordinary shares are the most junior securities issued by ING Groep N.V., no specific dividend payment restrictions with respect to ordinary shares exist.

Furthermore, ING Groep N.V. is subject to legal restrictions with respect to repayment of capital to holders of ordinary shares. Capital may be repaid to the holders of ordinary shares pursuant to an amendment of ING Groep N.V.'s Articles of Association whereby the ordinary shares are written down.

Pursuant to the Dutch Civil Code, capital may only be repaid if none of ING Groep N.V.'s creditors opposes such a repayment within two months following the announcement of a resolution to that effect.

On a distribution of a dividend ING Groep N.V. is in principle required to withhold an income tax on dividends at a rate of 15%.

2011	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	**379**	**3,526**	**847**	**4,752**
Unrealised revaluations after taxation	**–12**	**967**		**955**
Realised gains/losses transferred to profit and loss		**723**		**723**
Changes in cash flow hedge reserve			**1,124**	**1,124**
Transfer to insurance liabilities/DAC		**–2,004**		**–2,004**
Closing balance	**367**	**3,212**	**1,971**	**5,550**

Changes in revaluation reserve

2010	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	411	1,683	372	2,466
Unrealised revaluations after taxation	–32	3,401		3,369
Realised gains/losses transferred to profit and loss		86		86
Changes in cash flow hedge reserve			475	475
Transfer to insurance liabilities/DAC		–1,644		–1,644
Closing balance	379	3,526	847	4,752

Changes in revaluation reserve

2009	Property revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
Opening balance	461	–10,140	1,177	–8,502
Unrealised revaluations after taxation	–50	12,496		12,446
Realised gains/losses transferred to profit and loss		1,406		1,406
Changes in cash flow hedge reserve			–805	–805
Transfer to insurance liabilities/DAC		–2,079		–2,079
Closing balance	411	1,683	372	2,466

Transfer to insurance liabilities/DAC includes the change in the deferred profit sharing liability (net of deferred tax). Reference is made to Note 17 'Insurance and investment contracts, reinsurance contracts'.

Changes in currency translation reserve

	2011	2010	2009
Opening balance	**79**	–2,011	–1,918
Unrealised revaluations after taxation	**167**	–777	–294
Realised gains/losses transferred to profit and loss			148
Exchange rate differences	**–153**	2,867	53
Closing balance	**93**	79	–2,011

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

Changes in other reserves

2011	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	24,289	907	–715	–5,361	19,120
Result for the year	5,766				5,766
Unrealised revaluations after taxation	16				16
Changes in treasury shares			50		50
Transfer to share of associates reserve	–383	383			
Employee stock options and share plans	115				115
Repurchase premium	–1,000				–1,000
Closing balance	28,803	1,290	–665	–5,361	24,067

The repurchase premium of EUR 1 billion is paid in relation to the repayment of the EUR 2 billion non-voting equity securities.

Changes in other reserves

2010	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	21,688	645	–737	–5,361	16,235
Result for the year	2,810				2,810
Unrealised revaluations after taxation	–156	171			15
Changes in treasury shares			22		22
Transfer to share of associates reserve	–91	91			
Employee stock options and share plans	36				36
Other	2				2
Closing balance	24,289	907	–715	–5,361	19,120

Changes in other reserves

2009	Retained earnings	Share of associates reserve	Treasury shares	Other reserves	Total
Opening balance	23,087	726	–866	–5,015	17,932
Result for the year	–1,006				–1,006
Unrealised revaluations after taxation	–273	–5			–278
Changes in treasury shares			129		129
Transfer to share of associates reserve	76	–76			
Dividend and repurchase premium	–259			–346	–605
Employee stock options and share plans	64				64
Other	–1				–1
Closing balance	21,688	645	–737	–5,361	16,235

Dividend and repurchase premium includes the coupon (EUR 259 million) and repayment premium (EUR 346 million) on the repayment of EUR 5 billion non-voting equity securities.

Changes in treasury shares

			Amount			Number
	2011	2010	2009	2011	2010	2009
Opening balance	715	737	866	51,300,101	47,047,225	36,457,118
Purchased/sold	–17	48	47	–625,803	6,393,739	11,648,765
Rights issue			–64			
Share-based payments	–19	–23	–27	–1,368,381	–2,140,863	–1,058,658
Other	–14	–47	–85			
Closing balance	665	715	737	49,305,917	51,300,101	47,047,225

Non-voting equity securities (Core Tier 1 securities)
On 12 November 2008, ING Groep N.V. issued one billion non-voting equity securities to the Dutch State at EUR 10 per non-voting equity security, resulting in an increase of ING Group's core Tier 1 capital of EUR 10 billion. The nominal value of each security is EUR 0.24. The non-voting equity securities do not form part of ING Group's share capital; accordingly they do not carry voting rights in the General Meeting.

These non-voting equity securities are deeply subordinated and rank pari-passu with ordinary shares in a winding up of ING Group.

On these non-voting equity securities a coupon was and is payable of the higher of:
- EUR 0.85 per security, payable annually in arrears, with a first coupon of EUR 0.425 per security paid on 12 May 2009;
- 110% of the dividend paid on each ordinary share over 2009 (payable in 2010);
- 120% of the dividend paid on each ordinary share over 2010 (payable in 2011); and
- 125% of the dividend paid on each ordinary share over 2011 onwards (payable in 2012 onwards).

Since ING Groep N.V. had already paid an interim dividend of EUR 0.74 per ordinary share in August 2008, ING recognised a coupon payable of EUR 425 million to the Dutch State as of 31 December 2008. This coupon was paid out on 12 May 2009.

Further coupons are to be paid on 12 May of each year (the coupon date) in cash if the dividend on ordinary shares is paid in cash or to be paid in scrip securities in the event of a scrip dividend on ordinary shares. Coupons are only due and payable, on a non-cumulative basis and if a dividend is paid on ordinary shares over the financial year preceding the coupon date, either on an interim or a final dividend basis, provided that ING Group's capital adequacy position is and remains satisfactory both before and after payment in the opinion of the Dutch central bank.

In December 2009, ING repaid the first half of the non-voting equity securities (core Tier 1 securities) of EUR 5 billion plus a total premium of EUR 605 million. On 13 May 2011 ING exercised its option for early repayment of EUR 2 billion of the remaining non-voting equity securities (core Tier 1 securities). The total payment in May 2011 amounted to EUR 3 billion and included a 50% repurchase premium. ING funded this repayment from retained earnings. ING has indicated that it is one of its priorities to repay the remaining EUR 3 billion non-voting equity securities (core Tier 1 securities) as soon as possible, but this needs to be done very prudently in light of the current challenging and changing financial and regulatory environment. The terms for the remaining non-voting equity securities, including restrictions on remuneration and corporate governance, remained unchanged. Reference is made to Note 33 'Related parties'.

Cumulative preference shares
Pursuant to the Articles of Association of ING Groep N.V. the authorised cumulative preference share capital consists of 4.5 billion cumulative preference shares, of which none have been issued. The par value of these cumulative preference shares is EUR 0.24.

The cumulative preference shares rank before the ordinary shares in entitlement to dividend and to distributions upon liquidation of ING Groep N.V.

The dividend on the cumulative preference shares will be equal to a percentage, calculated on the amount compulsorily paid up or yet to be paid up. This percentage shall be equal to the average of the Euro OverNight Index Average (EONIA) as calculated by the European Central Bank. During the financial year for which the distribution is made, this percentage is weighted on the basis of the number of days for which it applies, increased by 2.5 percentage points.

If and to the extent that the profit available for distribution is not sufficient to pay the dividend referred to above in full, the shortfall will be made up from the reserves insofar as possible. If, and to the extent that, the dividend distribution cannot be made from the reserves, the profits earned in subsequent years shall first be used to make up the shortfall before any distribution may be made on shares of any other category.

ING Groep N.V.'s Articles of Association make provision for the cancellation of cumulative preference shares. Upon cancellation of cumulative preference shares and upon liquidation of ING Groep N.V., the amount paid up on the cumulative preference shares will be repaid together with the dividend shortfall in preceding years, insofar as this shortfall has not yet been made up.

Cumulative preference shares – Restrictions with respect to dividend and repayment of capital
ING Groep N.V. is subject to legal restrictions regarding the amount of dividends it can pay to the holders of its cumulative preference shares, when issued. Pursuant to the Dutch Civil Code, dividends can only be paid up to an amount equal to the excess of the company's own funds over the sum of the paid-up capital, and reserves required by law.

Moreover, ING Groep N.V.'s ability to pay dividends is dependent on the dividend payment ability of its subsidiaries. ING Groep N.V. is legally required to create a non-distributable reserve insofar profits of its subsidiaries are subject to dividend payment restrictions which apply to those subsidiaries themselves. Such restrictions may among others be of a similar nature as the restrictions which apply to ING Groep N.V. or may be the result of minimum capital requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, or other limitations which may exist in certain countries.

Without prejudice to the fact that the cumulative preference shares, when issued, will be junior securities of ING Groep N.V., no specific dividend payment restrictions with respect to the cumulative preference shares exist.

Furthermore, ING Groep N.V. is subject to legal restrictions with respect to repayment of capital to holders of cumulative preference shares. Capital may be repaid to the holders of cumulative preference shares pursuant to (i) an amendment of ING Groep N.V.'s articles of association whereby the cumulative preference shares are written down or (ii) a resolution to redeem and cancel the cumulative preference shares.

Pursuant to the Dutch Civil Code, capital may only be repaid if none of ING Groep N.V.'s creditors opposes such a repayment within two months following the announcement of a resolution to that effect.

LIABILITIES
14 SUBORDINATED LOANS

Subordinated loans

					Balance sheet value	
Interest rate	Year of issue	Due date	Notional amount in original currency		**2011**	2010
9.000%	2008	Perpetual	EUR	10	**10**	10
8.500%	2008	Perpetual	USD	2,000	**1,527**	1,469
8.000%	2008	Perpetual	EUR	1,500	**1,500**	1,485
7.375%	2007	Perpetual	USD	1,500	**1,176**	1,111
6.375%	2007	Perpetual	USD	1,045	**804**	773
5.140%	2006	Perpetual	GBP	66	**79**	692
5.775%	2005	Perpetual	USD	364	**292**	741
6.125%	2005	Perpetual	USD	700	**533**	504
4.176%	2005	Perpetual	EUR	169	**168**	498
Variable	2004	Perpetual	EUR	563	**527**	994
6.200%	2003	Perpetual	USD	500	**376**	363
Variable	2003	Perpetual	EUR	432	**424**	729
7.200%	2002	Perpetual	USD	1,100	**839**	748
7.050%	2002	Perpetual	USD	800	**603**	528
					8,858	10,645

Subordinated loans consist of perpetual subordinated bonds issued by ING Groep N.V. These bonds have been issued to raise hybrid capital for ING Verzekeringen N.V. and Tier 1 capital for ING Bank N.V. Under IFRS-EU these bonds are classified as liabilities. They are considered capital for regulatory purposes.

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 4.8 billion relates to securities issued by ING Groep N.V. and EUR 1.0 billion issued by ING Verzekeringen N.V. All tender and exchange offers announced on 12 December 2011 were successfully completed on 23 December 2011 with an average participation of approximately 60%. As part of this initiative, EUR 0.9 billion intercompany debt from ING Bank N.V. to ING Groep N.V. was repaid. In addition, ING Group issued one new senior bond with a nominal value of EUR 0.7 billion and ING Bank issued two new senior bonds with a nominal value of GBP 0.4 billion and EUR 0.4 billion respectively. The overall transaction resulted in a total gain of EUR 955 million (EUR 716 million after tax), including related hedge results and transaction costs. This gain is recognised in Other income. From this amount, EUR 767 million (EUR 574 million after tax) relates to ING Groep N.V., EUR 93 million (EUR 71 million after tax) to ING Bank N.V. and EUR 95 million (EUR 71 million after tax) to ING Verzekeringen N.V. This affects the subordinated securities as disclosed in this note and in Note 16 'Other borrowed funds'.

Except for the 9% 2008 perpetual of EUR 10 million (a private placement) and EUR 750 million of the 8% 2008 perpetual, these loans have been subsequently provided as subordinated loans by ING Groep N.V. to ING Verzekeringen N.V. and ING Bank N.V. under the same conditions as the original bonds as follows:

Subordinated loans provided by ING Groep N.V. to ING Bank N.V. and ING Verzekeringen N.V.

	2011	2010
ING Bank N.V.	**6,141**	7,147
ING Verzekeringen N.V.	**1,957**	2,003
	8,098	9,150

15 DEBT SECURITIES IN ISSUE

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

Debt securities in issue – maturities		
	2011	2010
Fixed rate debt securities		
Within 1 year	**52,308**	63,518
More than 1 year but less than 2 years	**6,914**	7,518
More than 2 years but less than 3 years	**10,347**	6,925
More than 3 years but less than 4 years	**5,943**	9,580
More than 4 years but less than 5 years	**7,541**	5,648
More than 5 years	**20,655**	10,987
Total fixed rate debt securities	**103,708**	104,176
Floating rate debt securities		
Within 1 year	**15,871**	14,007
More than 1 year but less than 2 years	**8,590**	4,321
More than 2 years but less than 3 years	**3,569**	4,552
More than 3 years but less than 4 years	**1,207**	2,113
More than 4 years but less than 5 years	**162**	864
More than 5 years	**6,754**	5,571
Total floating rate debt securities	**36,153**	31,428
Total debt securities	**139,861**	135,604

As of 31 December 2011, ING Group had unused lines of credit available including the payment of commercial paper borrowings relating to debt securities in issue of EUR 8,178 million (2010: EUR 6,518 million).

The following bonds were all issued under the Credit Guarantee Scheme of the State of the Netherlands and are part of ING Group's regular medium-term funding operations. ING Group pays a fee of 84 basis points over the issued bonds to the Dutch State to participate in the Credit Guarantee Scheme:

- ING Bank issued 3 year government guaranteed senior unsecured bonds amounting to USD 6 billion in January 2009. USD 5 billion of the issue was priced at a fixed rate of 80 basis points over mid-swaps. USD 1 billion was priced at a variable rate of 80 basis points over 3 month LIBOR;
- ING Bank issued a 5 year EUR 4 billion fixed rate government guaranteed senior unsecured bond in February 2009. The issue was priced at a fixed rate of 3.375%, 75 basis points over mid-swaps; and
- ING Bank issued a 5 year USD 2 billion fixed rate government guaranteed senior unsecured bond in March 2009. The issue was priced at a fixed coupon of 3.90%, 145 basis points over USD mid-swaps.

16 OTHER BORROWED FUNDS

Other borrowed funds by remaining term							
2011	**2012**	**2013**	**2014**	**2015**	**2016**	**Years after 2016**	**Total**
Subordinated loans of group companies	**2,907**	**1,181**	**81**	**918**	**2,309**	**4,752**	**12,148**
Preference shares of group companies						**404**	**404**
Loans contracted	**428**		**76**			**1,783**	**2,287**
Loans from credit institutions	**4,052**	**28**	**29**	**28**	**28**	**680**	**4,845**
	7,387	**1,209**	**186**	**946**	**2,337**	**7,619**	**19,684**

Other borrowed funds by remaining term							
2010	2011	2012	2013	2014	2015	Years after 2015	Total
Subordinated loans of group companies	2,647	1,673	684	81	1,086	7,609	13,780
Preference shares of group companies						1,121	1,121
Loans contracted	2,055			73		1,612	3,740
Loans from credit institutions	2,677	29	30	29	159	726	3,650
	7,379	1,702	714	183	1,245	11,068	22,291

In 2011, Subordinated loans from group companies is affected by the exchange offers in Europe and tender offers in the United States of America as disclosed in Note 14 'Subordinated loans'.

Subordinated loans of group companies relate to capital debentures and private loans which are subordinated to all current and future liabilities of ING Bank N.V.

Preference shares of group companies comprise non-cumulative guaranteed Trust Preference Securities which are issued by wholly owned subsidiaries of ING Groep N.V. These securities have a liquidation preference of a certain amount plus any accrued interest and unpaid dividend. Dividends with regard to these preference securities are presented as an interest expense in the profit and loss account. These trust preference securities have no voting rights.

17 INSURANCE AND INVESTMENT CONTRACTS, REINSURANCE CONTRACTS

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

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

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

Changes in life insurance provisions

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

Where discounting is used in the calculation of life insurance provisions, the rate is within the range 2.8% to 5.5% (2010: 2.3% to 4.7%) based on weighted averages.

Insurance provisions include a provision for the estimated cost of the agreement with regard to unit-linked policies. For more information reference is made to Note 31 'Legal proceedings'.

In 2011, Effect of changes in other assumptions includes EUR 611 million relating to the assumption review for the Insurance US Closed Block Variable Annuity (VA) business. Reference is made to Note 43 'Underwriting expenditure'.

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

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

ING transferred its 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.

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

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

Changes in provision for unearned premiums and unexpired risks

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

Changes in claims provisions

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

ING Group had an outstanding balance of EUR 35 million as at 31 December 2011 (2010: EUR 41 million) relating to environmental and asbestos claims of the insurance operations. In establishing the liability for unpaid claims and claims adjustment expenses related to asbestos related illness and toxic waste clean-up, the management of ING Group considers facts currently known and current legislation and coverage litigation. Liabilities are recognised for IBNR claims and for known claims (including the costs of related litigation) when sufficient information has been obtained to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, liabilities are reviewed and updated regularly.

Where discounting is used in the calculation of the claims provisions, based on weighted averages, the rate is within the range of 3.0% to 4.0% (2010: 3.0% to 4.0%).

Changes in investment contracts liabilities

	2011	2010
Opening balance	11,974	11,302
Current year liabilities	7,867	4,920
Prior year provisions		
– payments to contract holders	–7,709	–5,185
– interest accrual	39	81
– valuation changes investments	–55	24
	–7,725	–5,080
Exchange rate differences	380	593
Other changes	702	239
Closing balance	13,198	11,974

Gross claims development table

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

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

18 AMOUNTS DUE TO BANKS

Amounts due to banks include non-subordinated debt due to banks, other than amounts in the form of debt securities. As at 31 December 2011, liabilities concerning securities sold in repurchase transactions amounted to EUR 11,145 million (2010: EUR 12,200 million).

Amounts due to banks by type

		Netherlands		International		Total
	2011	2010	**2011**	2010	**2011**	2010
Non-interest bearing	**1,350**	1,893	**808**	701	**2,158**	2,594
Interest bearing	**40,648**	37,429	**29,427**	32,829	**70,075**	70,258
	41,998	39,322	**30,235**	33,530	**72,233**	72,852

19 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

Customer deposits and other funds on deposit

	2011	2010
Savings accounts	**291,516**	324,581
Credit balances on customer accounts	**114,867**	127,177
Corporate deposits	**49,668**	55,024
Other	**11,496**	4,580
	467,547	511,362

Customer deposits and other funds on deposit by type

		Netherlands		International		Total
	2011	2010	**2011**	2010	**2011**	2010
Non-interest bearing	**13,294**	13,522	**9,447**	6,773	**22,741**	20,295
Interest bearing	**134,412**	132,311	**310,394**	358,756	**444,806**	491,067
	147,706	145,833	**319,841**	365,529	**467,547**	511,362

In 2011, the decrease in Customer deposits and other funds on deposits is mainly caused by the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 11 'Assets and liabilities held for sale'.

No funds have been entrusted to the Group by customers on terms other than those prevailing in the normal course of business. As at 31 December 2011, Customer deposits and other funds on deposit included liabilities with regard to securities sold in repurchase transactions amounting to EUR 5,730 million (2010: EUR 5,272 million).

Savings accounts relate to the balances on savings accounts, savings books, savings deposits and time deposits of personal customers. The interest payable on savings accounts, which is contractually added to the accounts, is also included.

20 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial liabilities at fair value through profit and loss

	2011	2010
Trading liabilities	**107,682**	108,050
Non-trading derivatives	**22,165**	17,782
Designated as at fair value through profit and loss	**13,021**	12,707
	142,868	138,539

Trading liabilities by type

	2011	2010
Equity securities	**3,332**	4,811
Debt securities	**9,607**	16,707
Funds on deposit	**38,696**	44,767
Derivatives	**56,047**	41,765
	107,682	108,050

The increase in trading derivatives and other non-trading derivatives for which no hedge accounting is applied is mainly due to changes in fair value resulting from changes in market interest rates. The increase is substantially mitigated by a similar increase in Trading derivates and Other non-trading derivatives (assets) as disclosed in Note 3 'Financial assets at fair value through profit and loss'.

As at 31 December 2011, the Funds on deposit include amounts payable of EUR 38,011 million (2010: EUR 43,995 million) with regard to repurchase transactions.

Non-trading derivatives by type		
	2011	2010
Derivatives used in:		
– fair value hedges	9,478	8,601
– cash flow hedges	6,462	5,264
– hedges of net investments in foreign operations	159	168
Other non-trading derivatives	6,066	3,749
	22,165	17,782

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

Designated as at fair value through profit and loss by type		
	2011	2010
Debt securities	11,271	10,533
Funds entrusted	632	934
Subordinated liabilities	1,118	1,240
	13,021	12,707

In 2011, the change in the fair value of financial liabilities designated as at fair value through profit and loss attributable to changes in the credit risk of that liability was EUR 377 million (2010: EUR 179 million) and EUR 595 million (2010: EUR 218 million) on a cumulative basis. This change has been determined as the amount of change in fair value of the financial liability that is not attributable to changes in market conditions that gave rise to market risk (i.e. mainly interest rate risk based on yield curves).

The amount that ING Group is contractually required to pay at maturity to the holders of financial liabilities designated as at fair value through profit and loss is EUR 13,726 million (2010: EUR 12,438 million).

21 OTHER LIABILITIES

Other liabilities by type		
	2011	2010
Deferred tax liabilities	3,679	2,618
Income tax payable	858	1,210
Pension benefits	378	543
Post-employment benefits	179	172
Other staff-related liabilities	1,111	1,248
Other taxation and social security contributions	898	885
Deposits from reinsurers	1,015	1,007
Accrued interest	11,698	13,220
Costs payable	2,400	2,873
Amounts payable to brokers	72	111
Amounts payable to policyholders	2,173	2,130
Reorganisation provision	599	434
Other provisions	638	533
Share-based payment plan liabilities	39	40
Prepayments received under property under development	83	173
Amounts to be settled	5,442	5,553
Other	3,377	4,777
	34,639	37,527

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

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.

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	–296	1,188	452	–58	74	265	1,625
Real estate investments	383		–10	7	1		381
Financial assets and liabilities at fair value through profit and loss	–527		–175	–9	6	–20	–725
Deferred acquisition costs and VOBA	3,111	–272	–194	–57	131	12	2,731
Fiscal reserve	1		–1				
Depreciation	4	1	24	9	2		40
Insurance provisions	–1,866	–572	–773	–7	–130	–2	–3,350
Cash flow hedges	263	373	4				640
Pension and post-employment benefits	503	1	68	–12	–10	2	552
Other provisions	–655		379	25	16	–21	–256
Receivables	–51		–8	–12	–1	–2	–74
Loans and advances to customers	473	97	213		6	96	885
Unused tax losses carried forward	–1,851	–1	305	34	20	195	–1,298
Other	–299	–65	27	–4	–17	85	–273
	–807	750	311	–84	98	610	878
Comprising:							
– deferred tax liabilities	2,618						3,679
– deferred tax assets	–3,425						–2,801
	–807						878

In 2011, the amounts presented in the column Other relates mainly to the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 11 'Assets and liabilities held for sale'.

Changes in deferred tax

	Net liability 2009	Change through equity	Change through net result	Changes in the composition of the group	Exchange rate differences	Other	Net liability 2010
Investments	209	1,205	–1,359	–2	73	–39	87
Financial assets and liabilities at fair value through profit and loss	–312	–18	–185	–2	5	–15	–527
Deferred acquisition costs and VOBA	2,849	–368	301		326	3	3,111
Fiscal reserve			1				1
Depreciation	12		9	–10	–1	–6	4
Insurance provisions	–1,446	–389	109		–135	–5	–1,866
Cash flow hedges	69	210			–14	–2	263
Pension and post-employment benefits	700		–183		7	–21	503
Other provisions	–1,012	–13	476	5	–127	16	–655
Receivables	–149	–1	82	6	2	9	–51
Loans and advances to customers	714		–201	–5	–15	–20	473
Unused tax losses carried forward	–2,508	1	801	–3	–152	10	–1,851
Other	–814	29	419	11	–32	88	–299
	–1,688	656	270	0	–63	18	–807
Comprising:							
– deferred tax liabilities	2,281						2,618
– deferred tax assets	–3,969						–3,425
	–1,688						–807

Deferred tax in connection with unused tax losses carried forward	2011	2010
Total unused tax losses carried forward	**9,093**	9,335
Unused tax losses carried forward not recognised as a deferred tax asset	**–4,529**	–2,862
Unused tax losses carried forward recognised as a deferred tax asset	**4,564**	6,473
Average tax rate	**28.4%**	28.6%
Deferred tax asset	**1,298**	1,851

The following tax loss carry forwards and tax credits will expire as follows as at 31 December:

Total unused tax losses carried forward analysed by expiry terms	No deferred tax asset recognised		Deferred tax asset recognised	
	2011	2010	**2011**	2010
Within 1 year	**30**	14	**49**	67
More than 1 year but less than 5 years	**378**	406	**539**	461
More than 5 years but less than 10 years	**774**	243	**1,971**	3,768
More than 10 years but less than 20 years	**3,185**	2,093	**192**	1,285
Unlimited	**162**	106	**1,813**	892
	4,529	2,862	**4,564**	6,473

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

The deferred tax asset includes balances for which the utilisation is dependent on future taxable profits whilst the related entities have incurred losses in either the current year or the preceding year. The aggregate amount for the most significant entities where this applies is EUR 490 million (2010: EUR 1,102 million).

This can be specified by jurisdiction as follows:

Breakdown by jurisdiction	Banking operations		Insurance operations		Total	
	2011	2010	**2011**	2010	**2011**	2010
The Netherlands		190				190
United States		508	**120**	232	**120**	740
Great Britain	**116**	89			**116**	89
Belgium			**70**	13	**70**	13
Australia	**36**	40			**36**	40
Spain		11	**19**		**19**	11
Germany	**5**	19			**5**	19
France	**66**				**66**	
Mexico	**32**				**32**	
Italy	**26**				**26**	
	281	857	**209**	245	**490**	1,102

In 2011 the deferred tax assets for banking operations for which the utilisation is dependent on future taxable profits, as disclosed above, decreased significantly compared to 2010, as a result of the announced sale of ING Direct USA. Reference is made to Note 30 'Companies acquired and companies disposed'.

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

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

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

Changes in reorganisation provision

	2011	2010
Opening balance	434	644
Changes in the composition of the group	–1	38
Additions	531	285
Interest	5	5
Releases	–14	–77
Charges	–358	–461
Exchange rate differences	1	6
Other changes	1	–6
Closing balance	599	434

As at 31 December 2011, the provision for reorganisation, of which EUR 457 million relates to termination benefits, relates to Dutch Retail Banking activities as well as other restructuring activities.

As at 31 December 2010, the provision for reorganisation, of which EUR 317 million relates to termination benefits, mainly related to the merger of the Dutch Retail Banking activities as well as other restructuring activities.

Changes in other provisions

		Litigation		Other		Total
	2011	2010	2011	2010	2011	2010
Opening balance	304	307	229	440	533	747
Changes in the composition of the group	–3	–26	–12	–1	–15	–27
Additions	19	25	162	52	181	77
Releases	–7	–1	–2	–15	–9	–16
Charges	–21	–13	–56	–59	–77	–72
Exchange rate differences	–5	3	3	3	–2	6
Other changes	10	9	17	–191	27	–182
Closing balance	297	304	341	229	638	533

The provision for the estimated cost of the agreement with regard to unit-linked policies is included in 'Insurance and investment contracts' as disclosed in Note 17.

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

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

Pension and post-employment benefits

Summary of pension benefits

	2011	2010	2009	2008	2007
Defined benefit obligation	16,212	16,183	14,209	14,271	14,499
Fair value of plan assets	20,077	17,364	15,310	13,366	14,708
	–3,865	–1,181	–1,101	905	–209
Unrecognised past service costs	–2	–3	–3	–5	–3
Unrecognised actuarial gains/(losses)	483	–1,731	–1,450	–2,072	198
Net liability (asset) recognised in the balance sheet	–3,384	–2,915	–2,554	–1,172	–14
Presented as:					
– Other liabilities	378	543	589	609	425
– Other assets	–3,762	–3,458	–3,143	–1,781	–439
	–3,384	–2,915	–2,554	–1,172	–14

Summary of post-employment benefits	2011	2010	2009	2008	2007
Defined benefit obligation	**176**	168	156	210	220
	176	168	156	210	220
Unrecognised past service costs	**3**	3	8	2	4
Unrecognised actuarial gains/(losses)		1	11	7	8
	179	172	175	219	232

The Group 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. The indexation is, in some cases, at the discretion of management; in other cases it is dependent upon the sufficiency of plan assets.

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

The Group provides other post-employment employee benefits to certain employees and former employees. These are primarily post-employment healthcare benefits and discounts on ING products provided to employees and former employees.

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

Actuarial gains and losses related to pensions and post-employment benefits for the year ended 31 December 2011 include EUR 1,760 million (2010: EUR 1,085 million; 2009: EUR 387 million; 2008: EUR –2,647 million; 2007: EUR –789 million) experience gain adjustments for assets and EUR 10 million (2010: EUR 154 million; 2009: EUR 172 million; 2008: EUR –70 million; 2007: EUR 83 million) experience gain adjustments for liabilities.

Changes in defined benefit obligation	Pension benefits		Post-employment benefits other than pensions	
	2011	2010	**2011**	2010
Opening balance	**16,183**	14,209	**168**	156
Current service cost	**324**	298	**8**	5
Interest cost	**851**	795	**8**	8
Employer's contribution			**4**	
Participants contributions	**2**	3		
Benefits paid	**–666**	–634	**–5**	–6
Actuarial gains and losses	**–455**	1,396	**–3**	2
Past service cost	**–8**		**–4**	
Changes in the composition of the group and other changes	**13**	–20	**–2**	–1
Effect of curtailment or settlement	**–110**	–7		
Exchange rate differences	**78**	143	**2**	4
Closing balance	**16,212**	16,183	**176**	168
Relating to:				
– funded plans	**16,111**	16,051		
– unfunded plans	**101**	132	**176**	168
	16,212	16,183	**176**	168

In 2011, Effect of curtailment or settlement relates mainly to a curtailment in relation to the restructuring in Retail Netherlands and a curtailment in relation to a change in one of the pension plans in the United States.

The estimated unrecognised past services cost and unrecognised actuarial gains and losses for the defined benefit plans to be amortised to pension and other staff related liability costs during 2012 are nil and EUR 40 million, respectively.

Changes in fair value of plan assets

	Pension benefits	
	2011	2010
Opening balance	**17,364**	15,310
Expected return on plan assets	**877**	886
Employer's contribution	**623**	631
Participants contributions	**15**	2
Benefits paid	**–627**	–625
Actuarial gains and losses	**1,746**	1,085
Changes in the composition of the group and other changes	**7**	–19
Exchange rate differences	**72**	94
Closing balance	**20,077**	17,364

The actual return on the plan assets amounted to EUR 2,623 million (2010: EUR 1,971 million) and exceeds the expected return on plan assets. This resulted in a large movement with regard to Actuarial gains and losses. The difference is caused by the decreased market interest rate that has an impact on the valuation of the debt securities in the plan assets.

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

Pension investment strategy

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

Categories of plan assets in percentages

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

Equity securities include ING Group ordinary shares of nil (0.00% of total plan assets) as at 31 December 2011 (2010: EUR 2 million, 0.02% of total plan assets). Debt securities include investments in ING Group of EUR 42 million (0.30% of total plan assets) as at 31 December 2011 (2010: EUR 57 million, 0.4% of total plan assets). Other includes mainly real estate. Real estate occupied by ING Group as at 31 December 2011 which is included in Other includes nil (0.00% of total plan assets) (2010: EUR 5 million, 0.04% of total plan assets).

Determination of expected return on assets

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

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

	Pension benefits		Post-employment benefits other than pensions	
	2011	2010	**2011**	2010
Discount rates	**5.30**	5.40	**4.70**	4.70
Mortality rates	**1.00**	1.00	**1.00**	1.00
Expected rates of salary increases (excluding promotion increases)	**2.20**	2.70	**2.70**	2.70
Medical cost trend rates			**6.10**	6.10
Indexation	**1.80**	1.80	**2.00**	2.00

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

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

An increase of 1% in the assumed medical cost trend rate for each future year would have resulted in an additional accumulated defined benefit obligation of EUR 5 million as at 31 December 2011 (2010: EUR 5 million) and EUR 1 million increase in the charge for the year (2010: EUR 1 million). A decrease of 1% in the medical cost trend rate for each future year would have resulted in lower defined benefit obligation of EUR 5 million as at 31 December 2011 (2010: EUR 5 million) and EUR 2 million decrease in the charge for the year (2010: EUR 2 million).

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

Expected cash flows
For 2012 the expected contributions to pension plans are EUR 575 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	**577**	**15**
2013	**549**	**15**
2014	**534**	**15**
2015	**567**	**14**
2016	**554**	**14**
Years 2017 – 2021	**3,511**	**45**

22 ASSETS BY CONTRACTUAL MATURITY

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

Assets by contractual maturity

2011	Less than 1 month [(1)]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	31,194						31,194
Amounts due from banks	26,168	4,420	5,211	8,146	1,378		45,323
Financial assets at fair value through profit and loss							
– trading assets	40,037	7,797	12,068	25,751	37,572	463	123,688
– investments for risk of policyholders [(2)]						116,438	116,438
– non-trading derivatives	637	521	1,789	5,913	8,299		17,159
– designated as at fair value through profit and loss	52	78	790	1,212	1,565	1,740	5,437
Investments							
– available-for-sale	3,860	3,578	15,025	58,620	105,429	22,027	208,539
– held-to-maturity	285	999	1,029	6,314	241		8,868
Loans and advances to customers	71,742	13,229	34,457	147,566	331,381	4,150	602,525
Reinsurance contracts	17	39	234	1,026	2,656	1,898	5,870
Intangible assets	4	8	239	487	166	2,654	3,558
Deferred acquisition costs	19	22	98	698	3,630	5,737	10,204
Assets held for sale [(3)]		62,483					62,483
Other assets	10,857	3,190	7,407	4,094	4,969	499	31,016
Remaining assets (where maturities are not applicable) [(4)]						6,926	6,926
Total assets	184,872	96,364	78,347	259,827	497,286	162,532	1,279,228

(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.
(3) Assets held for sale consist of the assets of the disposal groups classified as held for sale as disclosed in Note 11 'Assets and liabilities held for sale'. The maturity is based on the classification as disposal group held for sale.
(4) Included in remaining assets where maturities are not applicable are property and equipment, real estate investments and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

Assets by contractual maturity

2010	Less than 1 month [(1)]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Cash and balances with central banks	13,072						13,072
Amounts due from banks	30,770	4,608	4,706	9,447	2,297		51,828
Financial assets at fair value through profit and loss							
– trading assets	42,785	8,875	11,569	34,468	27,423	555	125,675
– investments for risk of policyholders [(2)]						120,481	120,481
– non-trading derivatives	474	184	864	4,637	5,563		11,722
– designated as at fair value through profit and loss	140	53	917	1,291	1,902	1,713	6,016
Investments							
– available-for-sale	4,551	3,842	14,273	72,824	103,375	23,682	222,547
– held-to-maturity	328	879	1,143	8,786	557		11,693
Loans and advances to customers	69,678	15,101	34,354	142,308	347,441	4,322	613,204
Reinsurance contracts	17	32	142	727	2,729	2,142	5,789
Intangible assets	6	12	295	698	195	4,166	5,372
Deferred acquisition costs	20	24	109	820	3,149	6,377	10,499
Assets held for sale [(3)]			681				681
Other assets	13,043	3,137	7,890	6,052	5,518	829	36,469
Remaining assets (where maturities are not applicable) [(4)]						11,957	11,957
Total assets	174,884	36,747	76,943	282,058	500,149	176,224	1,247,005

(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.
(3) Assets held for sale consist of the assets of the disposal groups classified as held for sale as disclosed in Note 11 'Assets and liabilities held for sale'. The maturity is based on the classification as disposal group held for sale.
(4) Included in remaining assets where maturities are not applicable are property and equipment, real estate investments and investments in associates. Due to their nature remaining assets consist mainly of assets expected to be recovered after more than 12 months.

23 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 is included in a separate line and in the relevant maturity bucket. Derivative liabilities are included on a net basis if cash flows are settled net. For other derivative liabilities the contractual gross cash flow payable is included.

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

Liabilities by maturity

2011	Less than 1 month [1]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjustment [2]	Total
Subordinated loans						8,939	–81	8,858
Debt securities in issue	28,883	24,725	13,570	49,469	21,072		2,142	139,861
Other borrowed funds	5,710	93	47	4,156	9,131	12	535	19,684
Amounts due to banks	49,608	11,691	3,825	1,808	5,317		–16	72,233
Customer deposits and other funds on deposit	385,934	25,895	40,658	12,205	2,079		776	467,547
Financial liabilities at fair value through profit and loss								
– other trading liabilities	38,507	3,109	907	2,773	5,706		633	51,635
– trading derivatives	3,026	4,373	11,493	26,834	23,103		–12,782	56,047
– non-trading derivatives	891	828	4,335	12,536	9,529	1,130	–7,084	22,165
– designated as at fair value through profit and loss	301	398	2,062	6,007	4,525		–272	13,021
Financial liabilities	512,860	71,112	76,897	115,788	80,462	10,081	–16,149	851,051
Insurance and investment contracts	2,788	1,788	10,345	39,034	105,512	119,366		278,833
Liabilities held for sale [3]		64,265						64,265
Other liabilities	9,064	2,964	10,402	7,130	3,957	1,122		34,639
Non-financial liabilities	11,852	69,017	20,747	46,164	109,469	120,488		377,737
Total liabilities	524,712	140,129	97,644	161,952	189,931	130,569	–16,149	1,228,788
Coupon interest due on financial liabilities	6,799	1,088	4,185	10,651	41,831			64,554

(1) Includes liabilities on demand.
(2) This column reconciles the contractual undiscounted cash flows on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
(3) Liabilities held for sale consist of the liabilities of the disposal groups classified as held for sale as disclosed in Note 11 'Assets and liabilities held for sale'. The maturity is based on the classification as disposal group held for sale.

Liabilities by maturity

2010	Less than 1 month [(1)]	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Adjustment [(2)]	Total
Subordinated loans						10,918	–273	10,645
Debt securities in issue	20,578	36,140	21,289	41,016	16,079		502	135,604
Other borrowed funds	3,969	2,055	1,289	3,600	9,785	1,121	472	22,291
Amounts due to banks	44,480	15,781	6,082	2,154	4,371		–16	72,852
Customer deposits and other funds on deposit	451,425	25,142	20,690	12,376	1,729			511,362
Financial liabilities at fair value through profit and loss								
– other trading liabilities	46,084	5,329	1,182	9,377	3,779		534	66,285
– trading derivatives	3,096	3,255	9,615	27,747	18,930		–20,878	41,765
– non-trading derivatives	718	229	4,912	18,745	6,987	1,047	–14,856	17,782
– designated as at fair value through profit and loss	260	472	1,014	6,094	4,996		–129	12,707
Financial liabilities	570,610	88,403	66,073	121,109	66,656	13,086	–34,644	891,293
Insurance and investment contracts	1,822	2,108	9,117	37,045	97,918	123,118		271,128
Liabilities held for sale [(3)]			424					424
Other liabilities	11,787	2,513	9,855	7,516	4,458	1,398		37,527
Non-financial liabilities	13,609	4,621	19,396	44,561	102,376	124,516		309,079
Total liabilities	584,219	93,024	85,469	165,670	169,032	137,602	–34,644	1,200,372
Coupon interest due on financial liabilities	2,813	1,599	3,891	12,277	51,920			72,500

(1) Includes liabilities on demand.
(2) This column reconciles the contractual undiscounted cash flows on financial liabilities to the balance sheet values. The adjustments mainly relate to the impact of discounting and, for derivatives, to the fact that the contractual cash flows are presented on a gross basis (unless the cash flows are actually settled net).
(3) Liabilities held for sale consist of the liabilities of the disposal groups classified as held for sale as disclosed in Note 11 'Assets and liabilities held for sale'. The maturity is based on the classification as disposal group held for sale.

24 DERIVATIVES AND HEDGE ACCOUNTING

Use of derivatives and hedge accounting

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

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

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

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

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

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

For the year ended 31 December 2011, ING Group recognised EUR –1,028 million (2010: EUR –748 million) of fair value changes on derivatives designated under fair value hedge accounting in the profit and loss account. This amount was partly offset by EUR 1,047 million (2010: EUR 752 million) fair value changes recognised on hedged items. This resulted in EUR 19 million (2010: EUR 4 million) net accounting ineffectiveness recognised in the profit and loss account. As at 31 December 2011, the fair values of outstanding derivatives designated under fair value hedge accounting was EUR –6,286 million (2010: EUR –4,474 million), presented in the balance sheet as EUR 3,192 million (2010: EUR 4,127 million) positive fair values under assets and EUR 9,478 million (2010: EUR 8,601 million) negative fair values under liabilities.

ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve-out' macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. ING Group applies the IFRS-EU 'carve-out' to its retail operations in which the net exposure of retail funding (savings and current accounts) and retail lending (mortgages) is hedged. The hedging activities are designated under a portfolio fair value hedge on the mortgages, using the IFRS-EU provisions.

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

Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting are recognised in Shareholders' equity. Interest cash flows on these derivatives are recognised in the profit and loss account in interest 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 2011, ING Group recognised EUR 1,124 million (2010: EUR 475 million) after tax in equity as effective fair value changes on derivatives under cash flow hedge accounting. As a consequence, the balance of the cash flow hedge reserve in equity as at 31 December 2011 was EUR 2,611 million (2010: EUR 1,110 million) gross and EUR 1,971 million (2010: EUR 847 million) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value changes of the underlying derivatives and will be reflected in the profit and loss account under Interest income/expense over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities, up to 45 years for insurance operations and 47 years for banking operations, with the largest concentrations in the range of 2 to 9 years for insurance operations and 1 to 6 years for banking operations. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting resulted in a loss of EUR 17 million (2010: EUR 7 million loss) which was recognised in the profit and loss account.

As at 31 December 2011, the fair value of outstanding derivatives designated under cash flow hedge accounting was EUR 179 million (2010: EUR –824 million), presented in the balance sheet as EUR 6,641 million (2010: EUR 4,440 million) positive fair values under assets and EUR 6,462 million (2010: EUR 5,264 million) negative fair values under liabilities.

As at 31 December 2011, the fair value of outstanding non-derivatives designated as hedging instruments for cash flow hedge accounting purposes was EUR –21 million (2010: nil).

Included in Interest income and interest expense on non-trading derivatives is EUR 2,966 million (2010: EUR 3,613 million) and EUR 2,959 million (2010: EUR 3,138 million), respectively, relating to derivatives used in cash flow hedges.

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

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Gains and losses on the effective portions of derivatives designated under net investment hedge accounting are recognised in Shareholders' equity. The balance in equity is recognised in the profit and loss account when the related foreign subsidiary is disposed. The gains and losses on ineffective portions are recognised immediately in the profit and loss account.

As at 31 December 2011, the fair value of outstanding derivatives designated under net investment hedge accounting was EUR –18 million (2010: EUR –87 million), presented in the balance sheet as EUR 141 million (2010: EUR 81 million) positive fair values under assets and EUR 159 million (2010: EUR 168 million) negative fair values under liabilities.

As at 31 December 2011, the fair value of outstanding non-derivatives designated under net investment hedge accounting was EUR –335 million (2010: EUR 208 million).

Accounting ineffectiveness recognised in the profit and loss account for the year ended 31 December 2011 on derivatives and non-derivatives designated under net investment hedge accounting was nil (2010: EUR 5 million).

25 DISCONTINUED OPERATIONS

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

Results from discontinued operations

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

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

Reference is made to Note 30 'Companies acquired and companies disposed' for more details on the disposal of the Latin American pensions, life insurance and investment management operations.

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

Net cash flow from discontinued operations

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

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

26 ASSETS NOT FREELY DISPOSABLE

The assets not freely disposable consist primarily of interest bearing securities pledged to secure deposits from De Nederlandsche Bank (the Dutch central bank) and other banks and serve to secure margin accounts or are used for other purposes required by law. The assets not freely disposable are as follows:

Assets not freely disposable

	2011	2010
Investments	1,610	8,632
Loans and advances to customers	29,800	37,638
Banks	18,033	12,025
Other assets	4,431	8,731
	53,874	67,026

Banks includes Amounts due from banks and balances with central banks. In some jurisdictions ING Bank N.V. has an obligation to maintain a reserve with central banks.

Loans and advances to customers, not freely disposable, includes the loan to the Dutch State in connection with the Illiquid Assets Back-Up Facility agreement as disclosed in Note 33 'Related parties' and loans that for liquidity purposes have been pledged as collateral in the United States of EUR 9 billion (2010: EUR 7 billion), Germany of EUR 5 billion (2010: EUR 5 billion) and Canada of nil (2010: EUR 5 billion).

The table does not include assets relating to repurchase and stock lending transactions. Reference is made to Note 3 'Financial assets at fair value through profit and loss', Note 4 'Investments' and Note 5 'Loans and advances to customers' for the relevant amounts.

There are no material terms and conditions relating to the collateral represented in the above table which are individually significant.

27 CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business the Group is 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, the Group offers financial products related to loans. These products include traditional off-balance sheet credit-related financial instruments.

Contingent liabilities and commitments

2011	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Banking operations							
Contingent liabilities in respect of							
– discounted bills	1	1					2
– guarantees	18,614	867	820	1,484	3,832		25,617
– irrevocable letters of credit	9,271	6,156	1,569	193	17		17,206
– other	452	45	65	8			570
	28,338	7,069	2,454	1,685	3,849		43,395
Insurance operations							
Commitments	1,148	158	174	227	3	115	1,825
Guarantees				9	10	5	24
	1,148	158	174	236	13	120	1,849
Irrevocable facilities	35,972	14,858	5,211	24,354	5,793		86,188
	65,458	22,085	7,839	26,275	9,655	120	131,432

Contingent liabilities and commitments

2010	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Maturity not applicable	Total
Banking operations							
Contingent liabilities in respect of							
– discounted bills	1	1	1				3
– guarantees	15,555	472	1,132	1,350	3,202		21,711
– irrevocable letters of credit	7,333	6,070	1,914	192	31		15,540
– other	333	22	64	9			428
	23,222	6,565	3,111	1,551	3,233		37,682
Insurance operations							
Commitments	1,515	117	66	200	13	103	2,014
Guarantees				8	10	5	23
	1,515	117	66	208	23	108	2,037
Irrevocable facilities	38,082	16,552	5,251	24,686	5,456		90,027
	62,819	23,234	8,428	26,445	8,712	108	129,746

Guarantees relate both to credit and non-credit substitute guarantees. Credit substitute guarantees are guarantees given by ING Group in respect of credit granted to customers by a third party. Many of them are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows. In addition to the items included in contingent liabilities, ING Group has issued guarantees as a participant in collective arrangements of national industry bodies and as a participant in government required collective guarantee schemes which apply in different countries.

Irrevocable letters of credit mainly secure payments to third parties for a customer's foreign and domestic trade transactions in order to finance a shipment of goods. ING Group's credit risk in these transactions is limited since these transactions are collateralised by the commodity shipped and are of a short duration.

Other contingent liabilities include acceptances of bills and are of a short-term nature. Other contingent liabilities also include contingent liabilities resulting from the normal operations of the Real Estate business including obligations under development and construction contracts. None of the items included in Other contingent liabilities are individually significant.

Irrevocable facilities mainly constitute unused portions of irrevocable credit facilities granted to corporate clients. Many of these facilities are for a fixed duration and bear interest at a floating rate. ING Group's credit risk and interest rate risk in these transactions is limited. The unused portion of irrevocable credit facilities is partly secured by customers' assets or counter-guarantees by the central governments and exempted bodies under the regulatory requirements. Irrevocable facilities also include commitments made to purchase securities to be issued by governments and private issuers.

Furthermore, ING Group 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	**305**
2013	**247**
2014	**189**
2015	**171**
2016	**156**
Years after 2016	**285**

28 SPECIAL PURPOSE ENTITIES AND SECURITISATION

Securitisation

ING Group as originator

ING Group enters into synthetic securitisation programmes in order to reduce credit risk on certain assets. In synthetic securitisations, ING Group enters into a credit default swap with securitisation Special Purpose Entities (SPEs), in relation to which ING Group purchases credit protection in respect of residential mortgage loans and loans to small and medium-sized enterprises. The SPEs have in turn hedged their exposure with investors through the issue of credit linked notes or credit linked commercial paper. As a result of these transactions, ING Group has transferred a substantial part of the credit risk related to these loan portfolios to third-party investors. In general, the third-party investors in securities issued by the SPE have recourse only to the assets of the SPE and not to ING Group.

After securitisation of these assets ING Group continues to recognise them on its balance sheet under Loans and advances to customers. These transactions are therefore not off-balance sheet arrangements.

Assets under synthetic securitisation programmes		
	2011	2010
Loans to small and medium-sized enterprises	**5,251**	5,273
Mortgages	**6,245**	6,476
Total	**11,496**	11,749

ING Group as sponsor of multi-seller conduit
In the normal course of business, ING Group structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to an SPE. The SPE issues asset-backed commercial paper to the market to fund the purchases. ING Group, in its role as administrative agent, facilitates these transactions by providing structuring, accounting, funding and operations services.

ING Group supports the commercial paper programmes by providing the SPE with short-term standby liquidity facilities. These liquidity facilities are intended primarily to cover temporarily disruptions in the commercial paper market. Once drawn these facilities bear normal credit risk. A number of programmes are supported by granting structured liquidity facilities to the SPE, in which ING Group covers at least some of the credit risk incorporated in these programmes itself (in addition to normal liquidity facilities), and might suffer credit losses as a consequence. Furthermore, under a Programme Wide Credit Enhancement ING Group guarantees to a limited amount all remaining losses incorporated in the SPE to the commercial paper investors. All facilities, which vary in risk profile, are granted to the SPE subject to normal ING Group credit and liquidity risk analysis procedures. The fees received for services provided and for facilities are charged subject to market conditions. The SPE is included in the consolidation of ING Group. These transactions are therefore not off-balance sheet arrangements.

The normal non-structured standby liquidity facilities and the structured facilities are reported under irrevocable facilities.

Collateralised debt obligations (CDO)-transactions
Within ING Group, SPEs are used for CDO transactions. In a typical CDO transaction an SPE is used to issue structured, rated securities which are backed (or collateralised) by a pool of transferable debt securities. Besides investing in CDOs ING Group often has different roles in these transactions:
- the arranger of the transaction; ING Group structures the SPE, acquires the assets for the SPE and sells the CDOs to investors; and
- collateral manager of the assets in the SPE; ING Group manages the assets based on strict conditions of the SPEs charter.

ING Group receives market-rate fees for structuring, asset managing and distributing CDO-securities to investors. The total amount of these fees is not significant.

ING Group as investor
As part of its investment activities, ING Group invests in securitisations by purchasing notes or by selling credit protection in the market using credit default swaps from securitisation SPEs. For certain own asset securitisation programmes ING Group acts as a market maker and holds limited positions in this capacity.

Other entities
ING Group is also a party to other SPEs used, for example, in structured finance and leasing transactions.

Investment funds
ING Group as fund manager and investor
ING Group sets up investment funds for which it acts as a fund manager and sole investor at the inception of the fund. Subsequently, ING Group will seek third-party investors to invest in the fund, thereby reducing the interest of ING Group. In general, ING Group will maintain a small percentage of interest in these funds. These funds are included in the consolidated financial statements of the Group if and when control exists, taking into account both ING Group's financial interests for own risk and its role as investment manager.

ING Group as fund manager
ING Group acts as fund manager for several funds. Fees related to these management activities are charged on an at arm's-length basis. In general, as a fund manager ING Group will hold these funds in a fiduciary capacity. These funds are therefore generally not included in the consolidated financial statements of ING Group.

29 PRINCIPAL SUBSIDIARIES
The principal subsidiaries of ING Groep N.V. and their statutory place of incorporation as follows:

Companies treated as part of the banking operations	
ING Bank N.V.	The Netherlands
Bank Mendes Gans N.V.	The Netherlands
ING Lease Holding N.V.	The Netherlands
ING Corporate Investments B.V.	The Netherlands
ING Vastgoed Management Holding B.V.	The Netherlands
ING Commercial Finance B.V.	The Netherlands
Westland Utrecht Bank N.V.	The Netherlands
ING België N.V.	Belgium
Record Bank N.V.	Belgium
ING Luxembourg S.A.	Luxembourg
ING Bank Slaski S.A.	Poland
ING Financial Holdings Corporation	United States of America
ING Vysya Bank Ltd.	India
ING Direct N.V.	Canada, Germany, Spain, Australia, France, United States of America, Italy, United Kingdom
ING Bank A.S.	Turkey

Companies treated as part of the insurance operations	
ING Verzekeringen N.V.	The Netherlands
Nationale-Nederlanden Levensverzekering Maatschappij N.V.	The Netherlands
Nationale-Nederlanden Schadeverzekering Maatschappij N.V.	The Netherlands
ING Insurance Eurasia N.V.	The Netherlands
Parcom Capital B.V.	The Netherlands
Nationale-Nederlanden Service N.V.	The Netherlands
Movir N.V.	The Netherlands
ING Re (Netherlands) N.V.	The Netherlands
ING Fund Management B.V.	The Netherlands
ING Vastgoed Belegging B.V.	The Netherlands
ING Zivotna Poistovna a.s.	Slovakia
ING Nationale-Nederlanden Polska S.A.	Poland
ING Nationale-Nederlanden Polska Powszechne Towarzystwo Emerytaine S.A.	Poland
ING Asigurari de Viata S.A.	Romania
ING Greek Life Insurance Company S.A.	Greece
ING Nationale-Nederlanden Magyarorszagi Biztosito Rt.	Hungary
Nationale-Nederlanden Vida, Compañia de Seguros y Reaseguros S.A.	Spain
Nationale-Nederlanden Generales, Compañia de Seguros y Reaseguros S.A.	Spain
ING America Insurance Holdings, Inc.	United States of America
ING International Insurance Holdings, Inc.	United States of America
ING Life Insurance and Annuity Company	United States of America
ING North America Insurance Corporation	United States of America
Lion Connecticut Holdings Inc.	United States of America
ReliaStar Life Insurance Company	United States of America
ReliaStar Life Insurance Company of New York	United States of America
Security Life of Denver Insurance Company	United States of America
ING USA Annuity and Life Insurance Company	United States of America
ING Investment Management Co	United States of America
Security Life of Denver International Limited	Cayman Islands
ING Insurance Berhad	Malaysia
ING Life Insurance Company (Japan) Limited	Japan
ING Life Insurance Company (Korea) Limited	South Korea
ING Life Insurance Company (Bermuda) Limited	Hong Kong

30 COMPANIES ACQUIRED AND COMPANIES DISPOSED

Acquisitions effective in 2011

There were no significant acquisitions in 2011.

Disposals effective in 2011

Pacific Antai Life Insurance Company Ltd.

In June 2011 ING had 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 REIM Europe, ING REIM Asia and Clarion Real Estate Securities (CRES)

ING announced in February 2011 that it has reached agreement with CB Richard Ellis Group, Inc., to sell ING REIM Europe, ING REIM Asia and Clarion Real Estate Securities (CRES), ING REIM's US-based manager of listed real estate securities, as well as part of ING's equity interests in funds managed by these businesses.

In July 2011 ING announced the completion of the sale of Clarion Real Estate Securities (CRES) to CB Richard Ellis. The sale resulted in a net gain on divestment of EUR 182 million. CRES was previously included in the segment ING Real Estate.

In October 2011 ING announced that it had completed the sale of REIM's Asian and European operations to US-based CBRE Group Inc., thereby completing the divestment of ING REIM. The divestment of ING REIM has resulted in an after-tax gain on disposal of approximately EUR 245 million. As a result of the agreement at closing ING continues to have certain contingent income and expenses, however no significant impact on the result on divestment is expected. REIM's Asian and European operations were previously included in the segment ING Real Estate.

Clarion Partners

In June 2011 ING announced the completion of the sale of the private market real estate investment manager of its US operations, Clarion Partners, to Clarion Partners management in partnership with Lightyear Capital LLC for USD 100 million. The sale resulted in a net gain on divestment of EUR 39 million. Clarion Partners was previously included in the segment ING Real Estate.

ING Investment Management Australia

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

Latin American pensions, life insurance and investment management operations

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

The Latin American pensions, life insurance and investment management operations were previously included in the segments Insurance Latin America and ING Investment Management before they were classified as discontinued operations. The segment Insurance Latin America has ceased to exist following this transaction as the majority of assets and liabilities have been sold. The net result from discontinued operations is presented separately in the consolidated profit and loss account. Reference is made to Note 25 'Discontinued operations' for more detailed disclosures.

ING Car Lease

In September 2011 ING completed the sale of ING Car Lease to BMW Group fleet management division Alphabet for total proceeds of EUR 696 million and a net transaction result of EUR 347 million. ING Car Lease was previously partly included in both the Commercial and Retail Banking segment.

Disposals occured in 2012
ING Direct USA
In June 2011 ING announced that it reached an agreement to sell ING Direct USA to Capital One Financial Corporation, a leading US-based financial holding company. In February 2012 ING announced that the transaction closed. Total proceeds of the transaction are approximately USD 9.0 billion (or approximately EUR 6.9 billion), including USD 6.3 billion in cash and USD 2.7 billion in the form of 54.0 million shares in Capital One, based on the share price of USD 49.29 at closing on 16 February 2012. These shares represented a 9.7% stake in Capital One at closing. The transaction has resulted in a positive result after tax of approximately EUR 0.5 billion.

In 2011 ING Direct USA is still included in the segment ING Direct. After this sale ING Direct USA will no longer be consolidated.

In connection with the divestment of ING Direct USA, ING also completed the adjustment of the agreement with the Dutch State concerning the structure of the Illiquid Assets Back-up Facility (IABF) which was also announced on 16 June 2011. The amendment serves to de-link the IABF from ING Direct USA by putting ING Bank in its place as counterparty for the Dutch State. The IABF is further amended to ensure a continued alignment between ING and the State regarding exposure to the Alt-A portfolio. Only the part of the IABF covering ING Direct USA, currently approximately 85% of the total IABF-portfolio, is adjusted in the amendment. The ING Insurance part of the IABF remains unaltered. Reference is made to Note 33 ‘Related parties’ for details on the original agreement and the amendments made.

Most significant companies disposed in 2011

	Clarion Partners	Clarion Real Estate securities	ING REIM Asia and Europe	ING Car Lease	Pacific Antai Life Insurance Company Ltd	Latin American pensions, life insurance and investment management operations	Total
General							
Primary line of business	Bank	Bank	Bank	Bank	Insurance	Insurance	
Sales proceeds							
Cash proceeds [1]	69	224	365	696	82	2,572	4,008
Sales proceeds	69	224	365	696	82	2,572	4,008
Assets							
Cash assets					7	80	87
Investments					146	644	790
Loans and advances to customers			1	104	54	6	165
Amounts due from banks	1	3	94	103			201
Financial assets at fair value through profit and loss	5				10	679	694
Property and equipment				3,275			3,275
Miscellaneous other assets	20	44	82	341	48	1,491	2,026
Liabilities							
Insurance and investment contracts					205	715	920
Amounts due to banks				101			101
Customer deposits and other funds on deposit				3,028		66	3,094
Miscellaneous other liabilities	10	19	116	333	14	563	1,055
Net assets	16	28	61	361	46	1,556	2,068
% disposed	100%	100%	100%	100%	80%	Various [2]	
Net assets disposed	16	28	61	361	37	1,478	1,981
Gain/loss on disposal [3]	39	182	245	347	28	995	1,836

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

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

Disposals effective in 2010
In October 2009 ING reached an agreement to sell its Asian Private Banking business for a consideration of USD 1,463 million (EUR 985 million). The Asia franchise offers private banking services in 11 markets, including Hong Kong, the Philippines and Singapore. The transaction generated a net profit for ING of EUR 332 million. The sale was completed in the first half of 2010. The Asian Private Banking business was previously included in the segment Retail Asia.

In October 2009 ING reached an agreement to sell its Swiss Private Banking business to Julius Baer for a consideration of EUR 345 million (CHF 520 million) in cash. The transaction generated a net profit for ING of EUR 73 million. The sale was completed in January 2010. The Swiss Private Banking business was previously included in the segment Retail CE.

In August 2010 ING announced that it has agreed to sell its 50% stake in ING Summit Industrial Fund LP ('Summit'), a Canadian light industrial property portfolio to a joint venture between KingSett Capital and Alberta Investment Management Corporation (AIMCo). The sale was completed in November 2010. The transaction value for 100% of Summit is CAD 2.0 billion (EUR 1.4 billion) and includes assumed debt. In addition to its direct investment in Summit, ING has an indirect participation through its 7.8% unit holding of ING Industrial Fund (IIF), an ING-managed listed property fund in Australia which owns the remaining 50% in Summit. As part of the transaction, IIF has agreed to simultaneously sell its stake in Summit to KingSett/AIMCo. Consequently, ING's indirect participation in Summit will end as well. Separately, ING sold ING Real Estate Canada, the manager of Summit, to KingSett/AIMCo for an undisclosed amount. The transaction had no material impact on ING Group's 2010 results and capital ratios. The transaction resulted in a net loss of EUR 26 million in 2010. Summit was previously included in the segment ING Real Estate.

Furthermore there were some disposals that did not have a significant impact on ING's balance sheet and profit and loss account. In November 2009 ING reached an agreement to sell three of its 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.

Most significant companies disposed in 2010	Asia Private Banking business (3)	Swiss Private Banking business (3)	ING Summit Industrial Fund LP	Total
General				
Primary line of business	Bank	Bank	Bank	
Sales proceeds				
Cash proceeds (1)	985	345	333	1,663
Sales proceeds	985	345	333	1,663
Assets				
Cash assets	4	179		183
Investments	41	236		277
Loans and advances to customers	2,390	816	6	3,212
Amounts due from banks	1,171	1,177	39	2,387
Financial assets at fair value through profit and loss	397	8		405
Real estate investments			1,620	1,620
Miscellaneous other assets	20	46	57	123
Liabilities				
Amounts due to banks	180	755	952	1,887
Customer deposits and other funds on deposit	3,098	1,382		4,480
Miscellaneous other liabilities	92	53	52	197
Net assets	653	272	718	1,643
% disposed	100%	100%	50% (4)	
Net assets disposed	653	272	359	1,284
Gain/loss on disposal (2)	332	73	–26	379

(1) Cash outflow/inflow on group companies in the cash flow statement includes cash outflows/inflows on individually immaterial disposals in addition to the cash flows presented.
(2) The gain/loss on disposal comprises the sales proceed, the net assets disposed, the expenses directly related to the disposal and the realisation of unrealised reserves.
(3) As per 31 December 2009 recognised as a disposal group held for sale.
(4) After disposal of the 50% stake ING has no remaining stake in Summit.

2009
Goodwill recognised in 2009 amounted to EUR 39 million as disclosed in Note 9 'Intangible assets'. This includes EUR 26 million in relation to the consolidation of 3W Holding B.V as disclosed below. There were no significant acquisitions in 2009.

In August 2009 ING obtained control of its 50% owned joint venture 3W Holding B.V., a real estate development company. ING obtained a majority representation in the Supervisory Board of 3W Holding B.V. and entered into an option agreement that allows ING to acquire the remaining 50%. As a result of obtaining control, 3W Holding B.V. is fully included in the consolidation as of September 2009. Net assets upon consolidation amounted to EUR –21 million. The estimated consideration payable for obtaining the remaining 50% under the option agreement is approximately EUR 5 million. Therefore, goodwill of EUR 26 million is recognised. This goodwill is mainly attributable to operational synergies arising from obtaining control of the professional network of 3W and the future business potential in the southern Netherlands where 3W is active.

	3W Holding B.V.
General	
Primary line of business	Bank
Date of full consolidation	1 September 2009
Purchase consideration payable	5
Assets	
Miscellaneous other assets	51
Liabilities	
Customer deposits and other funds on deposit	21
Miscellaneous other liabilities	51
Net assets	–21
Goodwill recognised	26
Profit since date of full consolidation	–16
Income if fully consolidated as of start of year	–5
Profit if fully consolidated as of start of year	–19

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

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

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

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

Most significant companies disposed in 2009

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

(1) Cash outflow/inflow on group companies in the cash flow statement includes cash outflows/inflows on individually immaterial disposals in addition to the cash flows presented.
(2) The gain/loss on disposal comprises the sales proceed, the net assets disposed, the expenses directly related to the disposal and the realisation of unrealised reserves.
(3) The loss was recognised in 2008.
(4) After disposal of the 70% stake ING has no remaining stake in ING Canada.
(5) Assets and liabilities included in this column were presented as assets/liabilities held for sale as at 31 December 2008.

31 LEGAL PROCEEDINGS

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

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

Proceedings in which ING is involved, include complaints and lawsuits concerning the performance of certain interest sensitive products that were sold by a former subsidiary of ING in Mexico. Proceedings also include lawsuits that have been filed by former employees of an Argentina subsidiary, whose employment was terminated as a result the Republic of Argentina's nationalisation of the pension fund system. Litigation has been filed by the purchaser of certain ING Mexican subsidiaries who claims that the financial condition of the subsidiaries was not accurately depicted. Further, purported class litigation has been filed in the United States District Court for the Southern District of New York alleging violations of the federal securities laws with respect to disclosures made in connection with the 2007 and 2008 offerings of ING's Perpetual Hybrid Capital Securities. The Court has determined that the claims relating to the 2007 offerings were without merit and has dismissed them. The challenged disclosures that survived the Court's ruling relate solely to the June 2008 offering, and primarily to ING Group's investments in certain residential mortgage-backed securities. Additional purported class litigation challenges the operation of the ING Americas Savings Plan and ESOP and the ING 401(k) Plan for ILIAC Agents. The District Court has dismissed the latter case and plaintiffs have appealed. Also an administrator of an ERISA plan has filed a lawsuit seeking to represent a class of ERISA plan administrators claiming that an ING subsidiary has breached certain of its ERISA duties. These matters are being defended vigorously; however, at this time, ING is unable to assess their final outcome. Therefore at this moment it is not practicable to provide an estimate of the (potential) financial effect.

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

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

In January 2011 the Association of Stockholders (Vereniging van Effectenbezitters, 'VEB') has issued a writ alleging that investors were misled by the prospectus that was issued with respect to the September 2007 rights issue of Fortis N.V. (now: Ageas N.V.) against Ageas N.V., the underwriters of such rights issue, including ING Bank, and former directors of Fortis N.V. According to the VEB the prospectus shows substantive incorrect and misleading information. The VEB states that the impact and the risks of the subprime crisis for Fortis and Fortis' liquidity position have been reflected incorrectly in the prospectus. The VEB requests a declaratory decision stating that the summoned parties have acted wrongfully and are therefore responsible for the damages suffered by the investors in Fortis. The amount of damages of EUR 18 billion has not been substantiated yet. ING will defend itself against this claim; at this time ING is not able to assess the future outcome. Therefore at this moment it is not practicable to provide an estimate of the (potential) financial effect of such action.

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

In addition to the foregoing procedures, ING Bank remains in discussions with authorities in the US concerning ING Bank's compliance with Office of Foreign Asset Control requirements. ING Bank has received requests for information from US Government agencies including the US Department of Justice and the New York County District Attorney's Office. ING Bank is cooperating fully with the ongoing investigations and is engaged in discussions to resolve these matters with the US authorities; however, it is not yet possible to reliably estimate the timing or amount of any potential settlement, which could be significant. At this moment it is not practicable to provide an estimate of the (potential) financial effect.

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

32 JOINT VENTURES

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

Most significant joint ventures					
2011	**Interest held (%)**	**Assets**	**Liabilities**	**Income**	**Expenses**
Postkantoren B.V.	**50**	**57**	**69**	**16**	**21**
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		**2,444**	**2,249**	**679**	**677**

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

Most significant joint ventures					
2010	Interest held (%)	Assets	Liabilities	Income	Expenses
Postkantoren B.V.	50	91	100	30	28
KB Life Insurance Company Ltd (1)	49	1,236	1,118	436	425
ING-BOB Life Insurance Company Ltd	50	333	289	87	85
ING Vysya Life Insurance Company Ltd (1)	26	495	466	127	136
Total		2,155	1,973	680	674

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

33 RELATED PARTIES

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

Transactions with joint ventures and associates				
		Joint ventures		Associates
	2011	2010	**2011**	2010
Receivables	**122**	114	**1,203**	1,283
Liabilities	**5**	41	**12**	38
Income received	**6**	6	**144**	127
Expenses paid			**20**	11

Transactions with ING Bank N.V. and ING Verzekeringen N.V.				
		ING Bank N.V.		ING Verzekeringen N.V.
	2011	2010	**2011**	2010
Receivables	**7,515**	9,411	**2,617**	2,095
Liabilities	**2,869**	736		
Income received	**868**	825	**60**	184
Expenses paid	**306**	194		

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

As part of the exchange offers disclosed in Note 14 'Subordinated loans' EUR 0.9 billion intercompany debt from ING Bank N.V. to ING Groep N.V. was repaid.

Transactions with key management personnel (Executive Board, Management Boards and Supervisory Board) and post-employment benefit plans are transactions with related parties. These transactions are disclosed in more detail as required by Part 9 Book 2 of the Dutch Civil Code in the remuneration report in the annual report. The relevant sections of the remuneration report therefore are part of the annual accounts. For the post-employment benefit plans see Note 21 'Other liabilities'.

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

The two members of the Executive Board of ING Groep N.V. are also members of the Management Boards of ING Bank N.V., ING Verzekeringen N.V., Insurance Eurasia and Americas Insurance Holdings. The Management Board members of ING Bank N.V., ING Verzekeringen N.V., Insurance Eurasia and Americas Insurance Holdings are also considered to be key management.

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

2011 amounts in thousands of euros	Executive Board of ING Groep N.V. (2)	Management Boards of ING Bank N.V., ING Verzekeringen N.V., Insurance Eurasia and Americas Insurance Holdings (3)	Total
Base salary and variable compensation in cash	2,666	8,240	10,906
Pension costs	315	2,083	2,398
Retirement benefit		1,828	1,828
Fair market value of variable compensation in stock		2,433	2,433
Total compensation	2,981	14,584	17,565

(1) In light of the changed governance structure of both the Banking and Insurance organisation several changes were made to the Board structure of both entities, which resulted in an overall increase in the number of Board members. In January 2011, one additional Board member joined the Management Board Banking, and two additional Board members joined the Management Board Insurance. In October 2011 a Management Board Banking member stepped down and his successor and another member joined that same month. The latter Board member also joined the Management Board Insurance at the same time. In November 2011, a separate Management Board for Americas Insurance Holdings was created, which included four new members.
(2) Includes the compensation earned in the capacity as Executive Board member. One Executive Board member stepped down from the Executive Board as per 1 October 2011, therefore his compensation is included till October 2011
(3) Excluding members that are also members of the Executive Board of ING Groep N.V.

Key management personnel compensation (Executive Board and Management Boards)

2010 amounts in thousands of euros	Executive Board of ING Groep N.V.	Management Boards of ING Bank N.V. and ING Verzekeringen N.V. (1)	Total
Base salary and variable compensation in cash	2,853	5,910	8,763
Pension costs	292	1,263	1,555
Termination benefit		980	980
Fair market value of variable compensation in stock		1,376	1,376
Total compensation	3,145	9,529	12,674

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

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

Key management personnel compensation (Supervisory Board)

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

Loans and advances to key management personnel

amounts in thousands of euros	Amount outstanding 31 December 2011	2010	Average interest rate 2011	2010	Repayments 2011	2010
Executive Board members (1)	1,968	1,968	3.6%	3.6%		
Management Board members of ING Bank N.V., ING Verzekeringen N.V., Insurance Eurasia and Americas Insurance Holdings	2,314	13	3.4%	4.3%	388	4
Supervisory Board members	282	282	8.6%	8.6%		
Total	4,564	2,263			388	4

(1) Includes the Executive Board member that stepped down from the Executive Board as per 1 October 2011.

The total number of stock options on ING Groep N.V. shares held by the Executive Board members, including the Executive Board member that stepped down from the Executive Board as per 1 October 2011, of ING Group N.V. amounted to 164,689 as at 31 December 2011 (2010: 164,689) and total number of stock options on ING Groep N.V. shares held by Management Board members of ING Bank N.V., ING Verzekeringen N.V., Insurance Eurasia and Americas Insurance Holdings amounted to 1,913,631 as at 31 December 2011 (2010: 2,676,675). As at 31 December 2011, members of the Executive Board, including the Executive Board member that stepped down from the Executive Board as per 1 October 2011, held 149,400 ING Groep N.V. shares (2010: 118,723) and members of the Management Boards of ING Bank N.V., ING Verzekeringen N.V., Insurance Eurasia and Americas Insurance Holdings held 84,173 ING Groep N.V. shares (2010: 284,995). As at 31 December 2011, members of the Supervisory Board held 244,968 ING Groep N.V. shares (2010: 167,407).

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 both ING Direct USA and ING Insurance US, with a par value of approximately EUR 30 billion. Under the IABF, ING transferred 80% of the economic ownership of its Alt-A portfolio to the Dutch State. As a result, an undivided 80% interest in the risk and rewards on the portfolio was transferred to the Dutch State. ING retained 100% of the legal ownership of its Alt-A portfolio. The transaction price was 90% of the par value with respect to the 80% proportion of the portfolio of which the Dutch State had become the economic owner. The transaction price remains payable by the Dutch State to ING and will be redeemed over the remaining life. Furthermore, under the IABF ING pays a guarantee fee to the State and receives a funding fee and a management fee. As a result of the transaction ING derecognised 80% of the Alt-A portfolio from its balance sheet and recognised a receivable from the Dutch State. The transferred Alt-A portfolio was previously included in Available-for-sale debt securities. The Dutch State also acquired certain consent rights with respect to the sale or transfer of the 20% proportion of the Alt-A portfolio that is retained by ING.

Under the terms of the transaction as agreed on 26 January 2009, the overall sales proceeds amounted to EUR 22.4 billion at the transaction date. The amortised cost (after prior impairments) at the transaction date was also approximately EUR 22.4 billion. The transaction resulted in a loss in the first quarter of 2009 of EUR 109 million after tax (the difference between the sales proceeds and the amortised cost). The fair value under IFRS-EU at the date of the transaction was EUR 15.2 billion.

In order to obtain approval from the European Commission on ING Group's Restructuring Plan (see below), ING agreed to make additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission to the Dutch State corresponding to an adjustment of the fees for the Illiquid Assets Back-up Facility. In total, these additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission amounted to a net present value of EUR 1.3 billion pre-tax, which was recognised as a one-off charge in the fourth quarter of 2009. The remainder of the IABF as agreed in January 2009, including the transfer price of the securities of 90%, remained unaltered.

The difference between the total sales proceeds of EUR 21.1 billion (EUR 22.4 billion -/- adjustment of EUR 1.3 billion) and the fair value under IFRS-EU of EUR 15.2 billion represents a 'Government grant' under IAS 20. This government grant is considered to be an integral part of the transaction and is therefore accounted for as part of the result on the transaction.

The transaction resulted in a reduction of the negative revaluation – and therefore an increase in equity – of EUR 4.6 billion (after tax).

The valuation method of the 20% Alt-A securities in the IFRS-EU balance sheet is not impacted by the IABF. The methodology used to determine the fair value for these assets in the balance sheet under IFRS-EU is disclosed in Note 34 'Fair value of financial assets and liabilities'.

As at 31 December 2011, the remaining outstanding amount from the transaction price that remained payable by the Dutch State is EUR 10.3 billion (2010: EUR 13.1 billion). The net amount of other unamortised components of the total sales proceeds, as explained above, amounts to EUR 0.6 billion payable (2010: EUR 0.7 billion).

In connection with the sale of ING Direct USA as disclosed in Note 30 'Companies acquired and companies disposed', 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. The impact on equity and result of the alignment for ING Bank was limited.

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

Non-voting equity securities (Core Tier 1 securities)
On 12 November 2008, ING Groep N.V. issued one billion non-voting equity securities to the Dutch State at EUR 10 per non-voting equity security, resulting in an increase of ING Group's core Tier 1 capital of EUR 10 billion. The nominal value of each security is EUR 0.24. The non-voting equity securities do not form part of ING Group's share capital; accordingly they do not carry voting rights in the General Meeting of Shareholders.

These non-voting equity securities are deeply subordinated and rank pari-passu with ordinary shares in a winding up of ING Group.

On these non-voting equity securities a coupon is payable of the higher of:

- EUR 0.85 per security, payable annually in arrears, with a first coupon of EUR 0.425 per security paid on 12 May 2009;
- 110% of the dividend paid on each ordinary share over 2009 (payable in 2010);
- 120% of the dividend paid on each ordinary share over 2010 (payable in 2011); and
- 125% of the dividend paid on each ordinary share over 2011 onwards (payable in 2012 onwards).

Since ING Groep N.V. had already paid an interim dividend of EUR 0.74 in August 2008, ING recognised a coupon payable of EUR 425 million to the Dutch State as of 31 December 2008. This coupon was paid on 12 May 2009.

Further coupons are to be paid on 12 May of each year (the coupon date) in cash if dividend on ordinary shares is paid in cash or to be paid in scrip securities in the event of a scrip dividend on ordinary shares. Coupons are only due and payable, on a non-cumulative basis and if a dividend is paid on ordinary shares over the financial year preceding the coupon date, either on an interim or a final dividend basis, provided that ING Groep N.V.'s capital adequacy position is and remains satisfactory both before and immediately after payment in the opinion of the Dutch Central Bank.

ING Groep N.V. has, as of 12 November 2011, the right to repay all or some of the non-voting equity securities at EUR 15 per security at any time, together with the pro-rata coupon accrued to such date. ING Groep N.V. and the Dutch State have agreed in October 2009 that up to EUR 5 billion of the EUR 10 billion core Tier 1 securities could be repaid at any time until 31 January 2010 at the original issue price of EUR 10 per non-voting equity security, plus a repurchase premium and accrued interest.

ING Groep N.V. also has the right to convert all or some of the non-voting equity securities into ordinary shares on the basis of one non-voting equity security for 1.335 ordinary shares or bearer depositary receipts from three years after the issue date onwards, subject to certain conditions. This equates to an exchange price of EUR 7.49. The Dutch State in that case has the right to demand a redemption payment of EUR 10 per non-voting equity security, together with the pro-rata coupon, if due, accrued to such date.

Both repayment and conversion of the securities must be approved by the Dutch Central Bank.

Repayment non-voting equity shares
In December 2009, ING repaid the first half of the non-voting equity securities (core Tier 1 securities) of EUR 5 billion plus a total premium of EUR 605 million. On 13 May 2011 ING exercised its option for early repayment of EUR 2 billion of the remaining non-voting equity securities (core Tier 1 securities). The total payment in May 2011 amounted to EUR 3 billion and included a 50% repurchase premium. ING funded this repayment from retained earnings. ING has indicated that it is one of its priorities to repay the remaining EUR 3 billion non-voting equity securities (core Tier 1 securities) as soon as possible, but this needs to be done very prudently in light of the current challenging and changing financial and regulatory environment.

In order to finance the repayment, in December 2009, of the non-voting equity securities and the associated expenses as well as to mitigate the capital impact of the additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission, ING launched a capital increase with preferential subscription rights for holders of (depositary receipts for) ordinary shares of up to EUR 7.5 billion. The rights issue, as disclosed in Note 13 'Shareholders' equity (parent)/non-voting equity securities' was authorised by the Extraordinary General Meeting of Shareholders on 25 November 2009. Proceeds of the issue in excess of the above amounts were used to strengthen ING's capital position.

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

- elimination of double leverage and significant reduction of ING's balance sheet;
- divestment of all Insurance and Investment Management activities;
- divestment of ING Direct USA;
- creation of a new company in the Dutch retail market composed of Interadvies (including Westland Utrecht and the mortgage activities of Nationale-Nederlanden) and the existing consumer lending portfolio of ING Retail in the Netherlands. This business, once separated, needs to be divested;
- restriction to be a price leader in any EU country for certain retail and SME banking products and restriction to acquire financial institutions or other businesses that would delay the repayment of the non-voting equity securities. These restrictions will apply for the shorter period of three years or until the non-voting equity securities have been repaid in full to the Dutch State;
- an agreement with the Dutch State to alter the repayment terms of 50% of the non-voting equity securities;
- repayment of EUR 5 billion of the non-voting equity securities issued in November 2008 to the Dutch State;
- additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission will have to be made to the Dutch State in the form of fee adjustments relating to the Illiquid Assets Back-Up Facility which resulted in a one-off pre-tax charge to ING of EUR 1.3 billion in the fourth quarter of 2009;

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

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

Credit Guarantee Scheme

As part of the measures adopted to protect the financial sector, the Dutch State introduced a EUR 200 billion credit guarantee scheme for the issuance of medium term debt instruments by banks (the Credit Guarantee Scheme). ING Bank N.V. issued government guaranteed debt instruments under this Credit Guarantee Scheme ('Government Guaranteed Bonds') as part of its regular medium-term funding operations. The relevant Rules of the Credit Guarantee Scheme promulgate the rules applicable to any issues under the Credit Guarantee Scheme and include information such as scope, denomination, tenor and fees payable by the banks. ING Group pays a fee of 84 basis points over the issued bonds to the Dutch State to participate in the Credit Guarantee Scheme. Reference is made to Note 15 'Debt securities in issue'.

Other

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

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

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

34 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Fair value of financial assets and liabilities

	Estimated fair value		Balance sheet value	
	2011	2010	**2011**	2010
Financial assets				
Cash and balances with central banks	**31,194**	13,072	**31,194**	13,072
Amounts due from banks	**45,269**	51,651	**45,323**	51,828
Financial assets at fair value through profit and loss				
– trading assets	**123,688**	125,675	**123,688**	125,675
– investments for risk of policyholders	**116,438**	120,481	**116,438**	120,481
– non-trading derivatives	**17,159**	11,722	**17,159**	11,722
– designated as at fair value through profit and loss	**5,437**	6,016	**5,437**	6,016
Investments				
– available-for-sale	**208,539**	222,547	**208,539**	222,547
– held-to-maturity	**8,835**	11,854	**8,868**	11,693
Loans and advances to customers	**610,448**	614,548	**602,525**	613,204
Other assets (1)	**22,367**	26,906	**22,367**	26,906
	1,189,374	1,204,472	**1,181,538**	1,203,144
Financial liabilities				
Subordinated loans	**5,909**	9,215	**8,858**	10,645
Debt securities in issue	**141,774**	136,586	**139,861**	135,604
Other borrowed funds	**18,053**	21,822	**19,684**	22,291
Investment contracts for risk of company	**6,717**	6,066	**6,259**	5,991
Investment contracts for risk of policyholders	**6,939**	5,984	**6,939**	5,984
Amounts due to banks	**72,687**	73,227	**72,233**	72,852
Customer deposits and other funds on deposit	**468,447**	508,755	**467,547**	511,362
Financial liabilities at fair value through profit and loss				
– trading liabilities	**107,682**	108,050	**107,682**	108,050
– non-trading derivatives	**22,165**	17,782	**22,165**	17,782
– designated as at fair value through profit and loss	**13,021**	12,707	**13,021**	12,707
Other liabilities (2)	**26,177**	29,671	**26,177**	29,671
	889,571	929,865	**890,426**	932,939

(1) Other assets do not include (deferred) tax assets, property held for sale, pension assets and deferred charges.
(2) Other liabilities do not include (deferred) tax liabilities, pension liabilities, insurance provisions, prepayments received under property under development, share-based payment plans, other provisions and other taxation and social security contributions.

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

Due to a change in market practices for pricing derivatives, ING Group is in the process of adopting a discounting curve, that reflects the Overnight Indexed Swap ('OIS') instead of the previously used term EURIBOR rate. In addition, ING refined its calculation methodology for reflecting credit risk in derivatives and issued liabilities. The impact of both these changes is recorded in the profit and loss account; the overall financial effect in 2011 was not material.

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

Financial assets

Cash and balances with central banks

The carrying amount of cash approximates its fair value.

Amounts due from banks

The fair values of receivables from banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates offered for receivables with similar characteristics, similar to Loans and advances to customers described below.

Financial assets at fair value through profit and loss and Investments

Derivatives

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

Equity securities

The fair values of publicly traded equity securities are based on quoted market prices when available. Where no quoted market prices are available, fair value is determined based on quoted prices for similar securities or other valuation techniques.

The fair value of private equity is based on quoted market prices, if available. In the absence of quoted prices in an active market, fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects, price, earnings comparisons and revenue multiples and by reference to market valuations for similar entities quoted in an active market.

Debt securities

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

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

In order to determine which independent price in the range of prices obtained best represents fair value under IAS 39, ING applies a discounted cash flow model to calculate an indicative fair value. The key input to this model is a discount rate derived from an internal matrix that is used to construct the discount rate per security by applying credit and liquidity spreads relevant to the characteristics of such asset classes. The main assumptions in this matrix include:
- a base spread;
- a liquidity risk premium; and
- an additional credit spread, based on:
  - seniority in the capital structure – an adjustment is applied to each security based on its position in the capital structure;
  - vintage – an adjustment is applied for underwriting guidelines deteriorating from 2004 to 2007 in combination with differences in home price developments for these vintages.

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

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

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 for calculations purposes. The carrying values of variable rate policy loans approximate their fair value.

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

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

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

Amounts due to banks
The fair values of payables to banks are generally based on quoted market prices or, if not available, on estimates based on discounting future cash flows using available market interest rates and credit spreads for payables to banks with similar characteristics.

Customer deposits and other funds on deposit
The carrying values of customer deposits and other funds on deposit with no stated maturity approximate their fair values. The fair values of deposits with stated maturities have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities.

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

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

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

Fair value hierarchy
ING Group has categorised its financial instruments that are measured in the balance sheet at fair value into a three level hierarchy based on the priority of the inputs to the valuation. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques based on unobservable inputs. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide reliable pricing information on an ongoing basis. The fair value hierarchy consists of three levels, depending upon whether fair values were determined based 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 the Group's own assumptions about the factors that market participants would use in pricing an asset or liability, developed based on the best information available in the circumstances. Unobservable inputs may include volatility, correlation, spreads to discount rates, default rates and recovery rates, prepayment rates and certain credit spreads.

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

Methods applied in determining fair values of financial assets and liabilities

2011	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	**32,903**	**89,403**	**1,382**	**123,688**
Investments for risk of policyholders	**111,203**	**5,094**	**141**	**116,438**
Non-trading derivatives	**1,477**	**14,723**	**959**	**17,159**
Financial assets designated as at fair value through profit and loss	**251**	**2,300**	**2,886**	**5,437**
Available-for-sale investments	**120,889**	**81,926**	**5,724**	**208,539**
	266,723	**193,446**	**11,092**	**471,261**
Liabilities				
Trading liabilities	**20,308**	**86,434**	**940**	**107,682**
Non-trading derivatives	**1,175**	**18,808**	**2,182**	**22,165**
Financial liabilities designated as at fair value through profit and loss	**1,150**	**7,599**	**4,272**	**13,021**
Investment contracts (for contracts carried at fair value)	**3,279**	**3,648**	**12**	**6,939**
	25,912	**116,489**	**7,406**	**149,807**

Methods applied in determining fair values of financial assets and liabilities

2010	Level 1	Level 2	Level 3	Total
Assets				
Trading assets	49,644	73,899	2,132	125,675
Investments for risk of policyholders	115,102	5,243	136	120,481
Non-trading derivatives	90	10,997	635	11,722
Financial assets designated as at fair value through profit and loss	1,143	3,027	1,846	6,016
Available-for-sale investments	113,994	101,816	6,104	221,914
	279,973	194,982	10,853	485,808
Liabilities				
Trading liabilities	33,293	73,316	1,441	108,050
Non-trading derivatives	878	15,028	1,876	17,782
Financial liabilities designated as at fair value through profit and loss	1,834	7,648	3,225	12,707
Investment contracts (for contracts carried at fair value)	2,879	3,088	17	5,984
	38,884	99,080	6,559	144,523

Level 1 – Quoted prices in active markets

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

Level 2 – Valuation technique supported by observable inputs

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

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

Changes in Level 3 Assets

2011	Trading assets	Investments for risk of policyholders	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	2,132	136	635	1,846	6,104	10,853
Amounts recognised in the profit and loss account during the year	–361		311	10	–229	–269
Revaluation recognised in equity during the year					–72	–72
Purchase of assets	786	123	143	1,112	1,461	3,625
Sale of assets	–582	–99	–76	–271	–781	–1,809
Maturity/settlement	–441		–75	–100	–783	–1,399
Transfers into Level 3	95	4	13	224	920	1,256
Transfers out of Level 3	–245	–6		–2	–2,248	–2,501
Exchange rate differences	–2	–17	8	59	9	57
Changes in the composition of the group and other changes				8	1,343	1,351
Closing balance	1,382	141	959	2,886	5,724	11,092

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

Changes in the composition of the group and other changes includes the decrease of the Level 3 assets in relation to the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 11 'Assets and liabilities held for sale'. Furthermore 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 investments available-for sale as disclosed in Note 6 'Investments in associates', as well as the reclassification of equity securities in certain real estate companies into Level 3.

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

There were no significant transfers between Level 1 and 2.

Changes in Level 3 Assets

2010	Trading assets	Investments for risk of policy-holders	Non-trading derivatives	Financial assets designated as at fair value through profit and loss	Available-for-sale investments	Total
Opening balance	1,366	54	541	1,830	7,243	11,034
Amounts recognised in the profit and loss account during the year	193	–5	–275	3	–232	–316
Revaluation recognised in equity during the year					1,047	1,047
Purchase of assets	1,394	134	554	608	1,365	4,055
Sale of assets	–899	–143	–340	–637	–720	–2,739
Maturity/settlement	–275		–2	–96	–775	–1,148
Transfers into Level 3	474	87	143	21	1,156	1,881
Transfers out of Level 3	–150			–4	–3,355	–3,509
Exchange rate differences	29	9	14	121	375	548
Closing balance	2,132	136	635	1,846	6,104	10,853

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

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

There were no significant transfers between Level 1 and 2.

Changes in Level 3 Liabilities

2011	**Trading liabilities**	**Non-trading derivatives**	**Financial liabilities designated as at fair value through profit and loss**	**Investment contracts (for contracts carried at fair value)**	**Total**
Opening balance	**1,441**	**1,876**	**3,225**	**17**	**6,559**
Amounts recognised in the profit and loss account during the year	**46**	**183**	**113**		**342**
Issue of liabilities	**1,138**	**502**	**1,613**	**7**	**3,260**
Early repayment of liabilities	**–705**	**–49**	**–402**	**–3**	**–1,159**
Maturity/settlement	**–928**	**–400**	**–645**		**–1,973**
Transfers into Level 3	**125**	**25**	**441**		**591**
Transfers out of Level 3	**–175**	**–2**	**–80**	**–9**	**–266**
Exchange rate differences	**–2**	**63**	**7**		**68**
Changes in the composition of the group		**–16**			**–16**
Closing balance	**940**	**2,182**	**4,272**	**12**	**7,406**

Changes in Level 3 Liabilities

2010	Trading liabilities	Non-trading derivatives	Financial liabilities designated as at fair value through profit and loss	Investment contracts (for contracts carried at fair value)	Total
Opening balance	857	1,361	2,589	39	4,846
Amounts recognised in the profit and loss account during the year	119		85	–5	199
Revaluation recognised in equity during the year				9	9
Issue of liabilities	1,679	490	2,241	10	4,420
Early repayment of liabilities	–876	–247	–863	–55	–2,041
Maturity/settlement	–326	–1	–561		–888
Transfers into Level 3	165	282		11	458
Transfers out of Level 3	–176	–67	–266		–509
Exchange rate differences	–1	58		8	65
Closing balance	1,441	1,876	3,225	17	6,559

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	–364	3	–361
Non-trading derivatives	308	3	311
Financial assets designated as at fair value through profit and loss	10		10
Available-for-sale investments	–160	–69	–229
	–206	–63	–269
Liabilities			
Trading liabilities	46		46
Non-trading derivatives	194	–11	183
Financial liabilities designated as at fair value through profit and loss	113		113
	353	–11	342

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

2010	Held at balance sheet date	Derecognised during the year	Total
Assets			
Trading assets	157	36	193
Investments for risk of policyholders		–5	–5
Non-trading derivatives	–248	–27	–275
Financial assets designated as at fair value through profit and loss	29	–26	3
Available-for-sale investments	–264	32	–232
	–326	10	–316
Liabilities			
Trading liabilities	119		119
Non-trading derivatives	–2	2	
Financial liabilities designated as at fair value through profit and loss	85		85
Investment contracts (for contracts carried at fair value)		–5	–5
	202	–3	199

Sensitivities of fair values in Level 3

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

Asset backed securities in the United States

Level 3 assets include EUR 373 million at 31 December 2011 and EUR 3,362 million at 31 December 2010 for investments in asset backed securities in the United States. These assets are valued using external price sources that are obtained from third party pricing services and brokers. In 2011, these asset backed securities in the United States decreased as a result of a transfer from Level 3 to Level 2. Previously these were classified in Level 3 because of the dispersion between prices obtained for the same security from different price sources. In 2011 prices supported by market observable inputs became available and were used in determining the fair value. Furthermore the decrease was caused by the classification of ING Direct USA as a disposal group held for sale. Reference is made to Note 11 'Assets and liabilities held for sale'.

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

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

Valuation for these securities is inherently complex and subjective. Although each security in the portfolio is priced based on an external price, without modification by ING Group, and management is confident that it has selected the most appropriate price in the current market circumstances, the valuation of these portfolios would have been different had different prices been selected. The sensitivity analysis shows that the highest and the lowest available market prices do not materially impact the valuation of these assets as at 31 December 2011.

Asset backed security portfolio

Fair value hierarchy of pressurised ABS bonds				
2011	**Level 1**	**Level 2**	**Level 3**	**Total**
US Subprime RMBS		**763**	**11**	**774**
US Alt-A RMBS		**495**	**7**	**502**
CDO/CLOs	**6**	**43**	**420**	**469**
CMBS	**2**	**4,404**	**6**	**4,412**
Total pressurised ABS	**8**	**5,705**	**444**	**6,157**

Transactions with ING Bank N.V. and ING Verzekeringen N.V.				
2010	Level 1	Level 2	Level 3	Total
US Subprime RMBS		17	1,630	1,647
US Alt-A RMBS		2,209	638	2,847
CDO/CLOs	9	65	557	631
CMBS	1	5,040	9	5,050
Total pressurised ABS	10	7,331	2,834	10,175

Greece, Italy, Ireland, Portugal and Spain

Of the Government and Unsecured Financial institutions' bonds exposure in Greece, Italy, Ireland, Portugal and Spain as disclosed in Note 4 'Investments', EUR 5.3 billion is classified as available-for-sale and is measured at fair value (with the revaluation recognised in equity, taking into account impairments that are recognised in the profit and loss account). The table below provide the fair value hierarchy per year-end 2011 for the Greek, Italian, Irish, Portuguese and Spanish Government and Unsecured Financial institutions' bond exposure measured at fair value.

Fair value hierarchy of Greek, Italian, Irish, Portuguese and Spanish bonds at fair value				
2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Greece				
Government bonds		**219**	**36**	**255**
Italy				
Government bonds	**1,705**	**86**	**242**	**2,033**
Financial institutions	**311**	**373**		**684**
Ireland				
Government bonds	**43**			**43**
Financial institutions	**44**			**44**
Portugal				
Government bonds	**533**			**533**
Financial institutions	**60**	**65**		**125**
Spain				
Government bonds	**1,178**	**12**		**1,190**
Financial institutions	**277**			**277**
Total	**4,151**	**755**	**278**	**5,184**

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

35 INTEREST RESULT BANKING OPERATIONS

Interest result banking operations	2011	2010	2009
Interest income on loans	**26,415**	24,942	24,983
Interest income on impaired loans	**61**	40	24
Total interest income on loans	**26,476**	24,982	25,007
Interest income on available-for-sale securities	**3,463**	3,532	3,923
Interest income on held-to-maturity securities	**400**	549	612
Interest income on trading portfolio	**27,480**	32,692	40,844
Interest income on non-trading derivatives	**1,536**	1,709	3,936
Other interest income	**5,294**	4,870	5,528
Interest income banking operations	**64,649**	68,334	79,850
Interest expense on deposits by banks	**902**	652	1,266
Interest expense on customer deposits and other funds on deposit	**9,383**	8,324	10,976
Interest expense on debt securities	**3,435**	2,761	2,657
Interest expense on subordinated loans	**1,625**	1,856	1,784
Interest on trading liabilities	**27,209**	32,847	40,023
Interest on non-trading derivatives	**1,658**	2,166	4,483
Other interest expense	**6,988**	6,405	6,286
Interest expense banking operations	**51,200**	55,011	67,475
Interest result banking operations	**13,449**	13,323	12,375

Interest margin in percentages	2011	2010	2009
Interest margin	**1.42**	1.44	1.34

In 2011, the growth in average total assets led to an increase of the interest result amounting to EUR 135 million (in 2010 the decline in average total assets led to a decrease of the interest result of EUR 90 million; in 2009 the decline in average assets led to a decrease of the interest result of EUR 929 million). The decrease of the interest margin by 2 basis points led to a decrease of the interest result with EUR 139 million (in 2010 the increase of the interest margin by 10 basis points led to an increase of the interest result with EUR 915 million; in 2009 the increase of the interest margin by 25 basis points led to an increase of the interest result with EUR 2,406 million).

36 GROSS PREMIUM INCOME

Gross premium income	2011	2010	2009
Gross premium income from life insurance policies	**25,473**	26,045	28,476
Gross premium income from non-life insurance policies	**1,725**	1,741	1,772
	27,198	27,786	30,248

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

Effect of reinsurance on premiums written			Non-life			Life			Total
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Direct gross premiums written	**1,702**	1,718	1,746	**24,442**	24,881	27,177	**26,144**	26,599	28,923
Reinsurance assumed gross premiums written	**23**	23	26	**1,031**	1,164	1,299	**1,054**	1,187	1,325
Total gross premiums written	**1,725**	1,741	1,772	**25,473**	26,045	28,476	**27,198**	27,786	30,248
Reinsurance ceded	**–43**	–65	–70	**–1,888**	–2,008	–1,842	**–1,931**	–2,073	–1,912
	1,682	1,676	1,702	**23,585**	24,037	26,634	**25,267**	25,713	28,336

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

See Note 43 'Underwriting expenditure' for disclosure on reinsurance ceded.

37 INVESTMENT INCOME

Investment income by banking and insurance operations									
		Banking operations			Insurance operations				Total
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Income from real estate investments	**24**	128	157	**56**	57	55	**80**	185	212
Dividend income	**49**	59	46	**261**	211	172	**310**	270	218
	73	187	203	**317**	268	227	**390**	455	430
Income from investments in debt securities				**5,749**	5,592	5,291	**5,749**	5,592	5,291
Income from loans									
– unsecured loans				**288**	244	202	**288**	244	202
– mortgage loans				**810**	827	848	**810**	827	848
– policy loans				**187**	189	177	**187**	189	177
– other				**418**	354	99	**418**	354	99
Income from investments in debt securities and loans				**7,452**	7,206	6,617	**7,452**	7,206	6,617
Realised gains/losses on disposal of debt securities	**91**	150	–945	**68**	18	–168	**159**	168	–1,113
Impairments of available-for-sale debt securities	**–735**	–146	–1,491	**–750**	–589	–586	**–1,485**	–735	–2,077
Reversal of impairments of available-for-sale debt securities	**74**			**5**	11	2	**79**	11	2
Realised gains/losses and impairments of debt securities	**–570**	4	–2,436	**–677**	–560	–752	**–1,247**	–556	–3,188
Realised gains/losses on disposal of equity securities	**39**	338	24	**446**	193	397	**485**	531	421
Impairments of available-for-sale equity securities	**–65**	–32	–49	**–188**	–43	–360	**–253**	–75	–409
Realised gains/losses and impairments of equity securities	**–26**	306	–25	**258**	150	37	**232**	456	12
Change in fair value of real estate investments	**–21**	–50	–588	**2**	–48	–125	**–19**	–98	–713
Investment income	**–544**	447	–2,846	**7,352**	7,016	6,004	**6,808**	7,463	3,158

In 2011, an impairment of EUR 978 million was recognised on Greek government bonds and an impairment of EUR 189 million was recognised on subordinated debt from Irish banks both are included in Impairments of available-for-sale debt securities. Reference is made to 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/ reversals of impairments on investments per operating segment	Impairments			Reversal of impairments		
	2011	2010	2009	**2011**	2010	2009
Retail Belgium	**22**					
ING Direct	**464**	107	1,394	**–30**		
Commercial Banking (excluding Real Estate)	**301**	70	129	**–44**		
Insurance Benelux	**410**	53	360			
Insurance CRE	**338**	18	36			
Insurance US	**166**	553	527	**–5**		
Insurance Asia/Pacific	**15**	8	15		–2	–2
ING IM			3		–9	
Corporate Line Banking	**13**	1	16			
Corporate Line Insurance	**9**		6			
	1,738	810	2,486	**–79**	–11	–2

38 NET RESULT ON DISPOSALS OF GROUP COMPANIES

Net result on disposals of group companies	
	2011
Pacific Antai Life Insurance Company Ltd.	**28**
Clarion Real Estate Securities	**182**
ING REIM Asia and Europe	**245**
ING Car Lease	**347**
Clarion Partners	**39**
Other	**14**
	855

The result on disposal of the Latin American pensions, life insurance and investment management operations is not included above but in the result on disposal of discontinued operations. Reference is made to Note 25 'Discontinued operations'.

Net result on disposals of group companies	
	2010
Asian Private Banking business	332
Swiss Private Banking business	73
ING Summit Industrial Fund LP	–26
Other	–69
	310

In 2010, Other includes EUR –24 million related to the sale of certain associates. The remainder includes result on disposal of certain real estate funds and other disposals that are individually not significant.

Net result on disposals of group companies	
	2009
ING Australia and New Zealand	337
ING Canada	–38
Annuity and Mortgage business in Chile	–23
Other	11
	287

Reference is made to Note 30 'Companies acquired and companies disposed' for more details.

39 COMMISSION INCOME

Gross fee and commission income									
		Banking operations			Insurance operations				Total
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Funds transfer	**916**	861	859				**916**	861	859
Securities business	**681**	695	780				**681**	695	780
Insurance broking	**161**	190	188	**366**	348	124	**527**	538	312
Asset management fees	**310**	476	566	**1,470**	1,490	2,080	**1,780**	1,966	2,646
Brokerage and advisory fees	**347**	329	317	**213**	225	497	**560**	554	814
Other	**1,013**	965	825	**526**	289	315	**1,539**	1,254	1,140
	3,428	3,516	3,535	**2,575**	2,352	3,016	**6,003**	5,868	6,551

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

Other include commission fees of EUR 26 million (2010: EUR 15 million; 2009: EUR 18 million) in respect of underwriting syndication loans.

Fee and commission expenses									
		Banking operations			Insurance operations				Total
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Funds transfer	**313**	257	200				**313**	257	200
Securities business	**126**	125	159				**126**	125	159
Management fees	**10**	19	24	**81**	201	379	**91**	220	403
Brokerage and advisory fees	**68**	70	43	**284**	313	805	**352**	383	848
Other	**457**	452	449	**627**	283	252	**1,084**	735	701
	974	923	875	**992**	797	1,436	**1,966**	1,720	2,311

40 VALUATION RESULTS ON NON-TRADING DERIVATIVES

Valuation results on non-trading derivatives									
		Banking operations			Insurance operations				Total
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Change in fair value of derivatives relating to									
– fair value hedges	**–956**	–679	–1,321	**–72**	–69	191	**–1,028**	–748	–1,130
– cash-flow hedges (ineffective portion)	**–1**	2	–2	**–16**	–9	–8	**–17**	–7	–10
– hedges of net investment in foreign entities (ineffective portion)						1			1
– other non-trading derivatives	**–315**	–720	–237	**1,380**	94	–3,728	**1,065**	–626	–3,965
Net result on non-trading derivatives	**–1,272**	–1,397	–1,560	**1,292**	16	–3,544	**20**	–1,381	–5,104
Change in fair value of assets and liabilities (hedged items)	**989**	686	1,201	**58**	66	–226	**1,047**	752	975
Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading)	**504**	69	–557	**103**	93	–57	**607**	162	–614
Net valuation results	**221**	–642	–916	**1,453**	175	–3,827	**1,674**	–467	–4,743

The positive impact of the Valuation results on non-trading derivatives during 2011 includes the effect of negative developments in the stock markets giving rise to positive valuation results on related derivatives. Furthermore as a result of decreasing long-term interest rates, values of interest related derivatives have increased. Valuation results on non-trading derivatives related to insurance provisions are mainly offset by an opposite amount in Underwriting expenditure (reference is made to Note 43 'Underwriting expenditure').

The Valuation results on assets and liabilities designated as at fair value through profit and loss includes fair value changes on private equity funds and certain issued debt securities. Valuation results on assets and liabilities designated as at fair value through profit and loss were mainly due to changes in the fair value of financial liabilities driven by changes in market conditions and changes in own credit risk as disclosed in Note 20 'Financial liabilities at fair value through profit and loss'. In 2011 market conditions includes in particular credit spread developments.

41 NET TRADING INCOME

Net trading income

	Banking operations			Insurance operations			Total		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Securities trading results	**–133**	231	331	**36**	180	155	**–97**	411	486
Foreign exchange transactions results	**–374**	648	–158	**–179**	–604	167	**–553**	44	9
Derivatives trading results	**882**	174	815				**882**	174	815
Other	**–49**	64	–185	**26**	–66		**–23**	–2	–185
	326	1,117	803	**–117**	–490	322	**209**	627	1,125

Securities trading results includes the results of making markets in instruments such as government securities, equity securities, corporate debt securities, money-market instruments, and interest rate derivatives such as swaps, options, futures and forward contracts. Foreign exchange transactions results include gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities.

The portion of trading gains and losses for the year ended 31 December 2011 relating to trading securities still held as at 31 December amounted to EUR –66 million (2010: EUR 19 million; 2009: EUR 105 million).

The majority of the risks involved in security and currency trading is economically hedged with derivatives. The securities trading results are partly offset by results on these derivatives. The result of these derivatives is included in Derivatives trading results.

42 OTHER INCOME

Other income

	Banking operations			Insurance operations			Total		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Net operating lease income	**176**	213	175				**176**	213	175
Income from real estate development projects	**31**	36	59				**31**	36	59
Income post office	**–7**		99				**–7**		99
Other	**916**	98	124	**227**	257	244	**1,143**	355	368
	1,116	347	457	**227**	257	244	**1,343**	604	701

Net operating lease income comprises income of EUR 772 million (2010: EUR 1,000 million; 2009: EUR 967 million) and depreciation of EUR 596 million (2010: EUR 787 million; 2009: EUR 792 million).

In 2011, Other includes a gain of EUR 955 million on the repurchase of subordinated loans as disclosed in Note 14 'Subordinated loans'.

43 UNDERWRITING EXPENDITURE

Underwriting expenditure

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

The investment income and valuation results regarding investments for risk of policyholders is EUR –1,246 million (2010: EUR 10,492 million; 2009: EUR 17,742 million). This amount is not recognised in Investment income and valuation results on assets and liabilities designated at fair value through profit and loss but in Underwriting expenditure. As a result it is shown together with the equal amount of change in insurance provisions for risk of policyholders.

Underwriting expenditure

	2011	2010	2009
Expenditure from life underwriting			
Reinsurance and retrocession premiums	**1,888**	2,008	1,842
Gross benefits	**27,277**	25,493	23,671
Reinsurance recoveries	**–1,866**	–1,712	–1,694
Change in life insurance provisions for risk of company	**1,606**	1,875	2,078
Costs of acquiring insurance business	**1,727**	2,557	1,646
Other underwriting expenditure	**576**	560	462
Profit sharing and rebates	**443**	538	438
	31,651	31,319	28,443
Expenditure from non-life underwriting			
Reinsurance and retrocession premiums	**43**	65	70
Gross claims	**1,097**	1,034	1,012
Reinsurance recoveries	**–9**	–9	–6
Change in provision for unearned premiums	**–26**	–26	–2
Change in claims provision	**5**	44	–23
Costs of acquiring insurance business	**269**	281	290
Other underwriting expenditure	**–3**	–2	–4
	1,376	1,387	1,337
Expenditure from investment contracts			
Costs of acquiring investment contracts	**3**	5	3
Other changes in investment contract liabilities	**57**	91	910
	60	96	913
	33,087	32,802	30,693

Profit sharing and rebates

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

The total Cost of acquiring insurance business (life and non-life) and investment contracts amounted to EUR 1,999 million (2010: EUR 2,843 million; 2009: EUR 1,939 million). This includes amortisation and unlocking of DAC of EUR 1,702 million (2010: EUR 2,697 million; 2009: EUR 1,811 million) and the net amount of commissions paid of EUR 1,884 million (2010: EUR 1,708 million; 2009: EUR 1,758 million) and commissions capitalised in DAC of EUR 1,587 million (2010: EUR 1,562 million; 2009: EUR 1,630 million).

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

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 10 'Deferred acquisition costs' and Note 17 '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 51 'Segment reporting'.

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

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

Other underwriting expenditure from life underwriting in 2010 includes a EUR 975 million DAC write-off as explained in Note 51 'Operating segments'.

ING Group transferred part of its life insurance business to Scottish Re in 2004 by means of a co-insurance contract. A loss amounting to EUR 160 million was recognised in Underwriting expenditure in 2004 on this transaction. This loss represented the reduction of the related deferred acquisition costs. In addition, an amount of EUR 240 million is being amortised over the life of the underlying business, starting in 2005 and gradually decreasing in subsequent years as the business tails off. The amount amortised in 2011 was EUR 14 million (2010: EUR 17 million; 2009: EUR 13 million). The cumulative amortisation as at 31 December 2011 was EUR 151 million (2010: EUR 132 million; 2009: EUR 107 million). On 23 January 2009, Hannover Re and Scottish Re announced that Hannover Re has agreed to assume the ING individual life reinsurance business originally transferred to Scottish Re in 2004.

ING Group transferred its 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 2011 was EUR 16 million (2010: EUR 52 million). The cumulative amortisation as at 31 December 2011 was EUR 69 million (2010: EUR 52 million).

44 INTANGIBLE AMORTISATION AND OTHER IMPAIRMENTS

Intangible amortisation and (reversals of) impairments

	Impairment losses			Reversals of impairments			Total		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Property and equipment	**30**	28	8	**–11**	–5	–12	**19**	23	–4
Property development	**216**	400	450			–7	**216**	400	443
Goodwill	**32**	540					**32**	540	
Software and other intangible assets	**50**	31	9				**50**	31	9
(Reversals of) other impairments	**328**	999	467	**–11**	–5	–19	**317**	994	448
Amortisation of other intangible assets							**62**	76	76
							379	1,070	524

In 2011, impairments are recognised on Property development (in the segment ING Real Estate) due to the sale or termination of large projects in Germany and the Netherlands and on the reassessment of Dutch and Spanish real estate development projects.

In 2011, a goodwill impairment of EUR 32 million (2010: EUR 540 million) is recognised. Reference is made to Note 9 'Intangible assets'.

In 2010, impairments on Property development are recognised on a large number of Real Estate development projects in The Netherlands, Spain and the United States. The unfavourable economic circumstances in all regions resulted in lower expected sales prices.

In 2009, impairments on Property development are recognised on a large number of Real Estate development projects in Europe, Australia and the United States. Circumstances that have led to these impairments are unfavourable economic circumstances in all regions that have resulted into lower expected sales prices, changes in strategy of ING Real Estate Development whereby certain projects are not developed further and operational inefficiencies in a limited number of projects.

Impairments on Loans and advances to customers are presented under Addition to loan loss provision. Impairments on investments are presented under Investment income. Reference is made to the 'Risk management' section for further information on impairments.

45 STAFF EXPENSES

Staff expenses

		Banking operations			Insurance operations				Total
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Salaries	**3,705**	3,836	3,555	**1,602**	1,621	1,492	**5,307**	5,457	5,047
Pension and other staff-related benefit costs	**171**	199	180	**86**	114	140	**257**	313	320
Social security costs	**525**	532	510	**152**	169	151	**677**	701	661
Share-based compensation arrangements [1]	**119**	79	57	**58**	40	39	**177**	119	96
External employees	**683**	627	660	**140**	123	96	**823**	750	756
Education	**69**	61	57	**20**	11	7	**89**	72	64
Other staff costs	**219**	220	190	**7**	60	137	**226**	280	327
	5,491	5,554	5,209	**2,065**	2,138	2,062	**7,556**	7,692	7,271

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

Number of employees

		Netherlands			International				Total
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Continuing operations - average number of employees at full time equivalent basis	**26,332**	27,750	27,912	**71,711**	71,621	75,794	**98,043**	99,371	103,706
Discontinued operations - average number of employees at full time equivalent basis				**6,376**	6,769	6,571	**6,376**	6,769	6,571
Total average number of employees at full time equivalent basis	**26,332**	27,750	27,912	**78,087**	78,390	82,365	**104,419**	106,140	110,277

Share-based compensation arrangements includes EUR 153 million (2010: EUR 90 million; 2009: EUR 65 million) relating to equity-settled share-based payment arrangements and EUR 24 million (2010: EUR 29 million; 2009: EUR 31 million) relating to cash-settled share-based payment arrangements.

Pension and other staff-related benefit costs

		Pension benefits			Post-employment benefits other than pensions			Other				Total
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Current service cost	**324**	298	320	**8**	5	–8	**9**	–2	–38	**341**	301	274
Past service cost	**–8**	–1	20	**–4**		–21				**–12**	–1	–1
Interest cost	**851**	795	778	**8**	8	10	**6**	5	9	**865**	808	797
Expected return on assets	**–877**	–886	–842					1	1	**–877**	–885	–841
Amortisation of unrecognised past service cost	**1**			**–1**	–5	–1					–5	–1
Amortisation of unrecognised actuarial (gains)/losses	**22**	62	106	**–4**	–9	–5	**1**	1	5	**19**	54	106
Effect of curtailment or settlement	**–110**	–7	–96							**–110**	–7	–96
Other	**1**		–14				**–16**	–18	15	**–15**	–18	1
Defined benefit plans	**204**	261	272	**7**	–1	–25	**0**	–13	–8	**211**	246	239
Defined contribution plans										**46**	67	81
										257	313	320

Remuneration of senior management, Executive Board and Supervisory Board

Reference is made to Note 33 'Related parties'.

Stock option and share plans

ING Group has granted option rights on ING Group shares and conditional rights on depositary receipts (share awards) for ING shares to a number of senior executives (members of the Executive Board, general managers and other officers nominated by the Executive Board), and to a considerable number of employees of ING Group. The purpose of the option and share schemes, apart from promoting a lasting growth of ING Group, is to attract, retain and motivate senior executives and staff.

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

In 2011 no share awards (2010: nil; 2009: nil) were granted to the members of the Executive Board of ING Groep N.V., 154,440 share awards were granted to the Management Boards of ING Bank N.V., ING Verzekeringen N.V., Insurance Eurasia and Americas Insurance Holdings. To senior management and other employees 20,135,968 share awards (2010: 26,369,146; 2009: 6,273,467) were granted.

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

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

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

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

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

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

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

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

Changes in option rights outstanding

	Options outstanding (in numbers)			Weighted average exercise price (in euros)		
	2011	2010	2009	**2011**	2010	2009
Opening balance	**124,836,694**	122,334,486	87,263,381	**15.73**	17.31	25.93
Granted		19,434,097	14,803,109	**0.00**	7.35	3.93
Exercised	**–1,111,930**	–1,070,630	–22,757	**3.97**	3.03	5.33
Forfeited	**–2,698,596**	–3,666,001	–5,974,275	**12.78**	13.23	26.30
Rights issue			28,395,811			
Expired	**–12,887,617**	–12,195,258	–2,130,783	**22.03**	20.52	32.11
Closing balance	**108,138,551**	124,836,694	122,334,486	**15.20**	15.73	17.31

As per 31 December 2011 total options outstanding consists of 90,620,708 options (2010: 105,036,931; 2009: 103,523,988) relating to equity-settled share-based payment arrangements and 17,517,843 options (2010: 19,799,763; 2009: 18,810,498) relating to cash-settled share-based payment arrangements.

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

Changes in option rights non-vested

	Options non-vested (in numbers)			Weighted average grant date fair value (in euros)		
	2011	2010	2009	**2011**	2010	2009
Opening balance	**51,596,578**	50,316,665	37,867,732	**3.08**	3.52	6.03
Granted		19,434,097	14,803,109	**0.00**	3.26	2.52
Vested	**–17,389,468**	–15,415,108	–11,100,675	**3.90**	4.70	6.48
Forfeited	**–1,788,356**	–2,739,076	–2,931,533	**3.05**	3.26	5.67
Rights issue			11,678,032			
Closing balance	**32,418,754**	51,596,578	50,316,665	**2.65**	3.08	3.52

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	**14,723,297**	**6.68**	**2.88**		**0.00**	**0.00**
5.00 – 10.00	**23,647,407**	**6.45**	**7.90**	**5,951,950**	**1.18**	**9.46**
10.00 – 15.00	**7,334,880**	**2.32**	**14.29**	**7,334,880**	**2.32**	**14.29**
15.00 – 20.00	**28,639,179**	**4.36**	**17.20**	**28,639,179**	**4.36**	**17.20**
20.00 – 25.00	**21,190,454**	**2.48**	**23.56**	**21,190,454**	**2.48**	**23.56**
25.00 – 30.00	**12,603,334**	**4.30**	**25.18**	**12,603,334**	**4.30**	**25.18**
	108,138,551			**75,719,797**		

Summary of stock options outstanding and exercisable

2010 Range of exercise price in euros	Options outstanding as at 31 December 2010	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2010	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	16,367,971	7.71	2.88			
5.00 – 10.00	25,482,740	7.45	7.88	6,379,628	2.18	9.36
10.00 – 15.00	9,585,723	2.61	14.37	9,353,997	2.48	14.37
15.00 – 20.00	31,328,453	5.21	17.35	15,434,684	3.54	17.88
20.00 – 25.00	22,663,374	3.58	23.60	22,663,374	3.58	23.60
25.00 – 30.00	19,408,433	3.58	25.77	19,408,433	3.58	25.77
	124,836,694			73,240,116		

Summary of stock options outstanding and exercisable

2009 Range of exercise price in euros	Options outstanding as at 31 December 2009	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as at 31 December 2009	Weighted average remaining contractual life	Weighted average exercise price
0.00 – 5.00	18,394,697	3.57	2.88			
5.00 – 10.00	7,257,362	8.76	9.17	6,826,298	3.18	9.20
10.00 – 15.00	11,132,430	3.51	14.20	10,802,627	3.35	14.20
15.00 – 20.00	35,095,363	6.19	17.29	17,396,930	4.50	17.77
20.00 – 25.00	28,576,153	4.02	23.38	15,861,602	1.73	22.38
25.00 – 30.00	21,878,481	4.50	25.82	21,130,364	4.40	25.83
	122,334,486			72,017,821		

As at 31 December 2011, the aggregate intrinsic values of options outstanding and exercisable were EUR 39 million and nil, respectively.

As at 31 December 2011, total unrecognised compensation costs related to stock options amounted to EUR 24 million (2010: EUR 65 million; 2009: EUR 62 million). These costs are expected to be recognised over a weighted average period of 1.1 years (2010: 1.9 years; 2009: 1.6 years). Cash received from stock option exercises for the year ended 31 December 2011 was EUR 4 million (2010: EUR 3 million; 2009: nil).

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 using a Monte Carlo simulation. This model takes the risk free interest rate into account (2.0% to 4.6%), as well as the expected life of the options granted (5 to 9 years), the exercise price, the current share price (EUR 2.90 – EUR 26.05), the expected volatility of the certificates of ING Group shares (25% – 84%) and the expected dividends yield (0.94% to 8.99%). The source for implied volatilities used for the valuation of the stock options is ING's trading system. The implied volatilities in this system are determined by ING's traders and are based on market data implied volatilities not on historical volatilities.

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

Changes in share awards

	Share awards (in numbers)			Weighted average grant date fair value (in euros)		
	2011	2010	2009	**2011**	2010	2009
Opening balance	**35,040,106**	14,653,673	7,792,009	**7.25**	7.53	22.60
Granted	**20,290,408**	26,369,146	6,273,467	**9.78**	7.55	3.29
Performance effect	**–1,610,321**	–1,507,307	–1,085,987	**11.27**	13.92	32.52
Vested	**–3,636,399**	–2,961,355	–1,228,764	**10.79**	11.72	32.63
Forfeited	**–2,060,908**	–1,514,051	–498,553	**7.56**	7.13	24.01
Rights issue			3,401,501			
Closing balance	**48,022,886**	35,040,106	14,653,673	**7.90**	7.25	7.53

As per 31 December 2011 the share awards consists of 41,150,790 share awards (2010: 28,592,210; 2009: 10,810,687) relating to equity-settled share-based payment arrangements and 6,872,096 share awards (2010: 6,447,896; 2009: 3,842,986) relating to cash-settled share-based payment arrangements.

The fair value of share awards granted is recognised as an expense under staff expenses and is allocated over the vesting period of the share awards. The fair values of share awards containing a market based performance condition have been determined using a Monte Carlo simulation based valuation model. The model takes into account the risk free interest rate, the current stock prices, expected volatilities and current divided yields of the performance peer group used to determine ING's Total Shareholder Return (TSR) ranking.

As at 31 December 2011 total unrecognised compensation costs related to share awards amounted to EUR 149 million (2010: EUR 158 million; 2009: EUR 41 million). These costs are expected to be recognised over a weighted average period of 1.5 years (2010: 2.1 years; 2009: 1.8 years).

46 OTHER INTEREST EXPENSES

Other interest expenses mainly consist of interest in connection with the insurance operations, including interest on the perpetual subordinated loans.

Other interest expenses include nil and nil dividends paid on preference shares and trust preferred securities (2010: nil and nil; 2009: nil and EUR 86 million).

In 2011, total interest income and total interest expense for items not valued at fair value through profit and loss were EUR 43,085 million (2010: EUR 41,139 million; 2009: EUR 41,688 million) and EUR 21,805 million (2010: EUR 19,212 million; 2009: EUR 22,257 million) respectively. Net interest income of EUR 20,373 million is presented in the following lines in the profit and loss account.

Total net interest income

	2011	2010	2009
Interest result banking operations 35	**13,449**	13,323	12,375
Investment income – insurance operations 37	**7,452**	7,206	6,617
Other interest expenses	**–528**	–786	–711
	20,373	19,743	18,281

47 OTHER OPERATING EXPENSES

Other operating expenses	Banking operations			Insurance operations			Total		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Depreciation of property and equipment	**371**	382	365	**69**	78	78	**440**	460	443
Amortisation of software	**332**	312	282	**59**	46	60	**391**	358	342
Computer costs	**707**	693	637	**309**	263	263	**1,016**	956	900
Office expenses	**737**	659	680	**320**	308	450	**1,057**	967	1,130
Travel and accommodation expenses	**120**	102	99	**61**	64	64	**181**	166	163
Advertising and public relations	**594**	591	539	**91**	98	84	**685**	689	623
External advisory fees	**332**	364	402	**413**	335	269	**745**	699	671
Postal charges	**82**	87	111				**82**	87	111
Addition/(releases) of provision for reorganisations and relocations	**387**	109	339	**130**	99	258	**517**	208	597
Other	**736**	796	999	**615**	690	614	**1,351**	1,486	1,613
	4,398	4,095	4,453	**2,067**	1,981	2,140	**6,465**	6,076	6,593

Other operating expenses include lease and sublease payments in respect of operating leases of EUR 155 million (2010: EUR 200 million; 2009: EUR 169 million) in which ING Group is the lessee. In 2009 Other operating expenses also includes the expenses related to the industry-wide deposit guarantee scheme in the Netherlands due to the bankruptcy of DSB Bank and premiums for deposit guarantee schemes in other countries.

For Addition/(releases) of provision for reorganisations and relocations reference is made to the disclosure on the reorganisation provision in Note 21 'Other liabilities'.

No individual operating lease has terms and conditions that materially affect the amount, timing and certainty of the consolidated cash flows of the Group.

The External advisory fees include fees for audit services and non-audit services provided by the Group's auditors.

Fees of Group's auditors	**2011**	2010	2009
Audit fees	**37**	35	34
Audit related fees	**9**	9	6
Tax fees	**4**	2	2
All other fees	**1**	1	2
Total	**51**	47	44

Fees as disclosed above relate to the network of the Group's auditors.

48 TAXATION

Profit and loss account

Taxation on continuing operations by type

	Netherlands			International			Total		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Current taxation	**48**	168	159	**1,006**	790	416	**1,054**	958	575
Deferred taxation	**523**	48	–1,051	**–212**	222	–137	**311**	270	–1,188
	571	216	–892	**794**	1,012	279	**1,365**	1,228	–613

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

	2011	2010	2009
Result before tax from continuing operations	**6,109**	3,928	–1,837
Weighted average statutory tax rate	**26.1%**	24.4%	35.5%
Weighted average statutory tax amount	**1,594**	958	–652
Associates exemption	**–329**	–403	–166
Other income not subject to tax	**–263**	–125	–227
Expenses not deductible for tax purposes	**122**	102	47
Impact on deferred tax from change in tax rates	**–56**	8	
Deferred tax benefit from previously unrecognised amounts			–32
Current tax benefit from previously unrecognised amounts	**4**		
Write down/reversal of deferred tax assets	**284**	740	535
Adjustment to prior periods	**9**	–52	–118
Effective tax amount	**1,365**	1,228	–613
Effective tax rate	**22.3%**	31.3%	33.3%

The weighted average statutory tax rate in 2011 compared to 2010 does not differ significantly.

The weighted average statutory tax rate decreased significantly in 2010 compared to 2009. This is caused by the fact that in 2010 profits were realised in a significant part of the tax jurisdictions that incurred losses in 2009.

The effective tax rate in 2011 was lower than the weighted average statutory tax. This is mainly caused by exempt income, which was only partly offset by non deductible expenses and write-down of deferred tax assets.

The effective tax rate in 2010 was higher than the weighted average statutory tax. This is caused by an off-setting effect of the write-down of deferred tax assets (mainly in the United States) and the non-deductable expenses which exceeded tax exempt income and prior year adjustments.

The effective tax rate in 2009 was lower than the weighted average statutory tax rate. This is caused by the fact that a write-down of the carrying value of deferred tax assets and non-deductible expenses exceeded tax exempt income.

Adjustment to prior periods in 2011 relates to final tax assessments and other marginal corrections.

Adjustment to prior periods in 2010 relates mainly to a tax settlement.

Comprehensive income

Income tax related to components of other comprehensive income

	2011	2010	2009
Unrealised revaluations	**–873**	–1,216	–4,712
Realised gains/losses transferred to profit and loss (reclassifications from equity to profit and loss)	**–291**	8	–494
Changes in cash flow hedge reserve	**–373**	–194	203
Transfer to insurance liabilities/DAC	**847**	719	1,017
Exchange rate differences	**–39**	8	13
Total income tax related to components of other comprehensive income	**–729**	–675	–3,973

49 EARNINGS PER ORDINARY SHARE

Earnings per ordinary share

	Amount (in millions of euros)			Weighted average number of ordinary shares outstanding during the period (in millions)			Per ordinary share (in euros)		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Net result	**5,766**	2,810	–1,006	**3,783.7**	3,781.5	2,102.9			
Attribution to non-voting equity securities	**–1,520**	–441	–605						
Impact of rights issue						583.1			
Basic earnings	**4,246**	2,369	–1,611	**3,783.7**	3,781.5	2,686.0	**1.12**	0.63	–0.60
Effect of dilutive instruments:									
Stock option and share plans				**5.4**	6.6	5.7			
				5.4	6.6	5.7			
Diluted earnings	**4,246**	2,369	–1,611	**3,789.1**	3,788.1	2,691.7	**1.12**	0.63	–0.60

Attribution to non-voting equity securities

The attribution to non-voting equity securities represents the amount that would be payable on the non-voting equity securities if and when the entire net result for the period would be distributed as dividend. This amount is only included for the purpose of determining earnings per share under IFRS-EU and does not represent a payment (neither actual nor proposed) to the holders of the non-voting equity securities.

The attribution in 2011 includes the premium of EUR 1 billion paid in relation to the repayment of the EUR 2 billion non-voting equity securities. The 2009 amount of EUR 605 million includes the coupon (EUR 259 million) and repayment premium (EUR 346 million) on the repayment of EUR 5 billion non-voting equity securities.

In 2009, the rights issue, which was finalised on 15 December 2009 has an effect on the basic earnings per share and the diluted earnings per share, as defined in IFRS-EU. All weighted average number of shares outstanding before the rights issue are restated with an adjustment factor of approximately 1.3 that reflects the fact that the exercise price of the rights issue was less than the fair value of the shares. The effect of dilutive securities is adjusted as well.

Dilutive instruments

Diluted earnings per share is calculated as if the stock options and share plans outstanding at the end of the period had been exercised at the beginning of the period and assuming that the cash received from exercised stock options and share plans is used to buy own shares against the average market price during the period. The net increase in the number of shares resulting from exercising stock options and share plans is added to the average number of shares used for the calculation of diluted earnings per share.

The potential conversion of the non-voting equity securities has an anti-dilutive effect on the earnings per share calculation in 2011, 2010 and 2009 (the diluted earnings per share becoming higher or less negative than the basic earnings per share). Therefore, the potential conversion is not taken into account in the calculation of diluted earnings per share for these years.

Earnings per ordinary share from continuing operations

	Amount (in millions of euros)			Weighted average number of ordinary shares outstanding during the period (in millions)			Per ordinary share (in euros)		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Basic earnings	**4,246**	2,369	–1,611	**3,783.7**	3,781.5	2,686.0			
Less: Total net result from discontinued operations	**1,104**	209	93						
Basic earnings from continuing operations	**3,142**	2,160	–1,704	**3,783.7**	3,781.5	2,686.0	**0.83**	0.57	–0.64
Effect of dilutive instruments:									
Stock option and share plans				**5.4**	6.6	5.7			
				5.4	6.6	5.7			
Diluted earnings from continuing operations	**3,142**	2,160	–1,704	**3,789.1**	3,788.1	2,691.7	**0.83**	0.57	–0.64

Earnings per ordinary share from discontinued operations									
	Amount (in millions of euros)			Weighted average number of ordinary shares outstanding during the period (in millions)			Per ordinary share (in euros)		
	2011	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Net result from discontinued operations	**109**	209	93						
Net result from disposal of discontinued operations	**995**								
Total net result from discontinued operations	**1,104**	209	93	**3,783.7**	3,781.5	2,686.0			
Basic earnings from discontinued operations	**1,104**	209	93	**3,783.7**	3,781.5	2,686.0	**0.29**	0.06	0.04
Effect of dilutive instruments:									
Stock option and share plans				**5.4**	6.6	5.7			
				5.4	6.6	5.7			
Diluted earnings from discontinued operations	**1,104**	209	93	**3,789.1**	3,788.1	2,691.7	**0.29**	0.06	0.04

50 DIVIDEND PER ORDINARY SHARE

In 2011, 2010 and 2009 no dividend was declared, therefore the dividend per ordinary share was nil. The Executive Board, with the approval of the Supervisory Board, has proposed, subject to the ratification by the General Meeting of Shareholders, not to pay a cash dividend for the year 2011.

In 2009 a coupon to the Dutch State of EUR 259 million was paid as part of the repayment of EUR 5 billion non-voting equity securities.

51 OPERATING SEGMENTS

a. General

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

Operating segments of ING Group	
Banking	**Insurance**
Retail Netherlands	Insurance Benelux
Retail Belgium	Insurance Central & Rest of Europe (CRE)
ING Direct	Insurance United States (US) *
Retail Central Europe (CE)	Insurance US Closed Block VA
Retail Asia	Insurance Asia/Pacific
Commercial Banking (excluding Real Estate)	ING Investment Management (IM)
ING Real Estate	Corporate Line Insurance
Corporate Line Banking	

* Excluding US Closed Block VA

In 2011 the operating segment Insurance Latin America is not included in the segment reporting anymore as its activities classify mainly as discontinued operations. Reference is made to Note 25 'Discontinued operations'. Activities reported previously in the segment Insurance Latin America and that are not classified as discontinued operations are now reported in the Corporate Line Insurance. Comparative disclosures are adjusted accordingly.

The Executive Board of ING Group, the Management Board Banking and the Management Board Insurance set the performance targets and approve and monitor the budgets prepared by the business lines. Business lines formulate strategic, commercial and financial policy in conformity with the strategy and performance targets set by the Executive Board, the Management Board Banking and the Management Board Insurance.

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

ING Group evaluates the results of its operating segments using a financial performance measure called underlying result. The information presented in this note is in line with the information presented to the Executive and Management Board. Underlying result is defined as result under IFRS-EU excluding the impact of divestments and special items. 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 sources of income of each of the segments	
Segment	**Main source of income**
Retail Netherlands	Income from retail and private banking activities in the Netherlands. The main products offered are current and savings accounts, mortgages and other consumer lending in the Netherlands.
Retail Belgium	Income from retail and private banking activities in Belgium. The main products offered are similar to those in the Netherlands.
Retail CE	Income from retail and private banking activities in Central Europe. The main products offered are similar to those in the Netherlands.
Retail Asia	Income from retail banking activities in Asia. The main products offered are similar to those in the Netherlands.
ING Direct	Income from direct retail banking activities. The main products offered are savings accounts and mortgages.
Commercial Banking (excluding Real Estate)	Income from wholesale banking activities. A full range of products is offered from cash management to corporate finance.
ING Real Estate	Income from real estate activities.
Insurance Benelux	Income from life insurance, non-life insurance and retirement services in the Benelux.
Insurance CRE	Income from life insurance, non-life insurance and retirement services in Central and Rest of Europe.
Insurance US *	Income from life insurance and retirement services in the United States.
Insurance US Closed Block VA	Consists of ING's Closed Block Variable Annuity business in the United States, which has been closed to new business since early 2010 and which is now being managed in run-off.
Insurance Asia/Pacific	Income from life insurance and retirement services in Asia/Pacific.
ING IM	Income from investment management activities.
Corporate Line Banking	Corporate Line Banking is a reflection of capital management activities and certain expenses that are not allocated to the banking businesses. ING Group applies a system of capital charging for its banking operations in order to create a comparable basis for the results of business units globally, irrespective of the business units' book equity and the currency they operate in.
Corporate Line Insurance	The Corporate Line Insurance includes items related to capital management, run-off portfolios, ING Re and remaining activities in Latin America.
Corporate Line Insurance	The Corporate Line Insurance includes items related to capital management, run-off portfolios and ING Re.

* Excluding US Closed Block VA

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

b. ING Group

Operating segments ING Group Total				
2011	**Total Banking**	**Total Insurance**	**Eliminations**	**Total**
Underlying income				
– Gross premium income		27,198		27,198
– Net interest result – banking operations	13,562		–60	13,502
– Commission income	2,255	1,515		3,770
– Total investment and other income	37	9,352	–290	9,099
Total underlying income	15,854	38,065	–350	53,569
Underlying expenditure				
– Underwriting expenditure		33,087		33,087
– Operating expenses	9,128	3,730		12,858
– Other interest expenses		910	–350	560
– Additions to loan loss provision	1,667			1,667
– Other impairments	319	24		343
Total underlying expenses	11,114	37,751	–350	48,515
Underlying result before taxation	4,740	314		5,054
Taxation	1,277	19		1,296
Minority interests	79	4		83
Underlying net result	3,384	291		3,675

Notes to the consolidated annual accounts of ING Group continued

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

2011	Income	Expenses	Net result
Underlying	**53,569**	**48,515**	**3,675**
Divestments	**1,304**	**309**	**933**
Special items	**921**	**861**	**54**
IFRS-EU (continuing operations)	**55,794**	**49,685**	**4,662**
Discontinued operations	**1,707**	**567**	**1,104**
IFRS-EU (continuing and discontinued operations)	**57,501**	**50,252**	**5,766**

Divestments in 2011 reflects the results on the sale of ING Real Estate Investment Management (REIM) and ING Car Lease as well as the operating result of the divested units.

Special items in 2011 includes costs for the Retail Netherlands change programme and strategic repositioning initiatives at Commercial Banking, additional costs for the combining of ING Bank and Postbank in the Netherlands, the transformation programme in Belgium, further restructuring at ING Real Estate following the sale of ING REIM, and costs related to the separation of Banking and Insurance, as well as an adjustment of the Illiquid Assets Back-up Facility based on higher prepayment behaviour in the underlying Alt-A securities and the result on the repurchase of subordinated loans executed in December 2011 as disclosed in Note 42 'Other income' and Note 14 'Subordinated loans'.

Reference is made to Note 25 'Discontinued operations' for information on discontinued operations.

Operating segments ING Group Total

2010	Total Banking	Total Insurance	Eliminations	Total
Underlying income				
– Gross premium income		27,786		27,786
– Net interest result – banking operations	13,555		–93	13,462
– Commission income	2,253	1,472		3,725
– Total investment and other income	1,008	7,388	–243	8,153
Total underlying income	16,816	36,646	–336	53,126
Underlying expenditure				
– Underwriting expenditure		32,802		32,802
– Operating expenses	8,848	3,766		12,614
– Other interest expenses		1,122	–336	786
– Additions to loan loss provision	1,742			1,742
– Other impairments	488	28		516
Total underlying expenses	11,078	37,718	–336	48,460
Underlying result before taxation	5,738	–1,072		4,666
Taxation	1,427	–40		1,387
Minority interests	69	18		87
Underlying net result	4,242	–1,050		3,192

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

2010	Income	Expenses	Net result
Underlying	53,126	48,460	3,192
Divestments	979	438	474
Special items		1,279	–1,065
IFRS-EU (continuing operations)	54,105	50,177	2,601
Discontinued operations	781	513	209
IFRS-EU (continuing and discontinued operations)	54,886	50,690	2,810

Divestments in 2010 mainly relate to the sale of the three US independent retail broker-dealer units, the sale of the Private Banking businesses in Asia and Switzerland and to the sale of ING's 50% stake in Summit Industrial Fund LP as well as the operating result of the in 2010 and 2011 divested units.

Special items in 2010 includes mainly restructuring expenses for the combining of the Dutch retail activities, the Belgium retail transformation program, the cost related to the separation of Banking and Insurance and the expenses related to the goodwill impairment in the United States of EUR 513 million (after tax) in 2010. Reference is made to Note 9 'Intangible assets'.

Reference is made to Note 25 'Discontinued operations' for information on discontinued operations.

Operating segments ING Group Total

2009	Total Banking	Total Insurance	Elimi-nations	Total
Underlying income				
– Gross premium income		30,009		30,009
– Net interest result – banking operations	12,628		–165	12,463
– Commission income	2,149	1,359		3,508
– Total investment and other income	–1,741	3,061	–171	1,149
Total underlying income	13,036	34,429	–336	47,129
Underlying expenditure				
– Underwriting expenditure		30,273		30,273
– Operating expenses	8,446	3,593		12,039
– Other interest expenses		1,047	–336	711
– Additions to loan loss provision	2,854			2,854
– Other impairments	467	26		493
Total underlying expenses	11,767	34,939	–336	46,370
Underlying result before taxation	1,269	–510		759
Taxation	65	–95		–30
Minority interests	76	17		93
Underlying net result	1,128	–432		696

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

2009	Income	Expenses	Net result
Underlying	47,129	46,370	696
Divestments	229	708	–37
Special items	–1,267	1,053	–1,759
IFRS-EU (continuing operations)	46,091	48,131	–1,100
Discontinued operations	837	634	94
IFRS-EU (continuing and discontinued operations)	46,928	48,765	–1,006

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

Special items in 2009 reflects mainly the net impact of transaction result on the Illiquid Asset Back-up Facility, including the additional Illiquid Assets Back-up Facility payments as part of the overall agreement with the European Commission of EUR 1.3 billion (EUR 930 million after tax), and restructuring costs.

Reference is made to Note 25 'Discontinued operations' for information on discontinued operations.

c. Banking activities

Operating segments Banking

2011	Retail Netherlands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commercial Banking	ING Real Estate	Corporate Line Banking	Total Banking
Underlying income									
– Net interest result	3,613	1,606	3,865	705	143	3,257	482	–109	13,562
– Commission income	481	336	166	249	59	933	44	–13	2,255
– Total investment and other income	52	89	–608	74	73	304	3	50	37
Total underlying income	4,146	2,031	3,423	1,028	275	4,494	529	–72	15,854
Underlying expenditure									
– Operating expenses	2,399	1,425	1,951	772	173	2,176	141	91	9,128
– Additions to loan loss provision	457	145	462	97	30	330	146		1,667
– Other impairments *	29	7	11	1		2	208	61	319
Total underlying expenses	2,885	1,577	2,424	870	203	2,508	495	152	11,114
Underlying result before taxation	1,261	454	999	158	72	1,986	34	–224	4,740
Taxation	316	108	349	30	14	398	87	–25	1,277
Minority interests			1	29	30	26	–7		79
Underlying net result	945	346	649	99	28	1,562	–46	–199	3,384

* Analysed as a part of operating expenses.

Operating segments Banking

2010	Retail Netherlands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commercial Banking	ING Real Estate	Corporate Line Banking	Total Banking
Underlying income									
– Net interest result	3,816	1,608	3,774	670	169	3,233	439	–154	13,555
– Commission income	498	345	152	278	55	910	28	–13	2,253
– Total investment and other income	–4	95	–144	28	62	677	62	232	1,008
Total underlying income	4,310	2,048	3,782	976	286	4,820	529	65	16,816
Underlying expenditure									
– Operating expenses	2,337	1,345	1,857	760	180	2,105	153	111	8,848
– Additions to loan loss provision	560	160	446	61	26	387	102		1,742
– Other impairments *	39		29	1		2	383	34	488
Total underlying expenses	2,936	1,505	2,332	822	206	2,494	638	145	11,078
Underlying result before taxation	1,374	543	1,450	154	80	2,326	–109	–80	5,738
Taxation	361	91	463	31	15	484	27	–45	1,427
Minority interests		–6	1	20	22	28	4		69
Underlying net result	1,013	458	986	103	43	1,814	–140	–35	4,242

* Analysed as a part of operating expenses.

Operating segments Banking

2009	Retail Netherlands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commercial Banking	ING Real Estate	Corporate Line Banking	Total Banking
Underlying income									
– Net interest result	3,303	1,619	3,136	675	110	3,513	428	–156	12,628
– Commission income	528	339	167	261	43	811	6	–6	2,149
– Total investment and other income	39	100	–1,541	–76	43	554	–654	–206	–1,741
Total underlying income	3,870	2,058	1,762	860	196	4,878	–220	–368	13,036
Underlying expenditure									
– Operating expenses	2,477	1,287	1,652	660	132	1,817	162	259	8,446
– Additions to loan loss provision	527	200	765	116	39	968	239		2,854
– Other impairments *	–2	–7	11				429	36	467
Total underlying expenses	3,002	1,480	2,428	776	171	2,785	830	295	11,767
Underlying result before taxation	868	578	–666	84	25	2,093	–1,050	–663	1,269
Taxation	229	79	–252	29	5	373	–216	–182	65
Minority interests		2		5	10	30	29		76
Underlying net result	639	497	–414	50	10	1,690	–863	–481	1,128

* Analysed as a part of operating expenses.

d. Insurance activities

With regard to insurance activities, ING Group analyses, as of 2011, the underlying result through a margin analysis, which includes the following components:

- Operating result; and
- Non-operating items.

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

To determine the operating result the following non-operating items are adjusted in the reported underlying result before tax:

- Realised capital gains/losses and impairments on debt and equity securities;
- Revaluations on assets marked to market through the P&L; and
- Other non-operating impacts, e.g. provision for guarantees on separate account pension contracts, equity related and other DAC unlocking, VA/FIA Guaranteed Benefit Reserve Unlocking and DAC offset on gains/losses on debt securities.

The operating result for the life insurance business is also broken down into expenses and the following sources of income:

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

As of the fourth quarter of 2010, the Legacy Variable Annuity 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 Legacy VA business as a separate segment to improve transparency and ongoing business. ING Group's accounting policy for reserve adequacy as set out in the Accounting policies for the consolidated annual accounts of ING Group requires each segment to be adequate at the 50% confidence level. The separation of the Legacy VA business into a separate segment triggered a charge in the fourth quarter of 2010 to bring reserve adequacy on the new Insurance US Closed Block VA segment to the 50% level. This charge is reflected as a DAC write-down of EUR 975 million before tax. For 2011 the impact of the assumption adjustments includes a charge of EUR 177 million to restore the reserve adequacy of the Insurance US Closed Block VA segment to the 50% level at 31 December 2011. Reference is made to Note 43 'Underwriting expenditure'.

Notes to the consolidated annual accounts of ING Group continued

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.

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

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

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

Operating segments Insurance

2011	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	Insurance Asia/ Pacific	ING IM	Corporate Line Insurance	Total Insurance
Investment margin	666	76	892	28	73	4		1,739
Fees and premium based revenues	585	458	1,064	168	1,442	868		4,585
Technical margin	315	169	72	28	178			762
Income non-modelled life business	36	9			44			89
Life & ING IM operating income	1,602	712	2,028	224	1,737	872		7,175
Administrative expenses	594	308	742	81	456	676		2,857
DAC amortisation and trail commissions	213	202	625	124	731	3		1,898
Life & ING IM expenses	807	510	1,367	205	1,187	679		4,755
Life & ING IM operating result	795	202	661	19	550	193		2,420
Non-life operating result	179	5			4			188
Corporate Line operating result							–402	–402
Operating result	974	207	661	19	554	193	–402	2,206
Gains/losses and impairments	–47	–404	–165	2	60	5	–1	–550
Revaluations	62	–1	158	1	–8	6	–13	205
Market & other impacts	–250		–36	–1,295	–18		52	–1,547
Underlying result before tax	739	–198	618	–1,273	588	204	–364	314
Taxation	69	21	–22	–222	121	72	–20	19
Minority interests	4	10					–10	4
Underlying net result	666	–229	640	–1,051	467	132	–334	291

Operating segments Insurance

2010	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	Insurance Asia/ Pacific	ING IM	Corporate Line Insurance	Total Insurance
Investment margin	457	77	827	–11	53	2		1,405
Fees and premium based revenues	578	501	1,060	121	1,329	826		4,415
Technical margin	243	149	195	9	157			753
Income non-modelled life business	40	16			80			136
Life & ING IM operating income	1,318	743	2,082	119	1,619	828		6,709
Administrative expenses	567	261	904	77	441	682		2,932
DAC amortisation and trail commissions	230	197	619	–7	710	3		1,752
Life & ING IM expenses	797	458	1,523	70	1,151	685		4,684
Life & ING IM operating result	521	285	559	49	468	143		2,025
Non-life operating result	156	7			5			168
Corporate Line operating result							–633	–633
Operating result	677	292	559	49	473	143	–633	1,560
Gains/losses and impairments	14	–29	–564	22	50	10	–15	–512
Revaluations	60		490	3	–14	–3	–87	449
Market & other impacts	24	–10	–177	–2,149	8		–265	–2,569
Underlying result before tax	775	253	308	–2,075	517	150	–1,000	–1,072
Taxation	130	63	–155	–57	137	56	–214	–40
Minority interests	15	10			1	1	–9	18
Underlying net result	630	180	463	–2,018	379	93	–777	–1,050

Operating segments Insurance

2009	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	Insurance Asia/ Pacific	ING IM	Corporate Line Insurance	Total Insurance
Investment margin	368	77	643	22	9	17		1,136
Fees and premium based revenues	569	522	967	167	1,083	704		4,012
Technical margin	286	175	238	25	163			887
Income non-modelled life business	23	14			86			123
Life & ING IM operating income	1,246	788	1,848	214	1,341	721		6,158
Administrative expenses	635	261	791	87	410	535		2,719
DAC amortisation and trail commissions	235	197	489	104	570	3		1,598
Life & ING IM expenses	870	458	1,280	191	980	538		4,317
Life & ING IM operating result	376	330	568	23	361	183		1,841
Non-life operating result	248	6			4			258
Corporate Line operating result							–802	–802
Operating result	624	336	568	23	365	183	–802	1,297
Gains/losses and impairments	–44	–44	–515	38	26		–7	–546
Revaluations	–356		272	–4	–9	–33	–213	–343
Market & other impacts	66	–1	31	–821	1		–194	–918
Underlying result before tax	290	291	356	–764	383	150	–1,216	–510
Taxation	58	57	138	–118	112	56	–398	–95
Minority interests	15	12			1	1	–12	17
Underlying net result	217	222	218	–646	270	93	–806	–432

Notes to the consolidated annual accounts of ING Group continued

Interest income and interest expenses breakdown by operating segments Banking

2011	Retail Netherlands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commercial Banking	ING Real Estate	Corporate Line Banking	Total Banking
Interest income	8,169	2,959	10,506	1,455	583	38,715	1,282	2,512	66,181
Interest expense	1,708	1,202	6,909	735	385	37,295	239	4,251	52,724
	6,461	1,757	3,597	720	198	1,420	1,043	–1,739	13,457

Interest income and interest expenses breakdown by operating segments Insurance

2011	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	Insurance Asia/ Pacific	ING IM	Corporate Line Insurance	Total Insurance
Interest income	2,216	355	3,224	205	896	12	544	7,452
Interest expense	32	–2	7		3	4	487	528
	2,184	357	3,217	205	893	8	57	6,924

Total interest income and interest expenses

2011	Total Banking	Total Insurance	Eliminations	Total external
Interest income	66,181	7,452	–1,532	72,101
Interest expense	52,724	528	–1,524	51,728
	13,457	6,924	–8	20,373

Interest income and interest expenses breakdown by operating segments Banking

2010	Retail Netherlands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commercial Banking	ING Real Estate	Corporate Line Banking	Total Banking
Interest income	7,916	3,093	10,059	1,544	452	43,121	1,145	2,357	69,687
Interest expense	1,524	1,015	6,310	817	261	42,509	263	3,572	56,271
	6,392	2,078	3,749	727	191	612	882	–1,215	13,416

Interest income and interest expenses breakdown by operating segments Insurance

2010	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	Insurance Asia/ Pacific	ING IM	Corporate Line Insurance	Total Insurance
Interest income	2,592	363	3,433	28	808	13	–21	7,216
Interest expense	151		76	5	3	5	547	787
	2,441	363	3,357	23	805	8	–568	6,429

Total interest income and interest expenses

2010	Total Banking	Total Insurance	Eliminations	Total external
Interest income	69,687	7,216	–1,362	75,541
Interest expense	56,271	787	–1,260	55,798
	13,416	6,429	–102	19,743

Interest income and interest expenses breakdown by operating segments Banking

2009	Retail Netherlands	Retail Belgium	ING Direct	Retail CE	Retail Asia	Commercial Banking	ING Real Estate	Corporate Line Banking	Total Banking
Interest income	8,039	3,020	10,532	1,603	399	54,143	1,259	2,152	81,147
Interest expense	2,200	1,541	7,451	950	246	52,531	178	3,510	68,607
	5,839	1,479	3,081	653	153	1,612	1,081	–1,358	12,540

Interest income and interest expenses breakdown by operating segments Insurance

2009	Insurance Benelux	Insurance CRE	Insurance US	Insurance US Closed Block VA	Insurance Asia/ Pacific	ING IM	Corporate Line Insurance	Total Insurance
Interest income	2,587	419	3,327	2	643	8	–413	6,573
Interest expense	295	37	113	5	10	9	243	712
	2,292	382	3,214	–3	633	–1	–656	5,861

Total interest income and interest expenses

2009	Total Banking	Total Insurance	Eliminations	Total external
Interest income	81,147	6,573	–1,252	86,468
Interest expense	68,607	712	–1,132	68,187
	12,540	5,861	–120	18,281

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

Total assets and Total liabilities by segment

	2011		2010		2009	
	Total assets	**Total liabilities**	Total assets	Total liabilities	Total assets	Total liabilities
Insurance Benelux	**96,067**	**83,756**	92,614	83,472	85,131	78,413
Insurance CRE	**11,729**	**10,724**	12,671	11,288	12,212	10,789
Insurance US	**118,329**	**106,696**	114,218	102,781	101,103	97,213
Insurance US Closed Block VA	**41,362**	**38,771**	42,477	40,254	39,636	36,562
Insurance Latin America			3,162	1,557	2,759	1,321
Insurance Asia/Pacific	**62,281**	**56,713**	57,029	52,332	44,267	41,381
ING IM	**1,385**	**605**	2,033	1,184	926	434
Corporate Line Insurance	**55,684**	**29,667**	46,595	24,960	37,767	21,116
Total Insurance segments	**386,837**	**326,932**	370,799	317,828	323,801	287,229
Eliminations Insurance segments	**–51,349**	**–15,123**	–45,046	–12,490	–33,696	–12,846
Total Insurance operations	**335,488**	**311,809**	325,753	305,338	290,105	274,383
Total Banking operations	**985,053**	**934,689**	955,272	908,739	901,134	861,476
Eliminations	**–41,313**	**–17,710**	–34,020	–13,705	–27,786	–11,964
Total ING Group	**1,279,228**	**1,228,788**	1,247,005	1,200,372	1,163,453	1,123,895

Further balance sheet related information for the banking operations is provided by segment in the section 'Risk Management'.

52 INFORMATION ON GEOGRAPHICAL AREAS

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

Geographical areas

2011	**Netherlands**	**Belgium**	**Rest of Europe**	**North America**	**Latin America**	**Asia**	**Australia**	**Other**	**Eliminations**	**Total**
Total income	**19,259**	**3,795**	**7,446**	**17,701**	**44**	**10,352**	**525**		**–3,328**	**55,794**
Total assets	**659,107**	**180,491**	**323,747**	**351,630**	**9,685**	**115,942**	**43,652**	**207**	**–405,233**	**1,279,228**

Geographical areas

2010	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Other	Eliminations	Total
Total income	17,009	4,352	7,854	17,475	180	9,730	427		–2,922	54,105
Total assets	643,584	161,781	326,179	339,516	16,721	105,733	44,160	152	–390,821	1,247,005

Geographical areas

2009	Netherlands	Belgium	Rest of Europe	North America	Latin America	Asia	Australia	Other	Eliminations	Total
Total income	13,525	4,573	7,676	15,224	229	10,089	865		–5,253	46,928
Total assets	580,042	156,059	317,994	295,207	14,925	84,874	35,365	134	–321,147	1,163,453

53 NET CASH FLOW FROM INVESTING ACTIVITIES

Information on the impact of companies acquired or disposed is presented in Note 30 'Companies acquired and companies disposed'.

54 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

Interest and dividend received and paid

	2011	2010	2009
Interest received	73,947	77,541	88,161
Interest paid	–53,113	–59,329	–68,832
	20,834	18,212	19,329
Dividend received	485	500	344
Dividend paid			–1,030

55 CASH AND CASH EQUIVALENTS

Cash and cash equivalents

	2011	2010	2009
Treasury bills and other eligible bills	2,611	4,441	3,182
Amounts due from/to banks	–4,505	3,227	2,387
Cash and balances with central banks	31,194	13,072	15,390
Cash and cash equivalents at end of year	29,300	20,740	20,959

Treasury bills and other eligible bills included in cash and cash equivalents

	2011	2010	2009
Treasury bills and other eligible bills included in trading assets	1,471	1,697	2,284
Treasury bills and other eligible bills included in available-for-sale investments	1,140	2,744	898
	2,611	4,441	3,182

Amounts due to/from banks

	2011	2010	2009
Included in cash and cash equivalents:			
– amounts due to banks	–19,122	–12,898	–12,334
– amounts due from banks	14,617	16,125	14,721
	–4,505	3,227	2,387
Not included in cash and cash equivalents:			
– amounts due to banks	–53,111	–59,954	–71,901
– amounts due from banks	30,706	35,703	28,676
	–22,405	–24,251	–43,225
Total as included in balance sheet:			
– amounts due to banks	–72,233	–72,852	–84,235
– amounts due from banks	45,323	51,828	43,397
	–26,910	–21,024	–40,838

Cash and cash equivalents include amounts due to/from banks with a term of less than three months from the date on which they were acquired.

ING Group's risk management (including liquidity) is explained in the 'Risk management' section.

56 IMPACT OF CHANGE IN ACCOUNTING POLICY

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

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

Restated consolidated balance sheets

	31 December 2009 (Restated)	1 January 2009 (Restated)
ASSETS		
Cash and balances with central banks	15,390	22,045
Amounts due from banks	43,397	48,447
Financial assets at fair value through profit and loss		
– trading assets	111,444	160,378
– investments for risk of policyholders	104,597	95,366
– non-trading derivatives	11,632	16,484
– designated as at fair value through profit and loss	5,517	8,277
Investments		
– available-for-sale	197,703	242,852
– held-to-maturity	14,409	15,440
Loans and advances to customers	578,946	619,791
Reinsurance contracts	5,480	5,797
Investments in associates	3,699	4,355
Real estate investments	3,638	4,300
Property and equipment	6,119	6,396
Intangible assets	6,021	6,915
Deferred acquisition costs	11,208	12,989
Assets held for sale	5,024	15,312
Other assets	39,229	47,665
Total assets	1,163,453	1,332,809
EQUITY		
Shareholders' equity (parent)	33,643	17,189
Non-voting equity securities	5,000	10,000
	38,643	27,189
Minority interests	915	1,594
Total equity	39,558	28,783
LIABILITIES		
Subordinated loans	10,099	10,281
Debt securities in issue	119,981	96,488
Other borrowed funds	23,151	31,198
Insurance and investment contracts	241,006	242,159
Amounts due to banks	84,235	152,265
Customer deposits and other funds on deposit	469,508	522,783
Financial liabilities at fair value through profit and loss		
– trading liabilities	98,245	152,616
– non-trading derivatives	20,070	21,773
– designated as at fair value through profit and loss	11,474	14,009
Liabilities held for sale	4,890	15,020
Other liabilities	41,236	45,434
Total liabilities	1,123,895	1,304,026
Total equity and liabilities	1,163,453	1,332,809

The change in accounting policy for insurance provisions for Guaranteed Minimum Benefits for Life affects the following balance sheet line items: Deferred acquisition costs, Other liabilities, Insurance and investment contracts and Shareholders' equity (reference is made to Note 13 'Shareholders' equity (parent)/non-voting equity securities'). In addition to the comparative information on 2010 as disclosed in the relevant notes the following tables also disclose on the balance sheet items as per 31 December 2009 and 1 January 2009.

Deferred acquisition costs (Restated)

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

Insurance and investment contracts, Reinsurance contracts (Restated)

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

Other liabilities (Restated)

Other liabilities by type	31 December 2009	1 January 2009
Deferred tax liabilities	2,281	3,524
Income tax payable	1,225	940
Pension benefits	589	609
Post-employment benefits	175	219
Other staff-related liabilities	735	342
Other taxation and social security contributions	1,001	1,104
Deposits from reinsurers	870	909
Accrued interest	16,789	17,552
Costs payable	2,654	3,764
Amounts payable to brokers	200	89
Amounts payable to policyholders	2,182	2,231
Reorganisation provision	644	583
Other provisions	747	969
Share-based payment plan liabilities	24	11
Prepayments received under property under development	120	175
Amounts to be settled	5,167	3,753
Dividend payable		425
Other	5,833	8,235
	41,236	45,434

Changes in deferred tax	Net liability 1 January 2009	Change through equity	Change through net result	Changes in the composition of the group	Exchange rate differences	Other	Net liability 31 December 2009
Investments	–5,418	5,330	341	17	–114	53	209
Financial assets and liabilities at fair value through profit and loss	29	–1	–324	–21	10	–6	–311
Deferred acquisition costs and VOBA	3,402	–567	136	–12	–180	71	2,850
Fiscal reserve			–48			48	
Depreciation	15		–4			1	12
Insurance provisions	–494	–483	–468	55	–1	–55	–1,446
Cash flow hedges	277	–197			–2	–9	69
Pension and post-employment benefits	374		326				700
Other provisions	–1,422	2	360	4	116	–72	–1,012
Receivables	–61		–72		–5	–11	–149
Loans and advances to customers	560		136	–28	1	45	714
Unused tax losses carried forward	–1,653		–951	7	82	7	–2,508
Other	–119	–70	–695	–34	19	85	–814
	–4,510	4,014	–1,263	–12	–74	157	–1,688
Comprising:							
– deferred tax liabilities	3,524						2,281
– deferred tax assets	–8,034						–3,969
	–4,510						–1,688

Risk management amounts in millions of euros, unless stated otherwise

Risk management in 2011

ING GROUP RISK MANAGEMENT

Taking measured risks is part of ING Group's business. As a financial services company active in banking, investments, life and non-life insurance and retirement services, ING Group is naturally exposed to a variety of risks.
To ensure measured risk-taking throughout the organisation, ING Group operates through a comprehensive risk management framework, integrated risk management in its daily business activities and strategic planning. This ensures the identification, measurement and control of risks at all levels of the organisation so that ING Group's financial strength is safeguarded.

Risk Management assists the various management boards with the formulation of risk appetite, strategies, policies and limits and provides a review, oversight and support function throughout ING Group on risk-related issues. The main financial risks ING Group is exposed to are credit risk (including transfer risk), market risk (including interest rate, equity, real estate, implied volatility, and foreign exchange risks), insurance risk, liquidity risk and business risk. In addition, ING Group is exposed to non-financial risks, e.g. operational and compliance risks. The way ING Group manages these risks on a day-to-day basis is described in this risk management section.

As a result of the decision to manage ING Bank and ING Insurance separately, ING has implemented two distinct risk appetite frameworks for both Bank and Insurance. The common concept however is that risk appetite is expressed as the tolerance to allow key capital ratios to deviate from their target levels under adverse scenarios. These frameworks are discussed in more detail in the specific sections of this risk management section.

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

Both ING Bank and ING Insurance need to prepare for significant changes in the regulatory requirements. For ING Bank the most important one is the implementation of Basel III, while ING Insurance runs an extensive program to allow the implementation of Solvency II (which is the fundamental reform of European insurance solvency and risk governance legislation; announced to be effective as of 1 January 2013 but delays in legislation imply that it will not be effective before 1 January 2014). Additionally, both in Bank and Insurance, ING continued its stress testing efforts, with stress testing becoming more important and more embedded in the risk culture.

MISSION AND OBJECTIVES

The mission of ING Group's risk management function is to build a sustainable competitive advantage by fully integrating risk management into daily business activities and strategic planning. This mission is fully embedded in ING Group's business processes. The following principles support this objective:
- Products and portfolios are structured, underwritten, priced, approved and managed appropriately and compliance with internal and external rules and guidelines is monitored;
- ING's risk profile is transparent, managed to avoid surprises, and is consistent with delegated authorities;
- Delegated authorities are consistent with the overall Group strategy and risk appetite; and
- Transparent communication to internal and external stakeholders on risk management.

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

GROUP RISK MANAGEMENT FUNCTION

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. As a result of the decision to manage ING Bank and ING Insurance separately, ING Group Chief Risk Office has delegated day-to-day Risk Management within ING Bank, ING Insurance Eurasia and ING Insurance US to the respective (deputy) CROs. The Risk functions of ING Group have been delegated to the CRO of ING Bank.

Further details on the Risk Governance and Risk Profile in the three entities, is given in the following sections.

ING Group uses an integrated risk management approach for both its banking activities and for its Insurance activities. With the operational separation of ING Bank and ING Insurance, the focus of ING's risk management practices is now located in the bank and insurance companies. The remainder of this risk paragraph discusses these practices for ING Group, ING Bank, ING Insurance Eurasia and ING Insurance US respectively.
Risk measures related to accounting are based on IFRS-EU where relevant, as IFRS-EU is the primary accounting basis, which is also the basis for statutory and regulatory reporting and risk management.

Risk management in 2011

RISK DEVELOPMENTS IN 2011

During 2011, ING continued to actively deleverage and de-risk its balance sheet. The ING Group bond portfolio decreased from EUR 294.5 billion at year-end 2010 to EUR 263.5 billion at year-end of 2011, excluding ING Direct USA. The size of the ING Direct USA bond portfolio is EUR 23.0 billion. The change is mainly caused by changes in the government, financial institutions and ABS and CMBS bond portfolio.

The debt securities revaluation reserve after tax, excluding ING Direct USA, improved in 2011 to EUR 5,743 million compared to EUR 1,620 million in 2010, due to interest rates developments and the spread widening that took place during 2011 as a result of the debt crisis in Europe. More details on the Investments can be found in Note 4 'Investments' of the Annual Accounts.

ABS portfolio

The RMBS and ABS portfolio changed from EUR 51.2 billion at year-end 2010 to 31.5 billion, excluding ING Direct USA. The RMBS and ABS exposure of ING Direct USA is EUR 15.0 billion. ING Group continued to manage its asset-backed securities (ABS) portfolio downwards in 2011 and reduced the exposure on the ABS portfolio. With the sale of ING Direct USA, the ING Group exposure to ABS is drastically reduced and going forward we will not report them as pressurised assets in our financial reporting. The revaluation reserve on the ABS portfolio deteriorated and is still negative. ING Group still recognised further impairments of EUR 203 million, though for a smaller amount than in the previous year (2010: EUR 541 million). Further details are included in Note 4 'Investments' of the Annual Accounts.

Greece, Italy, Ireland, Portugal and Spain

In the first half of 2010 concerns arose regarding the creditworthiness of several southern European countries, which later spread to a few other European countries. As a result of these concerns the fair value of sovereign debt decreased and those exposures were being monitored more closely. With regard to troubled European countries, ING's main focus is on Greece, Italy, Ireland, Portugal and Spain as these countries have either applied for support from the European Financial Stability Facility ('EFSF') or receive support from the ECB via government bond purchases in the secondary market. Within these countries, ING's main focus is on exposure to Government bonds and Unsecured Financial institutions' bonds. Further details are included in Note 4 'Investments'.

The table below provides information on ING's risk exposure with regard to Greece, Italy, Ireland, Portugal and Spain. Unless otherwise indicated, the amounts represent risk exposure values and exposures are included based on the country of residence. CDS exposures in all countries are mostly to financial institutions.

Greece, Italy, Ireland, Portugal and Spain – Total exposures [1) 2) 3)]

2011	Greece	Italy	Ireland	Portugal	Spain	Total
Residential mortgages and other consumer lending	14	7,027	4	3	9,176	16,224
Corporate Lending	307	9,156	575	996	7,131	18,165
Financial Institutions Lending	6	853	135	139	2,038	3,171
Government Lending	0	195	0	0	55	250
Total Lending	327	17,231	714	1,138	18,400	37,810
RMBS	96	1,313	1,603	245	4,131	7,388
CMBS	0	0	310	0	0	310
Other ABS	0	400	467	0	169	1,036
Corporate Bonds	0	495	346	68	475	1,384
Covered Bonds	0	236	350	0	16,835	17,421
Financial institutions Bonds (unsecured)	0	819	291	336	396	1,842
Government Bonds	254	2,557	54	809	1,508	5,182
Total Debt Securities	350	5,820	3,421	1,458	23,514	34,563
Trading [(3)]	–5	519	40	11	316	881
Real Estate [(4)]	36	496	0	319	632	1,483
Off balance (Undrawn committed facilities)	411	1,229	523	140	2,302	4,605
Credit protection (CDS)						
Credit protection bought (notional)	112	640	131	43	479	1,405
Credit protection sold (notional)	107	617	136	43	530	1,433
Net CDS positions	5	23	–5	0	–51	–28

(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 4 'Investments' of the Annual Accounts.
(2) More information on the risk management definitions and practices can be found in the remainder of this section
(3) rading exposure also includes netted CDS exposure, of which details are provided at the bottom of this table.
(4) Real Estate includes Real Estate Development, Real Estate Investments and Property in Own Use; it does not include (indirect) exposure through Real Estate Finance, which is reflected in Total Lending and Total Debt Securities.
(5) These are Group risk exposures of which the Insurance component is netted for impairments, as well as Bank Greek Government exposure.

Greece
Total Lending exposure is reported in the Balance sheet at amortised cost. Cumulative provisions/impairments recognised on lending exposures amount to approximately EUR 1 million.
Debt securities – RMBS are reported in the balance sheet at amortised cost. Debt securities – Government bonds are reported in the balance sheet at fair value (available-for-sale). Cumulative provisions/impairments recognised on debt securities amount to EUR 978 million and fully relate to government bonds.
ING Bank does not have a bank operation in Greece but does serve a limited number of mostly international companies which have their domicile in Greece. Many of these companies are dependant on cash flows that are based outside Greece. ING Insurance Eurasia has direct Greek exposure given the presence of the Greek based insurance entity.

Italy
Total Lending exposure is reported in the balance sheet at amortised cost. Cumulative provisions/impairments recognised on lending exposures amount to approximately EUR 113 million.
Debt securities – RMBS and Other ABS are largely reported in the balance sheet at amortised cost. Other debt securities are reported in the balance sheet at fair value (available-for-sale). No significant provisions/impairments have been recognised. ING Bank does not have a bank operation in Greece but does serve a limited number of mostly international companies which have their domicile in Greece. Many of these companies are dependant on cash flows that are based outside Greece.
ING Insurance Eurasia has direct Greek exposure given the presence of the Greek based insurance entity.

Ireland
Total Lending exposure is reported in the balance sheet at amortised cost. No provisions/impairments have been recognised.
Approximately 80% of Total Debt securities is reported in the balance sheet at amortised cost. Approximately 20% is reported in the balance sheet at fair value (available-for-sale). Cumulative provisions/impairments recognised on debt securities amount to EUR 270 million and relate to subordinated debt from Irish banks (EUR 189 million), RMBS (EUR 2 million) and Other ABS (EUR 88 million).
In addition to the above exposures on Ireland, ING Insurance has Irish reinsurance exposure of EUR 1,345 million. This mainly includes reinsurance through an Irish subsidiary of a large European Reinsurance group.

Portugal
Total Lending exposure is reported in the balance sheet at amortised cost. Cumulative provisions/impairments recognised on lending exposures amount to approximately EUR 7 million.
Debt securities – RMBS are largely reported in the balance sheet at amortised cost. Other debt securities are reported in the balance sheet at fair value (available-for-sale). Cumulative provisions/impairments recognised are less than EUR 1 million.

Spain
Total Lending exposure is reported in the balance sheet at amortised cost. Cumulative provisions/impairments recognised on lending exposures amount to approximately EUR 351 million, of which EUR 319 million relates to Corporate lending and EUR 32 million relates to Residential mortgages and other consumer lending.
Debt securities – RMBS, Other ABS and Covered bonds are largely reported in the balance sheet at amortised cost. Other debt securities are reported in the balance sheet largely at fair value (available-for-sale). No significant provisions/impairments have been recognised.
Debt securities – Covered bonds are backed by mortgage collateral. From the total exposure of EUR 16.8 billion, EUR 14.9 billion is reported in the balance sheet at amortised cost (EUR 11.0 billion Loans and EUR 3.9 billion Held-to-maturity) and EUR 1.9 billion is reported in the balance sheet at fair value (Available-for-sale). No significant provisions/impairments have been recognised. Almost the entire portfolio is investment grade.

Derivatives
In these countries, ING Bank has limited derivative exposure and largely enters derivative transactions to help clients reduce exposure to interest and currency movements. Many of these transactions are covered either via CSA agreements or as part of the collateral of the underlying financing. The key credit risk ING Bank faces in these derivative transactions is movements in markets creating an uncollateralised exposure to a counterparty or that the collateral is not sufficient. ING monitors these mark to market movements on a daily basis. At December 31, 2011 ING Bank had no material, uncollateralised exposure to counterparties in these countries.

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

Monitoring exposures and Current developments
The problems in the Eurozone have been a top priority for risk management throughout 2011, and will continue to be a top priority in 2012. ING 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 2011 ING has reduced its positions in especially government bonds for some of the weaker countries as a result of these risk analyses.

Risk management in 2011

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

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

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

Liquidity risk

Under the volatile market circumstances in 2011, funding and liquidity risk remains an important topic on the agenda of senior management and Asset and Liability Committee Bank (ALCO), that requires 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. In 2011 the funding and liquidity risk appetite were updated. The appetite statement is set and allocated throughout ING Bank. In addition, funding and liquidity usage is steered by means of funds transfer pricing thus embedding funding and liquidity risk management in the total organisation. ING Group continued to maintain its liquidity position within conservative internal targets.

In 2011, new frameworks for the funding and liquidity risk management as well as the organisational Assets and Liability Management (ALM) that reflects the evolved importance of funding and liquidity risk was developed. Both of these frameworks will be implemented in 2012.

ING Insurance defines different levels of Liquidity Management; short-term liquidity or cash management, long-term liquidity management, and stress liquidity management. Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in the base case and under several stressed scenarios.

Like most insurance companies, in normal circumstances liquidity risk is quite remote to ING Insurance. Also under the current challenging market circumstances ING Insurance liquidity position is comfortable.

ING BANK

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

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

Nevertheless, users of the information in the risk management section should bear in mind that the analyses provided are forward looking measures that rely on assumptions and estimates of future events, some of which are considered extreme and therefore unlikely to occur. In the normal course of business ING Bank continues to develop, recalibrate and refine the various models that support risk metrics, which may result in changes to the risk metrics as disclosed.

MISSION AND OBJECTIVES

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

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

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

ING BANK RISK GOVERNANCE

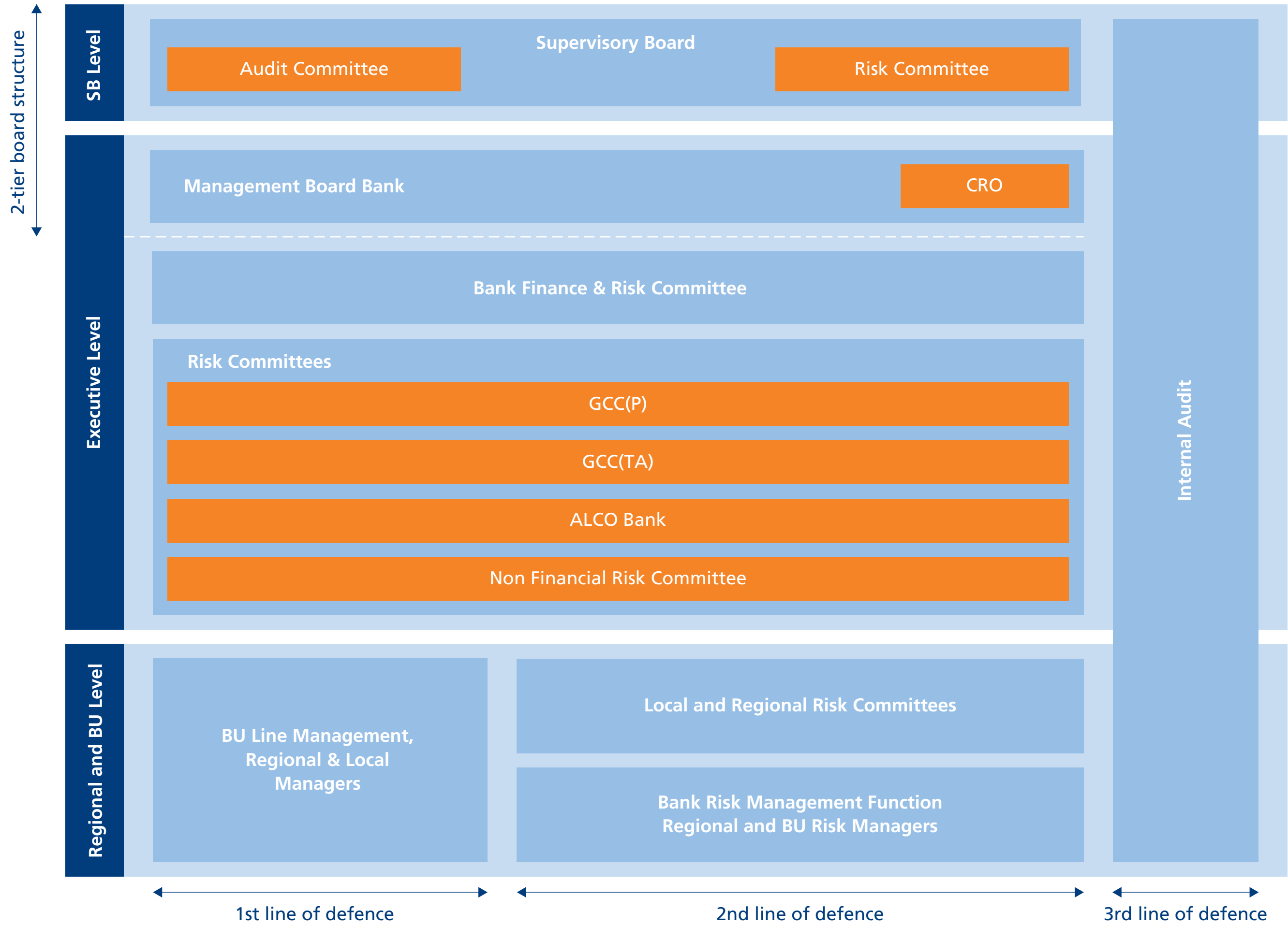
ING Bank's risk management framework is based on the 'three lines of defence' concept which ensures that risk is managed in line with the risk appetite as defined by the Management Board Bank (and ratified by the Supervisory Board) and is cascaded throughout ING Bank.

Business line management and the regional and local managers have primary responsibility for the day-to-day management of risk and form the first line of defence.

The risk management function, both at bank and regional/local level, belongs to the second line of defence and has the primary responsibility to align risk taking with strategic planning e.g. in limit setting.

The internal audit function provides an ongoing independent (i.e. outside of the risk organisation) and objective assessment of the effectiveness of internal controls, including financial and operational risk management and forms the third line of defence.

ING Bank



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

- The Supervisory Board is responsible for supervising the policy of the Management Board Bank, the general course of affairs of the Company and its business (including its financial policies and corporate structure). For the risk management purposes the Supervisory Board is assisted by two sub-committees:
  - The Audit Committee, which assists the Supervisory Board in reviewing and assessing ING Bank's major risk exposures and the operation of internal risk management and control systems, as well as policies and procedures regarding compliance with applicable laws and regulations; and
  - The Risk Committee, which assists the Supervisory Board on matters related to risk governance, risk policies and risk appetite setting.
- The Management Board Bank (MBB) is responsible for managing risks associated with the activities of ING Bank. The MBB's responsibilities include ensuring that internal risk management and control systems are effective and that ING Bank complies with relevant legislation and regulations. On a regular basis, the MBB reports on these issues and discusses the internal risk management and control systems with the Supervisory Board. On a quarterly basis, the MBB reports on the Bank's risk profile versus its risk appetite to the Audit Committee, explaining changes in the risk profile.

The Chief Risk Officer (CRO) ensures that the boards are well informed and understand ING Bank's risk position at all times. Every quarter, the CRO reports to the board committees on ING Bank's risk appetite levels and on ING Bank's risk profile. In addition the CRO briefs the board committees on developments in internal and external risk related issues and ensures the board committees understand specific risk concepts.

As part of the integration of risk management into the annual strategic planning process, the MBB issues a Planning Letter which provides the organisation with the corporate strategic direction, and addresses key risk issues. Based on the Planning Letter, the business lines and business units develop their business plans which align with the Bank's strategic direction. The process includes a 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 Bank formulates the Strategic Plan which is submitted to the Supervisory Board for approval.

ING Bank

Executive Level

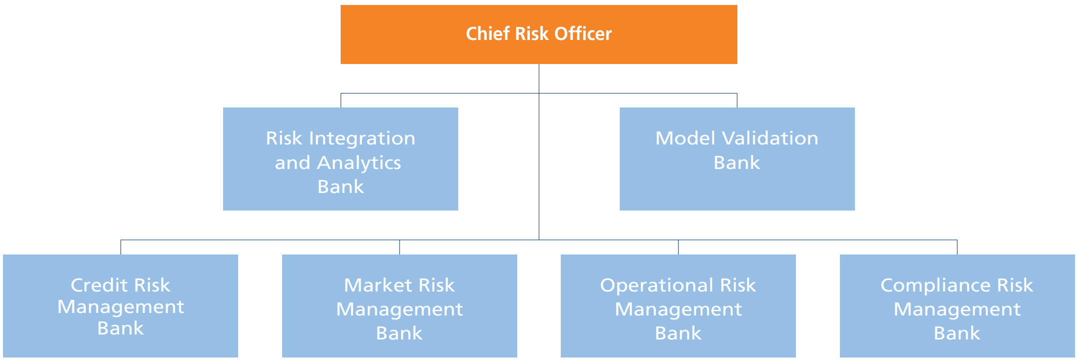
The risk committees described below act within the overall risk policy and delegated authorities granted by the Management Board Bank:

- The Finance and Risk Committee (F&RC) is a platform for the CRO and the Chief Financial Officer (CFO), along with their respective direct reports, to discuss and decide on issues that relate to both the finance and risk domains. The primary responsibility of the F&RC is to co-ordinate, on a high level, the finance and risk decisions that have an impact on internal and/or external reporting;
- ING Bank Credit Committee – Policy (GCC(P)): Discusses and approves policies, methodologies and procedures related to credit, country and reputation risks within ING Bank. The GCC(P) meets on a monthly basis;
- ING Bank Credit Committee – Transaction Approval (GCC(TA)): Discusses and approves transactions which entail taking credit risk (including issuer investment risk). The GCC(TA) meets twice a week;
- Asset and Liability Committee ING Bank (ALCO Bank): Discusses and approves on a monthly basis the overall risk profile of all ING Bank's market risks that occur in its Commercial Banking and Retail & Direct Banking activities. ALCO Bank defines the policy regarding funding, liquidity, interest rate mismatch and solvency for ING Bank; and
- Non-Financial Risk Committee Bank (NFRC Bank): Accountable for the design and maintenance of the Risk Management Framework including the ORM, Compliance and Legal policies, minimum standards, procedures and guidelines; the NFRC structure; development of tools, methods and key parameters (incl. major changes) for risk identification, measurement and monitoring/ reporting.

Risk Management Function

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

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



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

From December 2011, the reporting lines have been changed. As of then the CCO reports to the new appointed Head of Non-Financial Risk ING Bank who in his turn reports to the Chief Risk Officer.

In addition two staff departments report to the CRO:

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

Risk policies

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

ING BANK RISK PROFILE

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

Nevertheless, users of the information in the risk management section should bear in mind that the analyses provided are forward looking measures that rely on assumptions and estimates of future events, some of which are considered extreme and therefore unlikely to occur. In the normal course of business ING Bank continues to develop, recalibrate and refine the various models that support risk metrics, which may result in changes to the risk metrics as disclosed.

Risk types

ING Bank measures the following main types of risks that are associated with its business activities:
- Credit risk: the risk of potential loss due to default by ING Bank's debtors (including bond issuers) or trading counterparties;
- Market risk: the risk of potential loss due to adverse movements in market variables. Market risks include interest rate, equity, real estate, implied volatility, credit spread, and foreign exchange risks;
- Liquidity risk: the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions;
- Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes reputational risk, as well as legal risk;
- Compliance risk: is the risk of impairment of ING Bank's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, ING Bank policies and standards as in ING Bank Business Principles; and
- Business risk: the exposure to value loss due to fluctuations in volumes, margins and costs, as well as client behaviour risk. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency, and as such strategic risk is included in business risk.

ING Bank Risk Appetite Framework

ING Bank uses an integrated risk management approach for its banking activities. The MBB uses the risk appetite frameworks to monitor and manage the actual risk profile in relation to the risk appetite, which is derived from ING Bank rating ambition to be in the range of AA rating. It enables the MBB to identify possible risk concentrations and to support strategic decision making. The risk appetite level is reported to the MBB on a quarterly basis and is subsequently presented to the Risk Committee.

The overall risk appetite is translated into specific limits which are cascaded down into the organisation, e.g:
- Credit risk limits;
- ALM/Value at Risk limits; and
- Liquidity risk limits.

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

ING Bank is engaged in selling a broad range of products, from which financial risks arise managed by the Credit and Market Risk departments. Operational (non-financial) risks are managed by the Operational Risk department.

Financial Risks

For financial risks, ING Bank expresses its risk appetite as the tolerance to allow key capital ratios to deviate from their target levels. Therefore, the risk appetite is closely aligned to Capital Management activities and policies.

ING Bank has expressed tolerances for its risk weighted solvency metrics (core tier 1 ratio), for non-risk weighted solvency metrics (leverage ratio) and for more value based metrics (economic capital).

The metrics that are presented in the following sections relate to each of these metrics and present earnings sensitivity, economic and regulatory capital.

Due to the way the risk departments are organised, these metrics are presented at a higher aggregation level than the identified segments in Note 51 'Operating Segments':
- Retail Banking Benelux contains Retail Netherlands, Retail Belgium (including Retail Luxemburg);
- Retail Banking Direct & International contains Retail Central Europe, Retail Asia and ING Direct;
- Commercial Banking corresponds to Commercial Banking (including ING Real Estate); and
- Bank Corporate Line coincides with the Corporate Line.

Non-Financial Risks
Policy implementation

To ensure robust non-financial risk management, ING Bank monitors the implementation of ING Bank's Risk Policies and Minimum Standards. Business units have to demonstrate that the appropriate steps have been taken to control their operational, compliance and legal risks. ING Bank applies scorecards to measure the quality of the 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 report that is a fixed item on the agenda for the meetings of the MBB and the Risk Committee. NFRD provides management at all organisational levels with information on their key operational, compliance and legal Risks. NFRD is based on their risk tolerance within their business and a clear description of the risks and responses enabling management to prioritise and to manage operational, compliance and legal risks.

ING BANK ECONOMIC CAPITAL
Model Disclosure

This model disclosure section explains the methodologies and models used to determine Economic Capital (EC) the disclosed metrics. The risk models for the EC calculations are reviewed on a periodic basis and validated by the internal Model Validation department. The Economic Capital calculation is also used as part of the Basel II Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) that is performed regularly by the Dutch Central Bank.

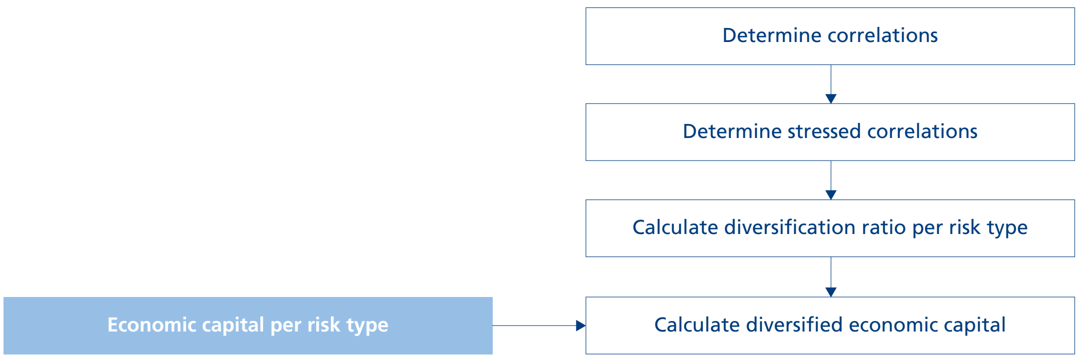
Economic Capital is defined as the amount of capital that a transaction or business unit requires in order to support the economic risks it takes. In general EC is measured as the unexpected loss above the expected loss at a given confidence level. This Economic Capital definition is in line with the net market value (or surplus) definition. The process of EC modelling enables ING Bank to allocate Economic Capital to the business units and support risk-adjusted performance measurement (RAROC). The use of RAROC increases focus on risks versus rewards in the decision making process, and consequently stimulates the use of scarce capital in the most efficient way.

The following fundamental principles and definitions have been established for the model:
- ING Bank uses a one-sided confidence level of 99.95% – consistent with ING's target debt rating (AA) – and a one-year time horizon to calculate EC;
- It is assumed that all currently known measurable sources of risk are included;
- The best estimate risk assumptions are as objective as possible and based on proper analysis of statistical data. There is one set of best-estimate assumptions for each risk type to be used at ING Bank;
- The EC calculation is based on fair value principles. Where complete and efficient markets exist, fair value is equal to market value;
- The EC calculations reflect known embedded options and the influence of client behaviour in banking products;
- The EC calculations are on a pre-tax basis and do not consider the effect of regulatory accounting and solvency requirements on capital levels; and
- The framework does not include any franchise value of the business, discretionary management intervention or future business volumes and margins.

Specific measurement by risk type is described in greater detail in the separate risk type sections.

Aggregation model

The main processes executed in ING Bank Economic Capital aggregation model are depicted in the flowchart below. The white boxes show the processes performed by the model while the shaded box indicates inputs from other risk departments.



ING Bank

Correlation factors between risk types used for diversification are based on best estimate assumptions supported by statistical analysis of historical data, ING Bank risk expert judgement, external benchmark studies and common logic. As shown in the flow-chart, the correlation factors are stressed upwards where necessary to account for potential measurement inaccuracy in extreme events due to limited historic data observations. Expert opinion is used for aggregating business and operational risk.

The Economic Capital for ING Bank involves the aggregation of the underlying EC of five risk types, namely credit, transfer, market, operational and business risks. Model disclosures are given in the respective risk sections. These risk types are aggregated to provide a total diversified ING Bank Economic Capital by applying the variance-covariance approach with a 5 x 5 inter-risk correlation matrix.

For allocation of Economic Capital to units and products, diversification factors are calculated for each risk type. These factors are applied consistently throughout ING Bank. The level of diversification benefit is dependent on both the inter-risk correlations as well as the relative size of the undiversified EC exposure for each risk type.

Reporting Framework
For each business unit and product line, the gross Economic Capital for each risk type is delivered. The net Economic Capital figures are calculated by taking the product of the gross EC and one minus the diversification factor. Total Economic Capital is calculated as the sum of the net EC for each risk type at all reporting levels.

ING Bank Economic Capital and Regulatory Capital
Main risk management tools for ING Bank are Economic Capital (EC) and Regulatory Capital (RC). Both of these Capital metrics are used to determine the amount of capital that a transaction or business unit requires to support the economic risks it faces. RC is driven by methodologies prescribed by regulators whereas EC is driven by internally developed models (all of which are approved by the Dutch Central Bank).

Economic capital is a non-accounting measure which is inherently subject to dynamic changes and updates as a result of ING Bank's portfolio mix and general market developments. ING Bank has been and will continue recalibrating the underlying assumptions to its economic capital models, which may have a material impact on the economic capital values going forward.

The tables below provide ING Bank's Economic Capital and Regulatory Capital by risk type and business line. The EC figures shown reflect all diversification effects within ING Bank, including risk reduction between the risk categories; while for RC no diversification is taken into account. In 2010, Credit Risk Regulatory Capital still included Transfer Risk for an amount of EUR 202 million. Economic Capital is including Transfer Risk both in 2011 and 2010.

Economic and Regulatory Capital (Bank diversified only) by risk type

	Economic Capital		Regulatory Capital	
	2011	2010	**2011**	2010
Credit risk	**14,365**	15,245	**22,474**	22,452
Market risk	**8,262**	7,233	**1,124**	364
Business Risk	**2,448**	2,435		
Operational Risk	**1,683**	1,619	**2,836**	2,872
Total banking operations	**26,758**	26,532	**26,434**	25,688

Economic Capital (Bank diversified only) by business line combination

	Economic Capital		Regulatory Capital	
	2011	2010	**2011**	2010
Commercial Banking	**9,726**	10,695	**11,615**	11,395
Retail Banking Benelux	**4,445**	4,613	**5,552**	5,498
Retail Banking Direct & International	**9,475**	8,881	**8,783**	8,587
Corporate Line Bank (1)	**3,112**	2,343	**484**	208
Total banking operations	**26,758**	26,532	**26,434**	25,688

(1) Corporate Line includes funding activities at ING Bank level, internal transactions between business units and the Corporate Line, and is managed by Capital Management.

Differences between RC and EC are mainly due to:
- The credit risk EC is lower than RC. Economic Capital (EC) is defined as ING's own methodology for credit risk. It is the amount of capital that is needed at a minimum to cover for Unexpected Losses within a certain confidence level and a certain time horizon;
- The market risk Economic Capital is higher than the Regulatory Capital primarily due to the inclusion of the interest rate risk banking books in Economic Capital. The market risk RC includes a stressed VaR charge, while EC does not; the EC figures take the diversification across risk types into account;
- The EC figures include Business risk, while RC does not ; and
- A 99.95% confidence level is used for EC, while the confidence level is 99.9% for RC. Correcting for the difference in confidence level will lead to an EC figure that is lower than the RC figure.

Excluding ING Direct USA, the total EC would be EUR 25 billion and the total RC would be EUR 24.2 billion.

The above risk metrics and risk appetite framework do not cover liquidity risk: the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities, at reasonable cost and in a timely manner, when they come due. ING Bank has a separate liquidity management framework in place to manage this risk, which is described in the Liquidity Risk section of ING Bank. In 2011 the funding and liquidity risk statements have been updated.

ONGOING CHANGES IN THE REGULATORY ENVIRONMENT

After the turmoil in the financial markets over the last couple of years and the need for governments to provide aid to financial institutions, financial institutions have been under more scrutiny from the public, supervisors and regulators. The resulting revised regulations are intended to ensure that a crisis in the financial system can be avoided in the future.
To accomplish this, regulations focus primarily at the following issues:

- More stringently aligning risk taking with the capital position of financial institutions (Basel III proposal). The Basel III proposal narrows the definition of core Tier 1 and Tier 1 capital, and introduces a new definition for a leverage ratio that should become part of Pillar 1 of the Basel framework. The Basel Committee has also issued a proposal for new liquidity requirements. Apart from the above mentioned proposals, another aim is to reduce 'pro-cyclicality', to avoid that banks would be required to increase their capital in difficult financial times when it is most scarce. Lastly, there is a proposal to introduce additional capital requirements for counterparty credit risk. In addition, the Basel Committee and Financial Stability Board (FSB) are currently considering measures that may have the effect of requiring higher loss absorbency capacity, liquidity surcharges, exposure limits and special resolution regimes for "systemically important financial institutions" (SIFIs) and so-called "Global" SIFIs (G-SIFI). The deadlines for implementation of specific item are set for the timeframe 2013 to 2018.
- Separate from but in line with the Basel III proposal, on a country level local regulators are becoming more stringent on the maximum credit risk bank subsidiaries and branches are allowed to have on their holding companies. In the absence of a supranational harmonisation this leads to so-called trapped pools of liquidity, i.e. excess liquidity in a country that can not merely be transferred (unsecured) to a central treasury in another country.

ING BANK CREDIT RISK

ING Bank Credit Risk Management

Credit risk is the risk of loss from default by debtors (including bond issuers) or trading counterparties. Credit risks are split into five principal risk categories: a) lending (including guarantees and letters of credit); b) investments; c) pre-settlement (derivatives, securities financing and foreign exchange trades); d) money markets and e) settlement. Additionally a sixth category is determined: country risk, which can include or relate to the earlier mentioned other five risk categories.

Governance

Credit Risk Management (CRM) is responsible for the measurement and management of credit risk incurred by all ING Bank entities, including country-related risks. CRM is organised along the business lines of ING Bank. The CRM General Manager is functionally responsible for the global network of credit risk staff, and the heads of the credit risk management functions for the business lines report directly to him.

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

ING Bank's credit policy is to maintain an internationally diversified loan and bond portfolio, while avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of top-down concentration limits for countries, individual borrowers and borrower groups. The aim within the banking sector is to expand relationship-banking activities, while maintaining stringent internal risk/return guidelines and controls.

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

Credit Risk Measurement and Reporting

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

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

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

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

Economic Capital for credit risk and for transfer risk are calculated using internally developed models with a 99.95% confidence level and a time horizon of one year, which represents ING's desired credit rating. ING Bank uses a series of credit risk models that can be grouped into three principal categories: Probability of Default (PD) models, which measure the standalone creditworthiness of individual debtors; Exposure at Default models (EAD) which estimate the size of the financial obligation at the moment of default in the future; and Loss Given Default Models (LGD), which estimate the recovery value of the underlying collateral or guarantees received (if any) and the unsecured part. Collectively, ING Bank uses over 100 models for credit risk. The various models can be grouped into three categories: statistical, expert and hybrid.

The Economic Capital formula for credit and transfer risks relies on seven different risk drivers. In addition to the PD, EAD, and LGD models mentioned above, the formula also considers the industry and the country of the debtor as well as the remaining term of the respective underlying transactions. Lastly, the formula considers correlation of different asset class types.

The underlying formulas and models that are used for determining Economic Capital for credit and transfer risk are similar to those used for determining the level of regulatory capital that is required under Basel II (Pillar 1). Despite the fact that the same underlying formulas are used, (internal) Economic Capital and regulatory capital are not the same, due to various specific rules imposed by Basel II, such as regulatory caps and floors, and the use of the standardised approach for certain portions of ING Bank's portfolio. These differences are permitted under the Basel II guidelines.

The table below summarises different capital measures used for different purposes and shows the difference in key elements and purposes.

Credit Risk Capital Measurements	Methodology	Location	Confidence level	Inputs	Purpose
Regulatory Capital	Basel II Formula	Vortex Basel Engine ('VBE') in the Central Risk Database	99.90%	Basel II model outputs	RWA
Economic Capital	Risk Adjusted Capital (RAC) Closed Algebraic Formula	Vortex Risk Engine ('VRE') in the Central Risk Database	99.95%	Basel II model outputs excluding Basel II caps and floors, maturity, repayment schedules, correlation factors, migration matrix.	Pricing, Economic Capital for credit at transactional level and above

Economic Capital levels for credit and transfer risk are calculated regularly for most of the Commercial Bank, ING Retail Benelux, and the Retail Direct & International banking operations. On a quarterly basis, the Economic Capital for credit risk and transfer risk figures are consolidated with the corresponding Economic Capital components from other disciplines.

Economic and Regulatory Capital (Bank diversified only) by risk type

	Economic Capital		Regulatory Capital	
	2011	2010	**2011**	2010
Credit risk	**14,365**	15,245	**22,473**	22,452

Governance of Economic Capital for Credit and Transfer Risk
All PD, EAD and LGD models are approved by the Credit Risk Committee (CRC) after thorough review of documentation by the Model Development Committee (MDC) and Model Validation (MV). In addition, each model is validated on an annual basis by MV. Each model has both a credit risk and a front office co-sponsor. Both the MDC and the CRC have participation from both credit risk officers as well as the front office to ensure maximum acceptance by the organisation.

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

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

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

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

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

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

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

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

Credit Risk Mitigation

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

Compensation and master agreements

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

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

Collateral policies

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

As part of its securities financing business, ING Bank entities actively enter into agreements to sell and buy back marketable securities. These transactions can take many legal forms. Repurchase and reverse repurchase agreements, buy/sellback and sell/buyback agreements, and securities borrowing and lending agreements are the most common. The amount of marketable securities that ING Bank held as collateral under these types of agreements was EUR 74.0 billion at 31 December 2011 and EUR 92.0 billion at 31 December 2010. The decrease is commensurate with the overall decrease in open securities financing trades at year end 2011 compared to year end 2010. These amounts exclude the cash leg of the respective transactions, as well as any pledges of securities under Tri-Party agreements (as the underlying is not directly pledged to or owned by ING Bank). As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or repledged in other (similar) transactions. ING Bank is obliged to return equivalent securities in such cases.

Repossession policy

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

ING Bank Credit Risk Profile

ING Bank's credit exposure is mainly related to traditional lending to individuals and businesses followed by investments in bonds and other securitised assets. Loans to individuals are mainly mortgage loans secured by residential property. Loans (including guarantees issued) to businesses are often collateralised, but can be unsecured based on internal analysis of the borrowers' creditworthiness. Bonds in the investment portfolio are generally unsecured. Securitised assets such as Mortgage Backed Securities and Asset Backed Securities are secured by the pro rata portion of the underlying diversified pool of assets (commercial or residential mortgages, car loans and/or other assets) held by the security's issuer. The last major credit risk source involves pre-settlement exposures which arise from trading activities, including derivatives, repurchase transactions and securities lending/borrowing and foreign exchange transactions.

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Credit quality: ING Bank portfolio, outstandings	2011	2010
Neither past due nor impaired	**849,283**	822,445
Past due but not impaired (1–90 days) (1)	**6,649**	5,638
Impaired (2)	**13,382**	13,779
Total	**869,314**	841,862

(1) Based on lending (consumer loans and residential mortgages only).
(2) Based on credit risk measurement contained in lending and investment activities.

Risk classes

Risk classes are defined based upon the quality of the exposures in terms of creditworthiness, varying from investment grade to problem grade expressed in S&P equivalents.

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

		Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International (2)		Total ING Bank	
		2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
1	(AAA)	**3.0%**	3.0%	**0.0%**	0.0%	**9.6%**	14.4%	**4.5%**	6.3%
2–4	(AA)	**19.4%**	14.3%	**4.2%**	4.0%	**16.0%**	12.1%	**13.8%**	10.6%
5–7	(A)	**20.2%**	24.0%	**5.1%**	5.3%	**17.8%**	18.8%	**15.0%**	16.8%
8–10	(BBB)	**23.7%**	22.9%	**42.8%**	42.0%	**29.3%**	28.9%	**31.3%**	30.4%
11–13	(BB)	**21.9%**	22.8%	**37.3%**	37.7%	**15.9%**	15.5%	**24.1%**	24.4%
14–16	(B)	**8.1%**	8.8%	**5.4%**	6.2%	**8.0%**	7.2%	**7.3%**	7.5%
17–22	(CCC & Problem Grade)	**3.7%**	4.2%	**5.2%**	4.8%	**3.4%**	3.1%	**4.0%**	4.0%
		100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

(1) Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities. The ratings reflect probabilities of default and do not take collateral into consideration.
(2) Covered bonds are presented on the basis of the external credit rating of the issuer in question. Covered bond issues generally possess a better external credit rating than the issuer standalone, given structural features of such covered bonds.

Within the Lending portfolio, there was an upward shift from the highest end investment grade in 2011 as a result of increased outstandings to local German governments. In the Investment portfolio we saw a reversed trend, from AAA to AA, mainly the result of downgraded exposures linked to sovereigns and also driven by the US dollar appreciation. The investment grade counterparty risks (pre-settlement) did not materially change. Related to these counterparties risks are increasing applications of collateral and netting agreements with these counterparties. Where such agreements are in place the credit risks are lowered due to the benefit of collateral and netting agreements. The increase in the AA bucket for Money Market is directly related to deposits given to central banks.

Risk classes ING Bank portfolio per credit risk type, as % of total outstandings (1)

		Lending		Investment		Money Market		Pre-settlement		Total ING Bank	
		2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
1	(AAA)	**1.6%**	0.8%	**18.9%**	30.8%	**1.4%**	1.2%	**2.9%**	3.5%	**4.5%**	6.3%
2–4	(AA)	**5.2%**	6.0%	**38.3%**	25.0%	**71.6%**	22.0%	**17.0%**	18.2%	**13.8%**	10.6%
5–7	(A)	**9.4%**	9.5%	**23.9%**	27.1%	**19.3%**	62.3%	**50.9%**	50.8%	**15.0%**	16.8%
8–10	(BBB)	**37.8%**	36.9%	**13.3%**	12.5%	**2.7%**	6.8%	**18.5%**	17.2%	**31.3%**	30.4%
11–13	(BB)	**31.5%**	32.0%	**2.2%**	2.0%	**4.9%**	7.4%	**8.2%**	7.3%	**24.1%**	24.4%
14–16	(B)	**9.7%**	9.9%	**0.4%**	0.6%	**0.1%**	0.1%	**1.7%**	1.8%	**7.3%**	7.5%
17–22	(CCC & Problem Grade)	**4.8%**	4.9%	**3.0%**	2.0%	**0.0%**	0.2%	**0.8%**	1.2%	**4.0%**	4.0%
		100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

(1) Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities. The ratings reflect probabilities of default and do not take collateral into consideration.

Risk concentration

As part of the focus on core clients, ING Bank further reduced its relative exposure to governments and the financial sector while growing the private individual and corporate portfolios. The industry Central Banks was above the threshold of 2.0% in 2011, as a result of the deposits given to various central banks.

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Risk concentration: ING Bank portfolio, by economic sector [1] [2]

	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International		Total ING Bank	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Private Individuals	**0.0%**	0.1%	**75.3%**	74.8%	**55.1%**	51.6%	**41.3%**	40.0%
Commercial Banks	**16.2%**	17.9%	**0.2%**	0.3%	**11.1%**	13.2%	**9.8%**	11.2%
Non-Bank Financial Institutions	**10.7%**	13.3%	**1.1%**	1.2%	**14.5%**	16.8%	**9.4%**	11.1%
Central Governments	**10.7%**	11.7%	**0.9%**	1.0%	**6.6%**	8.0%	**6.5%**	7.3%
Real Estate	**13.0%**	13.6%	**4.5%**	4.5%	**0.9%**	0.9%	**6.2%**	6.4%
Central Banks	**9.6%**	4.0%	**0.1%**	0.1%	**3.3%**	1.2%	**4.6%**	1.8%
Natural Resources	**10.9%**	10.3%	**0.4%**	0.4%	**0.4%**	0.4%	**4.1%**	3.9%
Transportation & Logistics	**5.9%**	5.7%	**1.3%**	1.4%	**0.2%**	0.2%	**2.5%**	2.5%
Services	**3.3%**	3.3%	**3.3%**	3.3%	**0.3%**	0.3%	**2.2%**	2.2%
Lower Public Administration	**0.4%**	0.5%	**1.4%**	1.3%	**4.4%**	4.3%	**2.1%**	2.1%
Other	**19.3%**	19.6%	**11.5%**	11.7%	**3.2%**	3.1%	**11.3%**	11.5%
	100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

(1) Based on the total amount of credit risk in the respective column using ING Bank's internal credit risk measurement methodologies.
(2) Economic sectors below 2% are not shown separately but grouped in Other.

ING Bank Lending portfolio
The largest relative geographic area of growth was Belgium, especially in the residential mortgage portfolio. The Americas was the second region in terms of growth which corresponds with the region's economic recovery in 2011. Exchange rate effects had further impact on the regional division.

In line with ING Bank's de-risking strategy, the portfolio developments in most countries mirrored the developments in the portfolio as a whole. The depreciated Euro versus the Australian, Canadian and the US dollar had an upward effect of the exposure to the Americas and Asia/Pacific and therewith also to the Retail Banking Direct and International and Commercial Banking portfolios. Excluding ING Direct USA, Retail Banking Direct and International showed a marginal increase, mainly as the result of currency effects.

Largest economic exposures: ING Bank lending portfolio, by geographic area [1]

	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International		Total ING Bank	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Netherlands	**21.3%**	20.7%	**73.8%**	74.8%	**3.5%**	4.8%	**30.7%**	31.2%
Belgium	**8.0%**	7.7%	**24.3%**	23.2%	**0.3%**	0.2%	**10.2%**	9.6%
Rest of Europe	**44.1%**	45.2%	**1.2%**	1.3%	**53.3%**	53.3%	**34.4%**	35.0%
Americas	**14.9%**	14.8%	**0.2%**	0.2%	**27.6%**	26.4%	**15.1%**	14.6%
Asia/Pacific	**11.2%**	11.2%	**0.1%**	0.1%	**15.3%**	15.3%	**9.3%**	9.4%
Rest of World	**0.5%**	0.4%	**0.4%**	0.4%	**0.0%**	0.0%	**0.3%**	0.2%
Total	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

(1) Geographic areas are based on the country of residence of the obligor.

Credit Covers
At ING Bank, cover is a term which is defined as any security, lien, mortgage, or collateral interest in an asset or guarantee, indemnification or undertaking received (either by contract and/or by law) that is intended to reduce the losses incurred subsequent to an event of default on an obligation (usually financial in nature) a customer may have towards ING Bank. Within ING Bank, covers are subdivided into two distinct groups, called collateral and promises. Reference is made to credit risk management classification as included in the accounting policies for the consolidated annual accounts for a reconciliation between credit risk outstandings categories and financial assets.

Collateral
Collateral is a security interest in assets. If the customer defaults on its promised performance, the asset is given as collateral or security for that obligation is liquidated, such that the proceeds can be applied towards full or partial compensation of the pledgor's (financial) obligation to ING Bank. Assets have monetary value and are generally owned by the person or organisation, which gives them as collateral to ING Bank. An asset may be tangible, like plant & machinery, buildings, bonds, receivables etc. or intangible like patents, copyrights and trademarks.

ING Bank

In the table below the residential mortgage portfolio and the mortgage collateral amount are shown. Please note that the figures shown are based on credit collateral amounts, meaning the market values of these properties after haircuts.

Promises
Promises are defined as a legally binding declaration by persons or organisations that give ING Bank the right to expect and claim from those persons or organisations if ING Bank's customer fails on its obligations to ING Bank. Common examples are guarantees received and letters of credit.

The following tables show the credit risk outstandings and cover values per line of business: Retail Banking (comprising both Benelux, Direct & International) and Commercial Banking. Outstandings for Retail Banking are reported for the most relevant retail product being Residential Mortgages while the remaining outstandings are classified as Other Lending.

Outstandings for Commercial Banking are reported for the most relevant categories being Financial Institutions, Corporates and Governments, while the remaining outstandings are classified as Other. Credit risk outstandings are inclusive of both on balance and off balance sheet outstandings, and of all risk categories.

For each product or category, the cover amounts are then reported for the most relevant collateral categories being Mortgages and Cash, and for the most relevant Promises category being Guarantees. The remaining collaterals and promises are included in the category Other.

Performing Assets – Cover values*** including guarantees received****

						31 December 2011
	Outstandings*	**Mortgages*****	**Cash**	**Guarantees****	**Other**	**Total Credit Covers*******
Retail						
Residential Mortgages	**336,876**	**538,692**				**538,692**
Other Lending	**13,529**	**3,104**				**3,104**
Total Retail	**350,405**	**541,796**				**541,796**
Commercial						
Financial Institutions	**162,590**	**3,421**	**1,331**	**9,982**	**3,281**	**18,015**
Corporates	**225,848**	**73,916**	**4,819**	**21,642**	**54,161**	**154,538**
Governments	**75,762**	**89**	**12**	**3,365**	**1,373**	**4,839**
Other	**41,327**	**4,274**	**61**	**63**	**242**	**4,640**
Total Commercial	**505,527**	**81,700**	**6,223**	**35,052**	**59,057**	**182,032**
Total	**855,932**	**623,496**	**6,223**	**35,052**	**59,057**	**723,828**

Performing Assets – Cover values*** including guarantees received****

						31 December 2010
	Outstandings*	Mortgages***	Cash	Guarantees**	Other	Total Credit Covers****
Retail						
Residential Mortgages	315,226	523,195				523,195
Other Lending	12,439	2,787				2,787
Total Retail	327,665	525,982				525,982
Commercial						
Financial Institutions	157,834	4,199	1,119	8,174	3,962	17,454
Corporates	218,554	67,796	4,106	26,490	45,094	143,486
Governments	80,087	62	2	3,401	1,571	5,036
Other	43,943	3,310	65	102	497	3,974
Total Commercial	500,418	75,367	5,292	38,167	51,124	169,950
Total	828,083	601,349	5,292	38,167	51,124	695,932

* Excluding intercompany positions
** Guarantees received can be additional to pledges and not necessarily replace covers
*** The used valuations methods for the underlying covers may vary per cover
**** Credit covers are the sum of all existing covers. Excess cover amounts on specific loans cannot be put in place for loans without covers. Therefore, the figures shown in the table should not be used for netting calculation purposes

ING Bank

The cover tables show a break down of ING Bank's retail and commercial portfolios. The Residential Mortgages portfolio relates to private individuals. The growth in this portfolio was mainly driven by United Kingdom, Germany and Belgium. The Financial Institutions portfolio is comprised of commercial banks, central banks and non-bank financial institutions. The increase in this portfolio was mainly driven by The Netherlands. Corporates range from large enterprises to small and medium sized companies. Governments consist of all governmental layers, from local to national.

Loan-to-Value (LTV)

The LTV ratio relates the total loan amount to the market value of the collateral. The market value is the registered value as adopted from the valuation report of a qualified appraiser or valuer. ING Bank has a team of specialists for the valuation of real estate, which is supplemented with external and desk top valuation. In some countries residential mortgages are covered by governmental or commercial insurers. For example the Nationale Hypotheek Garantie (NHG) in The Netherlands, which guarantees the repayment of a loan in case of a forced property sale. The LTV in The Netherlands is relatively high, but is partially compensated by the NHG guaranteed portfolio and other secondary covers, such as life insurance policies, savings and investment products. The average LTV in the Netherlands is 81% (2010: 80%).
When available, indexation is applied to revaluate the collateral to the present value. In the LTV calculation the following property covers are included: residential and industrial/commercial properties, land and applicable other fixed assets. All other covers are excluded. The ING Bank's total residential mortgage portfolio amounts to EUR 341 billion, making up 39% of the ING Bank's total credit risk outstandings. The average Loan to Value (LTV) of the total residential mortgage portfolio amounts to 75% (2010: 74%).

Problem loans

Past-due obligations

ING Bank continually measures its portfolio in terms of payment arrears. Particularly the retail portfolios are closely monitored on a monthly basis to determine if there are any significant changes in the level of arrears. Generally, an obligation is considered 'past-due' if a payment of interest or principal is more than one day late. In practice, the first 5–7 days after an obligation becomes past due are considered to be operational in nature for retail loans and small businesses portfolios. After this period, letters are sent to the obligor reminding the obligor of its (past due) payment obligations. If the arrear still exists after 90 days, the obligation is transferred to one of the 'problem loan' units. In order to reduce the number of arrears, ING banking units encourage their obligors to set up automatic debits from their (current) accounts to ensure timely payments.

Aging analysis (past due but not impaired): ING Bank portfolio, outstandings (1) (2)

	2011	2010
Past due for 1–30 days	**5,455**	4,565
Past due for 31–60 days	**1,111**	973
Past due for 61–90 days	**83**	100
Total	**6,649**	5,638

(1) Based on lending (consumer loans and residential mortgages only).
(2) The amount of past due but not impaired financial assets in respect of non-lending activities was not material.

Impaired loans and provisions

The credit portfolio is under constant review. Generally, all loans with past due financial obligations of more than 90 days are automatically reclassified as impaired. For the wholesale lending portfolios and securities obligations, there are generally reasons for declaring a loan impaired prior to being 90 days past due. These include, but are not limited to, ING Bank'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 Bank identifies as impaired loans those loans for which it is probable, based on current information and events that the principal and interest amounts contractually due will not be collected in accordance with the contractual terms of the loan agreements.

A formal analysis takes place quarterly to determine the provisions for possible bad debts, using a bottom-up approach. Conclusions are discussed by the ING Provisioning Committee (IPC) Bank, which advises the MBB on specific provisioning levels.

Risk management continued

ING Bank

The table below represents the economic sector breakdown of credit risk outstandings (including impaired amounts) for loans and positions that have been classified as problem loans and for which provisions have been made.

Impaired Loans: ING Bank portfolio, outstandings by economic sector [(1)]

	2011	2010
Private Individuals	**4,790**	4,838
Real Estate	**2,671**	2,777
General Industries	**819**	858
Transportation & Logistics	**797**	818
Food, Beverages & Personal Care	**784**	837
Builders & Contractors	**774**	792
Services	**718**	582
Non-Bank Financial Institutions	**368**	527
Other	**1,661**	1,750
Total	**13,382**	13,779

(1) Economic sectors below EUR 500 million in both years are not shown separately but grouped in Other.

ING Bank holds specific and collective provisions of EUR 3,040 million and EUR 1,133 million, respectively (2010: EUR 2,697 million and EUR 1,404 million respectively), representing the difference between the amortised cost of the portfolio and the estimated recoverable amount discounted at the effective rate of interest. In addition, there is EUR 777 million (2010: EUR 1,094 million) in provisions against the performing portfolio. The 2010 figures are including ING Direct USA.

Provisions: ING Bank portfolio [(1)]

	Commercial Banking		Retail Banking Benelux		Retail Banking Direct & International		Total ING Bank	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Opening balance	**1,855**	1,628	**1,641**	1,290	**1,699**	1,481	**5,195**	4,399
Changes in the composition of the group	**–3**						**–3**	
Write-offs	**–373**	–337	**–494**	–454	**–437**	–375	**–1,304**	–1,166
Recoveries	**66**	36	**37**	58	**9**	11	**112**	105
Increase/(decrease) in loan loss provision	**479**	497	**603**	721	**588**	533	**1,670**	1,751
Exchange differences	**15**	65	**0**	8	**–98**	82	**–83**	155
Other changes		–34	**–36**	18	**–601**	–33	**–637**	–49
Closing balance	**2,039**	1,855	**1,751**	1,641	**1,160**	1,699	**4,950**	5,195

(1) The 2011 figures are excluding ING Direct USA.

The risk costs development in the first half of 2011 was relatively favourable, however, since mid 2011, the economic climate deteriorated. On balance, risk costs for the full year 2011 were in line with 2010 risk costs levels.

Credit Covers Problem Assets

The table hereunder shows the cover values per credit risk category classified based on Retail and Commercial Banking products. In the ING Bank master scale which ranges from 1 being the best rating to 22 being the worst rating, Problem Assets are the Assets with ratings in the range 18–22. All other are called Performing Assets and are shown in the tables above.

Problem Assets – Cover values** including guarantees received****

		31 December 2011				
	Outstandings*	Mortgages***	Cash	Guarantees**	Other	Total Credit Covers****
Retail						
Residential Mortgages	**4,070**	**4,987**				**4,987**
Other Lending	**569**	**145**				**145**
Total Retail	**4,639**	**5,132**				**5,132**
Commercial						
Financial Institutions	**457**	**63**	**1**	**51**	**22**	**137**
Corporates	**8,090**	**2,913**	**335**	**242**	**1,063**	**4,553**
Governments	**9**			**0**	**0**	**0**
Other	**187**	**105**	**0**	**1**	**2**	**108**
Total Commercial	**8,743**	**3,081**	**336**	**294**	**1,087**	**4,798**
Total	**13,382**	**8,213**	**336**	**294**	**1,087**	**9,930**

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Problem Assets – Cover values** including guarantees received****

						31 December 2010
	Outstandings*	Mortgages***	Cash	Guarantees**	Other	Total Credit Covers****
Retail						
Residential Mortgages	4,026	4,975				4,975
Other Lending	671	154				154
Total Retail	4,697	5,129				5,129
Commercial						
Financial Institutions	366	4		56	23	83
Corporates	8,542	2,761	23	343	882	4,009
Governments	1					
Other	173	59		2	5	66
Total Commercial	9,082	2,824	23	401	910	4,158
Total	13,779	7,953	23	401	910	9,287

* Excluding intercompany positions
** Guarantees received can be additional to pledges and not necessarily replace collaterals
*** The used valuations methods for the underlying collaterals may vary per collateral
**** Credit covers are the sum of all existing covers. Excess cover amounts on specific loans cannot be put in place for loans without covers. Therefore, the figures shown in the table should not be used for netting calculation purposes

ING BANK MARKET RISK

ING Bank Market Risk Management

Market risk is the risk that movements in market variables, such as interest rates, equity prices, foreign exchange rates, credit spreads and real estate prices, negatively impact the bank's earnings, market value or liquidity position. Market risk either arises through positions in trading books or through the banking book positions. The trading positions are held for the purpose of benefiting from short-term price movements, while the banking book positions are intended to be held in the long-term (or until maturity) or for the purpose of hedging other banking book positions.

Governance

Within ING Bank, market risk (including liquidity risk) falls under the supervision of the ALCO function with ALCO Bank as the highest approval authority. ALCO Bank determines the overall risk appetite for market risk. The ALCO function is regionally organised with the exception of ING Direct, which has a separate ALCO. The business lines Retail Banking and Commercial Banking are represented within the respective regional and local ALCO's. The ALCO structure within ING Bank facilitates top-down risk management, limit setting and the monitoring and control of market risk. This ensures a correct implementation of the ING Bank risk appetite.

The Market Risk Management department (MRM) is the designated independent department that is responsible for the design and execution of the bank's market risk management functions in support of the ALCO function. The MRM structure recognises that risk taking and risk management to a large extent occurs at the regional/local level. Bottom-up reporting allows each management level to fully assess the market risk relevant at the respective levels.

MRM is responsible for determining adequate policies and procedures for managing market risk and for monitoring the compliance with these guidelines. An important element of the market risk management function is the assessment of market risk in new products and businesses. Furthermore MRM maintains an adequate limit framework in line with ING Bank's risk appetite. The businesses are responsible for adhering to the limits that ultimately are approved by ALCO Bank. Limit breaches are reported to senior management on a timely basis and the business is required to take the appropriate actions to reduce the risk position.

Model Disclosure: ING Bank Economic Capital for Market Risk

Economic Capital for market risk is the Economic Capital necessary to withstand unexpected value movements due to changes in market variables. Economic Capital for market risk is calculated for exposures both in trading portfolios and non-trading portfolios and includes real estate risk, foreign exchange rate risk, equity price risk, interest rate risk and model risks. Economic capital for market risk is calculated using internally developed methodologies with a 99.95% confidence interval and a horizon of one year, which represents extreme events and ING's target rating.

For the trading and most of the non-trading portfolios (including equity investments), the actual VaR (measured at a 99% confidence interval, a one day holding period and under the assumption of an expected value of zero) is taken as a starting point for the Economic Capital calculations for market risk. To arrive at the Economic Capital for market risk, a simulation based model is used which includes scaling to the required confidence interval and holding period. In determining this scaling factor, several other factors are also taken into account like the occurrence of large market movements (events) and management interventions.

Economic Capital for market risk for the mortgage portfolios within ING Retail Banking (Benelux, Direct and International Banking) and ING Commercial Banking is calculated for embedded option risk (e.g. the prepayment option and offered rate option in mortgages). The embedded options are hedged using a delta-hedging methodology, leaving the mortgage portfolio exposed to convexity and volatility risk.

Real estate price risk includes the market risks in both the investment portfolio and the development portfolio of ING Real Estate. The real estate price risk for the investment portfolio is calculated by stressing the underlying market variables. The stress scenarios at a portfolio level take into account all diversification effects across regions and real estate sectors. Also, the leverage of participations in the real estate investment funds is taken into account. For the Real Estate development process, in addition to market sale price risk, the risk drivers of market rent, investor yield and construction delays are taken into account. Furthermore the risk model differs for each development phase (i.e., research, development, and construction) to appropriately reflect the risk taken in each phase. Using correlations, all risk drivers, and stages are used to calculate a possible market value loss representing the Economic Capital for market risk for the development portfolio.

While aggregating the different Economic Capital market risk figures for the different portfolios, diversification benefits (based on stressed correlations) are taken into account as it is not expected that all extreme market movements will appear at the same moment.

The nature of market risk Economic Capital, evaluating the impact of extreme stress with a 99.95% confidence level, can sometimes be difficult to evidence in a statistical sound manner with the available historical data. The Economic Capital figures disclosed by ING Bank are a best effort estimate based on available data and expert opinions.

Economic and Regulatory Capital (Bank diversified only) by risk type

	Economic Capital [1]		Regulatory Capital	
	2011	2010	**2011**	2010
Market risk	**8,262**	7,233	**1,124**	364

[1] this includes model risk

The market risk Economic Capital is higher than the Regulatory Capital primarily due to the inclusion of the interest rate risk banking books in Economic Capital. The market risk Regulatory Capital includes a stressed VaR charge, while Economic Capital does not. The main drivers for the increase in market risk Economic Capital are methodology updates. The increase in market risk Regulatory Capital is due to the new market risk framework Basel 2.5 containing an additional capital charge for Stressed VaR and Incremental Risk.

ING Bank Market Risk in Trading Books

Governance

Within the trading portfolios, positions are maintained in the professional financial markets for the purpose of benefiting from short-term price movements. Market risk arises in the trading portfolios through the exposure to various market risk factors, including interest rates, equity prices, foreign exchange rates and credit spreads.

The Financial Markets Risk Committee (FMRC) is the market risk committee that, within the risk appetite set by ALCO Bank, sets market risk limits both on an aggregated level and on a desk level, and approves new products. MRM advises both the FMRC and ALCO Bank on the market risk appetite of trading activities.

With respect to the trading portfolios, MRM focuses on the management of market risks of Commercial Banking (mainly Financial Markets) as this is the only business line where trading activities take place. Trading activities include facilitation of client business, market making and proprietary position taking in cash and derivatives markets. MRM is responsible for the development and implementation of trading risk policies and risk measurement methodologies, the reporting and monitoring of risk exposures against approved trading limits and the validation of pricing models. MRM also reviews trading mandates and limits, and performs the gatekeeper role in the product review process. The management of trading market risk is performed at various organisational levels, from MRM overall down to specific business areas and trading offices.

Model Disclosure

Value at Risk

MRM uses the historical simulation Value at Risk (VaR) methodology as its primary risk measure. The VaR for market risk quantifies, with a one-sided confidence level of 99%, the maximum overnight loss that could occur due to changes in risk factors (e.g. interest rates, equity prices, foreign exchange rates, credit spreads, implied volatilities) if positions remain unchanged for a time period of one day. Next to general market movements in these risk factors, VaR also takes into account market data movements for specific moves in e.g. the underlying issuer of securities. The impact of historical market movements on today's portfolio is estimated, based on equally weighted observed market movements of the previous year. ING Bank uses VaR with a 1-day horizon for internal risk measurement, control and back testing, and VaR with a 10-day horizon for determining regulatory capital.

Limitations
VaR as a risk measure has some limitations. VaR uses historical data to forecast future price behaviour. Future price behaviour could differ substantially from past behaviour. Moreover, the use of a one-day holding period (or ten days for regulatory capital calculations) assumes that all positions in the portfolio can be liquidated or hedged in one day. In periods of illiquidity or market events, this assumption may not hold true. Also, the use of 99% confidence level means that VaR does not take into account any losses that occur beyond this confidence level. Parts of these limitations are mitigated by the Basel 2.5 regulation (Stressed VaR and Incremental Risk Charges).

Back testing
Back testing is a technique for the ongoing monitoring of the plausibility of the VaR model in use. Although VaR models estimate potential future results, estimates are based on historical market data. In a back test, the actual daily result is compared with the 1-day VaR. In addition to using actual results for back testing, ING Bank also uses hypothetical results, which measure results excluding the effect of intraday trading, fees and commissions. When the actual or hypothetical loss exceeds the VaR an 'outlier' occurs. Based on ING Bank's one-sided confidence level of 99% an outlier is expected once in every 100 business days. In 2011, like in 2010, there was no occurrence where a daily trading loss exceeded the daily consolidated VaR of ING Commercial Banking. ING Bank reports the results of this back testing to DNB on a quarterly basis.

Stress testing
Stress tests are used for the monitoring of market risks under extreme market conditions. Since VaR in general does not produce an estimate of the potential losses that can occur as a result of extreme market movements, ING Bank uses structured stress tests for monitoring the market risk under these extreme conditions. Stress scenarios are based on historical as well as hypothetical extreme events. The result of the stress testing is an event risk number, which is an estimate of the profit and loss account effect caused by a potential event and its world-wide impact for ING Commercial Banking. The event risk number for the ING Commercial Banking trading activity is generated on a weekly basis. Like VaR, event risk is limited by ALCO Bank. ING Bank's event risk policy basically consists of defined stress parameters per country and per market (fixed income, equity, foreign exchange, credit and related derivative markets). The scenarios and stress parameters are evaluated against extreme actual market movements. If and when necessary, ING Bank evaluates specific stress scenarios, as an addition to its structural stress tests. These specific scenarios relate to current concerns, like political instability in certain regions, terrorist attacks or extreme movements, e.g. in credit spreads. Furthermore, ING participates in bank-wide stress testing as well as in ad hoc stress testing exercises as requested by the DNB or EBA.

Other trading controls
VaR and event risk limits are the most important limits to control the trading portfolios. Furthermore, ING Bank uses a variety of other limits to supplement VaR and event risk. Position and sensitivity limits are used to prevent large concentrations in specific issuers, sectors or countries. In addition to this, other risk limits are set with respect to the activities in complex derivatives trading. The market risk of these products is controlled by product specific limits and constraints.

Basel 2.5 / CRD 3
The Basel Committee has proposed to supplement the current VaR regulatory capital framework for trading exposures with Incremental Risk Charge and Stressed VaR to cover for the shortcomings of the existing regulatory risk framework. The Basel requirements on the Incremental Risk Charge and stressed VaR have come into force in European legislation (CRD 3) as of 31 December 2011 and are included in the regulatory capital as of Q4 2011.

Stressed VaR
The Stressed VaR (SVaR) is intended to replicate a VaR calculation that would be generated on the bank's current portfolio with inputs calibrated to the historical data from a continuous 12-month period of significant financial stress relevant to the bank's portfolio. To calculate SVaR, ING Bank uses the same model that is used for VaR (historical simulation). The historical data period used includes the height of the credit crisis around the fall of Lehman brothers, and is reviewed regularly.

Incremental Risk Charge
With the Incremental Risk Charge (IRC) ING Bank calculates an estimate of default and migration risk for unsecuritised credit products in the trading book over a one-year capital horizon at a 99.9% confidence level. For the calculation of IRC ING Bank performs a Monte Carlo simulation based on a Gaussian copula model. For all issuers the rating is simulated over the different liquidity horizons (time required to liquidate the position or hedge all material risks) within one year. The financial impact is then determined based on the migration to default (based on LGD), or migration to a different rating category (based on credit spread changes).

The liquidity horizon has been set to the regulatory minimum of three months for all positions in scope. Given the types of products in ING Bank's trading portfolio ING considers this horizon to be conservative. We have demonstrated that ING Bank could still actively trade its positions that are significant for IRC under stressed market circumstances, allowing ING Bank to fully redeem its positions within three months.

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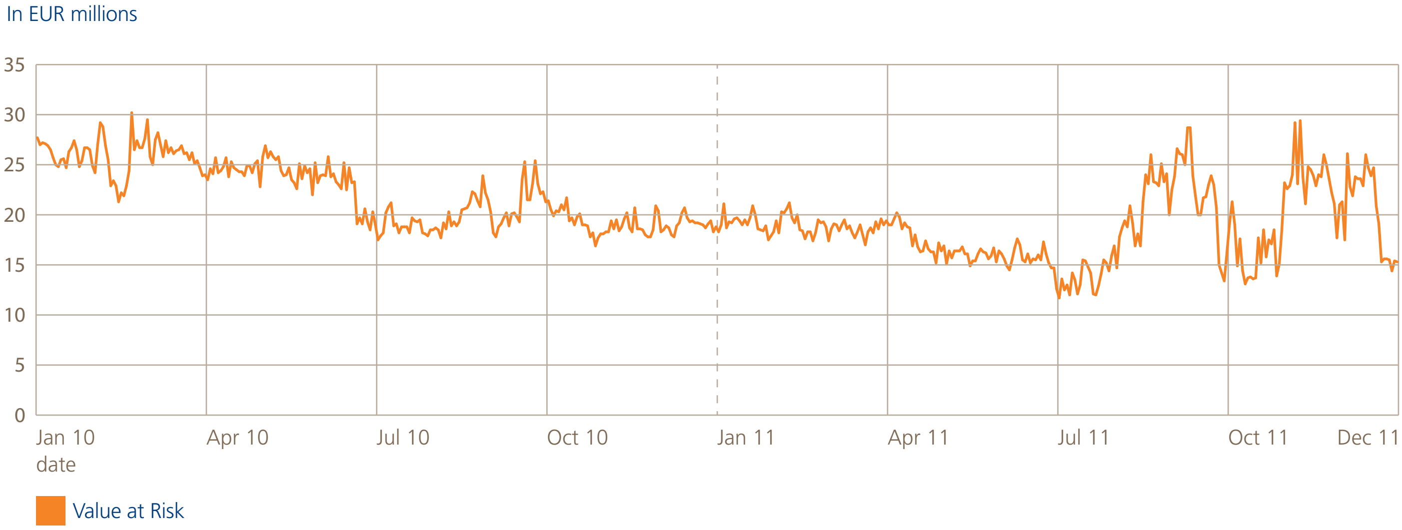
Risk Profile

The following chart shows the development of the overnight VaR under a 99% confidence interval and a 1-day horizon. The overnight VaR is presented for the ING Commercial Banking trading portfolio for 2010 and 2011. Several banking books are internally governed by the trading risk process and are therefore excluded from the non-trading risk table and included in the below trading risk graph and table.

Consolidated trading VaR ING Commercial Banking 2010–2011



During 2011 the overnight VaR for the ING Commercial Banking trading portfolio ranged from EUR 12 million to EUR 29 million.

More details on the VaR of the ING Commercial Banking trading portfolio for 2011 and 2010 are provided in the table below.

Consolidated VaR trading books: ING Commercial Bank

	Minimum		Maximum		Average		Year end	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Interest rate [1]	**9**	18	**21**	29	**15**	22	**12**	20
Equity	**1**	1	**18**	9	**7**	4	**7**	3
Foreign exchange	**1**	1	**4**	9	**2**	2	**2**	4
Credit spread [1]	**6**	n/a	**8**	n/a	**7**	n/a	**6**	n/a
Diversification [2]					**–12**	–6	**–12**	–8
Total VaR	**12**	17	**29**	30	**19**	22	**15**	19

(1) Credit spreads are introduced as a separate risk category as of Q4 2011. Minimum, maximum and average values for the risk category Credit spread are calculated on Q4 only. The 2010 credit spreads are consolidated in the interest rate risk category.
(2) The total VaR for the columns Minimum and Maximum can not be calculated by taking the sum of the individual components since the observations for both the individual markets as well as total VaR may occur on different dates.

The VaR figures in the table above relate to all books under trading governance. In general, the level of the trading VaR was lower in the first half of 2011, continuing the decreasing trend of 2010. Halfway the year, VaR levels increased due to increased market volatility. The equity VaR increased due to the integration of implied correlation and dividend risk, new risk measures added to the VaR framework. The average consolidated VaR over 2011 was lower than over 2010 (average VaR 2011: EUR 19 million and average VaR 2010: EUR 22 million).

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The risk figures in the table below only relate to the CAD2 trading books for which the internal model approach is applied.

Risk measures for Internal Model Approach Portfolios

				2011	Year end
	Minimum	Maximum	Average	2011	2010
Interest rate VaR [(1)]	8	22	14	11	18
Equity VaR	1	18	7	7	3
Foreign exchange VaR	1	4	2	2	4
Credit Spread VaR [(1)]	6	8	7	6	n/a
Diversification effect [(2)]			–12	–11	–8
Total VaR Internal Model Approach (1-day, 99%)	11	28	18	15	17
Stressed VaR (10-day, 99%)[(3)]	104	182	139	117	n/a
Incremental Risk Charge (1-year, 99.9%)[(3)]	363	545	445	368	n/a

(1) Credit spreads are introduced as a separate risk category as of Q4 2011. Minimum, maximum and average values for the risk category Credit spread are calculated on Q4 only. The 2010 credit spreads are consolidated in the interest rate risk category.
(2) The total VaR for the columns Minimum and Maximum can not be calculated by taking the sum of the individual components since the observations for both the individual markets as well as total VaR may occur on different dates.
(3) Stressed VaR and Incremental Risk Charge figures are based on Q4 2011

Regulatory Capital

According to the Dutch regulation, regulatory capital for trading portfolios can be calculated using the standardised approach or an internal model approach. ING Bank received approval from the DNB to use an internal Value-at-Risk (VAR) model to determine the regulatory capital for the market risk in most trading books of ING Bank. Market risk capital of CAD2 trading books is calculated according to the internal VaR model, where diversification is taken into account. On the other hand, market risk capital of CAD1 books is calculated using standardised fixed risk weights. In 2011, capital on all trading books is performed under the Internal Model Approach. Mismatches in FX risk from the banking books are incorporated under the Standardised Approach. Market risk regulatory capital is calculated under the new market risk framework Basel 2.5 containing a capital charge for Stressed VaR and Incremental Risk, as approved by DNB.

Regulatory Capital

			2011	2010[(1)]
	SVaR	VaR	Total	Total
Interest rate / Credit spread	327	157	484	172
Equity	80	62	142	40
Foreign exchange	15	12	27	15
Incremental Risk Charge			437	n/a
Total Internal Model Approach			1,090	227
Standardised model			34	137
Total			1,124	364

(1) 2010 capital figures do not include Stressed VaR

Sensitivities

The following tables show the largest trading foreign exchange positions and interest rate and credit spread sensitivities. The credit spread sensitivities are furthermore split in different risk classes and sectors.

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Most important foreign exchange positions (year-end 2011)

	2011		2010
Foreign exchange		**Foreign exchange**	
Chinese yuan	**356**	US dollar	–457
US dollar	**–283**	Taiwan dollar	155
Czech koruna	**–154**	Chinese yuan	83
Taiwan dollar	**–44**	South Korean won	68
Bulgarian lev	**–43**	Bulgarian lev	–57

Most important interest rate and credit spread sensitivities (year-end 2011)

amounts in thousands of euros	2011		2010
Interest Rate (BPV (1))		**Interest Rate (BPV (1))**	
United States	**331**	Eurozone	–377
UK	**–163**	United States	167
Mexico	**–120**	Mexico	–147
Russia	**–96**	Japan	141
Japan	**–86**	Russia	–73
Credit Spread (BPV (1))		**Credit Spread (BPV (1))**	
Eurozone	**–287**	Eurozone	–596
UK	**–50**	Sweden	–67
United States	**–31**	Hong Kong	–47
Mexico	**–31**	UK	–47
Norway	**–25**	United States	–42

(1) Basis Point Value (BPV) measures the impact on value of a 1 basis point increase in interest rates or credit spreads.

Credit spread sensitivities per risk class and sector (year-end 2011)

		2011		2010	
amounts in thousands of euros **Credit Spread (BPV (1))**		**Corporate**	**Financial Institutions**	Corporate	Financial Institutions
Risk classes					
1	(AAA)	**–5**	**–16**	–8	–211
2–4	(AA)	**–12**	**–49**	–25	–212
5–7	(A)	**15**	**–256**	–32	–257
8–10	(BBB)	**–49**	**–42**	–77	–102
11–13	(BB)	**–14**	**–24**	–11	–47
14–16	(B)	**–18**	**–8**	–30	–8
17–22	(CCC and Problem Grade)	**2**	**–21**	–24	–33
Not rated		**–1**	**0**		
Total		**–82**	**–416**	–207	–870

(1) Basis Point Value (BPV) measures the impact on value of a 1 basis point increase in interest rates or credit spreads.

ING Bank Market risk in Banking Books

ING Bank makes a distinction between trading and banking (non-trading) books. Positions in trading books can change swiftly, whereas positions in banking books are intended to be held until maturity, or at least for the long-term. Books that contain positions to hedge exposures resulting from commercial activities are also classified as banking books.

Interest Rate Risk in Banking Book

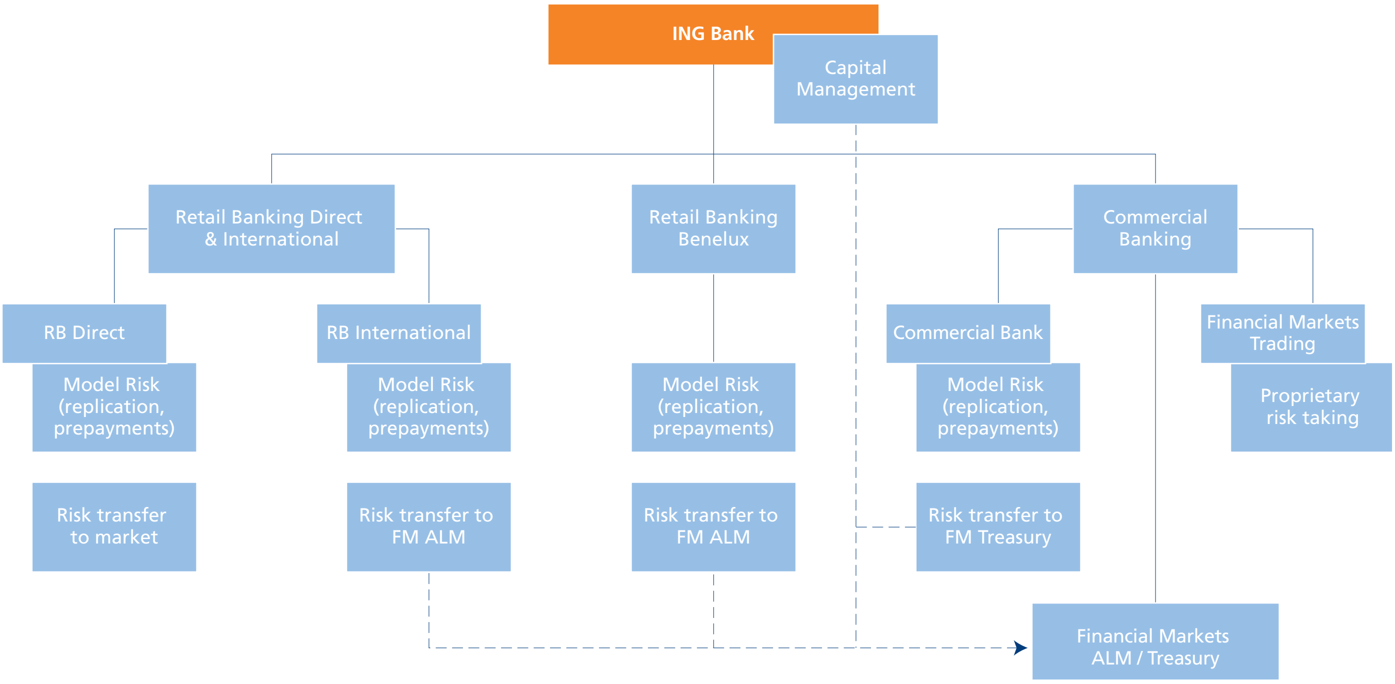
Interest rate risk in the banking books is defined as the potential negative impact that changing interest rates may have on earnings or market value.

Governance: ALM framework

The management of interest rate risk follows the Asset & Liability Management (ALM) framework as approved by ALCO Bank. Main goal of this framework is to transfer interest rate risks out of commercial books in order to manage it centrally. This allows for a clear demarcation between commercial business results and results on unhedged interest rate positions.

ING Bank

ING Bank distinguishes three types of activities: investment of own capital (by Capital Management), commercial business (ING Direct, Retail Banking and Commercial Bank) and the strategic interest rate position (Financial Markets ALM). The scheme below presents the ALM framework:



Below, the three activities are described in more detail.

Capital Management is responsible for managing the investment of own funds (core capital), more information can be found in the Capital Management section. Capital is invested for longer periods, targeting to maximise return, while keeping it stable at the same time.

Commercial activities lead to interest rate risk, as repricing tenors of assets differ from those of liabilities. Linear interest rate risk is transferred out of the commercial business into the risk center (FM ALM), leaving convexity risk and model risk with the commercial business. The convexity risk is a result of hedging products that contain embedded options, like mortgages, by using linear hedge instruments. Model risk reflects the potential imperfect modelling of client behaviour. The risk transfer process takes place on a monthly basis, but more often if deemed necessary, for instance in volatile markets.

In the risk transfer process, client behavioural characteristics play an important role. The behaviour in relation to mortgages, loans, savings and demand deposits is modelled by MRM, following extensive research. Models and parameters are back-tested regularly and updated when deemed necessary. In the modelling of savings and current accounts different elements play a role: pricing strategies, outstanding and expected volumes and the level and shape of the yield curve. The analyses results in an investment rule for the various portfolios. With respect to mortgages and loans, prepayment behaviour and the interest sensitivity of the embedded offered rate options are modelled.

In line with other commercial businesses, ING Direct transfers interest rate risk out of their commercial books to a large extent. The difference being that the risks are transferred directly to the external market, instead of to the risk center (FM ALM).

Within ING Commercial Banking, FM ALM contains the strategic interest rate position. The main objective is to maximise the economic value of the book and to generate adequate and stable yearly earnings within the risk appetite boundaries set by ALCO Bank.

In the following sections, the interest rate risks in the banking books are presented. ING Bank uses risk measures based on both an earnings and a value perspective. Earnings Sensitivity (ES) is used to provide the earnings perspective and the Net Present Value (NPV)-at-Risk and Basis Point Value (BPV) figures provide the value perspective. Several small banking books are governed by the trading risk process and are therefore excluded from the following banking book risk tables. These are included in the trading risk graph and table in the section 'Market Risk in Trading Books'.

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Risk Profile

Earnings Sensitivity (ES)

ES measures the impact of changing interest rates on (pre tax) IFRS-EU earnings. The ES figures in the table below reflect an instantaneous shock up of 1% and a time horizon of one year. Management interventions are not incorporated in these calculations but balance sheet dynamics (e.g. new business) are significant.

The ES is mainly influenced by the sensitivity of savings to interest rate movements. The investment of own funds only impacts the ES marginally, as only a relative small part has to be (re)invested within the 1-year horizon.

Earnings Sensitivity banking books (1% instantaneous upward shock to interest rates)		
	2011	2010
By currency		
Euro	**32**	–237
US dollar	**–76**	–114
Pound sterling	**–10**	–15
Other	**10**	50
Total	**–44**	–316

Excluding ING Direct USA earnings sensitivity is approximately 0. In 2011 short-term interest rates remained at low levels in both the Eurozone and the US. Earnings sensitivity for an upward shock decreased to a small negative figure. This indicates that when rates go up the increase in interest paid on liabilities only slightly exceeds the increase in interest received on assets. Earnings are therefore relatively insensitive to rate changes.

Net Present Value (NPV) at Risk

NPV-at-Risk measures the impact of changing interest rates on value. As a full valuation approach is applied, the risk figures include convexity risk that results from embedded optionalities like mortgage prepayment options. Like for ES calculations, an instantaneous shock up of 1% is applied.

The full value impact cannot be directly linked to the balance sheet or profit and loss account, as fair value movements in banking books are generally not reported through the profit and loss account or through equity. The largest part, namely the value mutations of the amortised cost balances, is neither recognised in the balance sheet nor directly in the profit and loss account. The value mutations are expected to materialise over time in the profit and loss account, if interest rates develop according to forward rates throughout the remaining maturity of the portfolio.

The NPV-at-Risk is dominated by the interest rate sensitive long-term investments of own funds. The value of these investments is impacted significantly if interest rates move up by 1%. Convexity risk in retail portfolios as well as the strategic interest position in FM ALM also contributes significantly to the overall NPV at Risk.

NPV-at-Risk banking books (1% instantaneous upward shock to interest rates)		
	2011	2010
By currency		
Euro	**–1,828**	–2,446
US dollar	**376**	–205
Pound sterling	**–25**	–19
Other	**52**	48
Total	**–1,425**	–2,622

NPV-at-risk excluding ING Direct USA is –EUR 1,914 million. In the course of 2011 NPV-at-Risk decreased substantially. This was mainly due to more expected prepayments of mortgages as a consequence of the low interest rate environment. This decreased the expected duration of mortgages and subsequently the value sensitivity to a rate increase. Furthermore investments were shortened, leading to a lower duration of assets. Finally the outright position in the strategic interest rate portfolio was reduced. This also contributed to the decrease of the NPV sensitivity.

Basis Point Value (BPV)

BPV measures the impact of a 1 basis point increase in interest rates on value. To a large extent the BPV and NPV at Risk reflect the same risk – the difference being that BPV does not reflect convexity risk, given the small shift in interest rates.

In line with NPV-at-Risk, the bank's overall BPV position is dominated by the long-term investment of capital, as the present value of this position is significantly impacted if interest rates move up by 1 basis point.

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BPV per currency banking books		
amounts in thousands of euros	**2011**	2010
By currency		
Euro	**–15,545**	–21,760
US dollar	**4,551**	–548
Pound sterling	**–136**	–284
Other	**879**	175
Total	**–10,251**	–22,417

The total BPV excluding ING Direct USA is –EUR 16 million. The total BPV decreased substantially mainly on the back of a lower expected duration of mortgages leading as more prepayments are expected due to the low interest rate environment in the US and the Eurozone. Next to that the bank's strategic interest rate position turned to more neutral.

ING Bank Foreign exchange (FX) risk in banking books

FX exposures in banking books result from core banking business activities (business units doing business in other currencies than their base currency), foreign currency investments in subsidiaries (including realised net profit and loss) and strategic equity stakes in foreign currencies. The policy regarding these exposures is briefly explained below.

Governance – Core banking business

Every business unit hedges the FX risk resulting from core banking business activities into its base currency. Consequently, assets and liabilities are matched in terms of currency.

Governance – FX Translation result

ING Bank's strategy is to protect the target core Tier 1 ratio against FX rate fluctuations, whilst limiting the volatility in the profit and loss account. Protecting the core Tier 1 ratio is achieved by deliberately taking foreign currency positions equal to certain target positions, such that the target core Tier 1 capital and risk-weighted assets are equally sensitive in relative terms to changing FX rates.

Risk profile – FX Translation result

The following table presents the currency exposures in the banking books for the most important currencies:

Net currency exposures banking books	Foreign Investments		Hedges		Net Exposure	
	2011	2010	**2011**	2010	**2011**	2010
US dollar	**7,641**	7,275	**–2,677**	–606	**4,964**	6,669
Pound sterling	**–997**	–993	**1,048**	1,144	**51**	151
Polish zloty	**1,404**	1,371	**–628**	–643	**776**	728
Australian dollar	**3,165**	2,908	**–2,459**	–2,056	**706**	852
Turkish lira	**1,830**	1,891	**–425**	–444	**1,405**	1,447
Other currency	**6,934**	7,160	**–4,172**	–4,028	**2,762**	3,132
Total	**19,977**	19,612	**–9,313**	–6,633	**10,664**	12,979

The US dollar Net Exposure decreased significantly in 2011. Anticipating on the announced sale of ING Direct USA, the risk-weighted assets will decrease and therefore, a lower Net Exposure is required. This is then achieved by increasing the hedge. The decreased Net exposure in the category 'Other currency' is mainly caused by changed share prices of strategic equity stakes. For example, the share price of the bank's equity stake in Bank of Beijing decreased around 20%, decreasing the Chinese renmimbi currency exposure.

In order to measure the remaining sensitivity of the target core Tier 1 ratio against FX rate fluctuations, the core Tier 1 ratio at Risk (cTaR) measure is used. It measures the drop in the core Tier 1 ratio from the target when stressing a certain FX rate. The stress scenarios for the FX rates that are used for calculating the cTaR, are presented in the last two columns. Only the scenarios that negatively impact the target core Tier 1 ratio are presented: depending on whether the actual foreign currency position is above or below the target position, the worst case scenario is either a negative or positive movement. A positive stress scenario means that the foreign currency appreciates against the Euro. For the US dollar this means that at the end of 2011 the target core Tier 1 ratio would decrease by 0.12% in absolute terms (e.g. from 9.12% to 9.00%) if the US dollar appreciates by 15%. The US dollar cTaR excluding ING Direct USA (not shown in the table below) is significantly lower at 0.01%, which shows that the core Tier 1 ratio excluding ING Direct USA is well protected. Back testing shows that the strategy was effective in 2011; the core Tier 1 ratio was hardly affected by changing FX rates.

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Core Tier 1 ratio sensitivity ING Bank

	cTaR		Stress Scenario	
	2011	2010	**2011**	2010
Currency				
US dollar	**0.12%**		**15%**	15%
Pound sterling	**0.04%**	0.02%	**15%**	15%
Polish zloty	**0.01%**	0.01%	**–15%**	–15%
Australian dollar	**0.00%**	0.01%	**20%**	–20%
Turkish lira	**0.00%**		**25%**	25%

ING Bank Equity price risk in banking books

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments whose value reacts similarly to a particular security, a defined basket of securities, or a securities index. ING Bank maintains a strategic portfolio with substantial equity exposure in its banking books. This equity exposure mainly consists of the investments in associates of EUR 827 million (2010: EUR 1,494 million) and equity securities held in the available-for-sale (AFS) portfolio of EUR 2,466 million (2010: EUR 2,741 million). The value of equity securities held in the available-for-sale portfolio is directly linked to equity security prices with increases/decreases being recognised (except in the case of impairment) in the revaluation reserve. During the year ended 31 December 2011 the revaluation reserve relating to equity securities held in the Available-for-Sale portfolio fluctuated between a month-end low amount of EUR 1,226 million (2010: EUR 1,723 million) and a high amount of EUR 1,706 million (2010: EUR 2,370 million). Investments in associates are measured in accordance with the equity method of accounting and the balance sheet value and therefore not directly linked to equity security prices.

Equities Unrealised Gains and Losses in the AFS portfolio

	2011	2010
Gross unrealised gains	**1,292**	1,728
Gross unrealised losses	**–45**	–1
Total	**1,247**	1,727

Total capital requirement for equity price risk under the Simple Risk Weight Approach at 31 December 2011 results in EUR 207 million (2010: EUR 310 million).

ING Bank Real Estate price risk in banking books

Real estate price risk arises from the possibility that real estate prices fluctuate. This affects both the value of real estate assets and earnings related to real estate activities.

ING Bank has three main different categories of real estate exposure on its banking books. First, ING Bank owns buildings it occupies. Second, ING Bank has a Real Estate Development company for which results are dependent on the overall real estate market. The general policy is to mitigate this risk by pre-sale agreements where possible. Third, ING Bank has co-invested seed capital and bridge capital to support the launch of various real estate funds included in the Real Estate Investment Portfolio (REIM). A decrease in real estate prices will cause the value of this seed and bridge capital to decrease and will lower the level of third party assets under management, which in turn will reduce the fee income from this activity. For the third category mentioned above, real estate price shocks will have a direct impact on reported net profit and loss. Please note that exposures mentioned in this paragraph are shown from a risk perspective, which excludes interests of third parties.

ING Bank's real estate exposure (i.e. including leverage) is EUR 4.0 billion of which EUR 0.9 billion is recorded as fair value through P&L. The remaining EUR 3.1 billion is booked at cost or is revalued through equity (with impairments going through P&L).

In total, Real Estate exposure decreased by EUR 1.1 billion mainly as a result of divestments in REIM (EUR –0.7 billion) and Real Estate Development (EUR –0.2 billion).

ING Bank's real estate exposure revaluing through P&L decreased significantly mainly caused by sales of American and Australian funds (EUR –0.7 billion) and assets being revalued through equity instead (EUR –0.4 billion); the latter is a result of the fact that ING REIM is not the manager of the real estate funds anymore.

For risk management purposes, the total real estate exposure amounts to EUR 4.0 billion since property from foreclosures and third party interests is excluded. A split up on the real estate exposures per continent and sector is seen below.

ING Bank

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

	2011	2010		2011	2010
Continent			**Sector**		
Europe	**462**	662	Residential	**70**	207
Americas	**28**	812	Office	**150**	385
Australia	**20**	189	Retail	**510**	620
Asia	**380**	349	Industrial	**113**	516
Other	**0**	14	Other	**46**	298
Total	**890**	2,026	Total	**889**	2,026

ING Bank's real estate exposure not revaluing through P&L has not been affected much. This is because divestments and impairments in Real Estate Development (EUR –450 million) were compensated by the inclusion of assets in the REIM portfolio previously revalued through P&L.

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

	2011	2010		2011	2010
Continent			**Sector**		
Europe	**2,456**	2,772	Residential	**512**	614
Americas	**306**	70	Office	**1,350**	1,456
Australia	**176**	204	Retail	**896**	874
Asia			Industrial	**44**	43
Other	**147**	99	Other	**283**	158
Total	**3,085**	3,145	Total	**3,085**	3,145

ING BANK – LIQUIDITY RISK

Liquidity risk is the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions.

Liquidity Risk Management

MRM is responsible for determining adequate policies and procedures for managing liquidity risk and for monitoring the compliance with these guidelines. In addition it is also responsible for performing liquidity risk stress testing. In accordance with Dutch Central Bank guidelines, ING Bank's liquidity positions are stress tested on a monthly basis under a scenario that is a mix between a market event and an ING Bank specific event. Additional stress testing exercises are undertaken on consolidated and local level on a periodic and ad-hoc basis.

Governance

As with other bank market risks, liquidity risk falls under the supervision of the ALCO function within ING Bank, with ALCO Bank as the highest approval authority. ALCO Bank determines the liquidity risk (limit) framework and appetite after which this is cascaded down in the organisation under the responsibility of the regional and local ALCOs. The main objective of ING Bank's liquidity risk framework is to ascertain – by means of proper risk appetite limits – that sufficient liquidity is maintained in order to ensure safe and sound operations under a variety of circumstances. For this purpose liquidity risk is measured, managed and controlled from three different angles, namely a structural, a tactical and a contingency point of view.

Risk profile

Structural liquidity risk

Structural liquidity risk is the risk that the structural, long-term balance sheet cannot be financed timely or at a reasonable cost. For the purpose of managing structural liquidity risk, a specific advisory committee to ALCO Bank has been established.

This committee which consists of key representatives from MRM, Capital Management and Financial Markets focuses on all liquidity risk aspects from a going concern perspective. The main objective of the committee is to maintain a sound liquidity profile through:
- Maintaining a well diversified mix of funding sources in terms of instrument types (e.g. unsecured deposits, commercial paper, long term bonds or repurchase agreements), fund providers (e.g. professional money market players, wholesale and retail clients), geographic markets and currencies;
- Actively managing access to the capital markets by regularly issuing public debt in all material markets and the maintenance of investor relations;
- Holding a broad portfolio of eligible assets that can be utilised to obtain secured funding, e.g. from the repo market or (E)CB; in this respect the total marketable/(E)CB eligible collateral position amounts to EUR 194 billion (MtM);
- Management of liquidity gaps, taking into account the asset mix and both the secured and unsecured funding opportunities of ING Bank; and
- Maintaining a funds transfer pricing mechanism in which ING Bank's cost of liquidity is adequately reflected both under a going concern and a contingency perspective.

With respect to funding sources, ING Bank aims to fund its own originated assets (loans) by an equal amount of own originated liabilities (deposits), translated into an LtD target of below 1.2. Ultimo 2011 the LtD ratio (excluding securities at amortised costs and IABF receivable) equals 1.14. In 2011, uncertainty with regard to economic developments in both Europe and USA, led to US MM Funds being more restrictive in funding European counterparties. As ING Bank manages its balance sheet prudently, whereby short-term funding is primarily utilised for short-term assets, a decrease of these type of funding sources is manageable. The table below shows the funding mix.

ING Bank Funding Mix

	2011	2010
Funding type		
Retail deposits	**42%**	46%
Corporate & other deposits	**20%**	19%
Interbank (incl. central bank)	**9%**	8%
Lending/repurchase agreement	**7%**	7%
Public debt	**19%**	17%
Subordinated debt	**3%**	3%
Total	**100%**	100%

The funding mix remained well diversified and according to targets set. Deposits accounted for 63% of the total funding mix.

Tactical liquidity risk
Liquidity risk which is resulting from short-term cash and collateral positions is managed in the risk framework from a tactical liquidity risk perspective. The day-to-day management of the overall short-term liquidity risk of ING Bank is delegated to Financial Markets Amsterdam, while regional and local Financial Markets departments manage liquidity in their respective regions and locations. Within Financial Markets, the focus is on the daily and intraday cash and collateral positions and the policy is to manage and sufficiently spread day-to-day funding requirements.

Contingency liquidity risk
Contingency liquidity risk specifically relates to the organisation and planning for liquidity management in time of stress. Within ING Bank, for contingency purposes, a specific crisis team – consisting of key Board Members, representatives from Staff Departments (e.g. Risk and Capital Management) and Treasuries – is responsible for liquidity management in times of crisis. Throughout the organisation adequate and up-to-date contingency funding plans are in place to enable senior management to act effectively and efficiently in times of crisis.

Contingency funding plans address both temporary and long-term liquidity disruptions, triggered by either a general market event or an ING Bank specific event.

New developments
All financial institutions have been confronted with a large number of new regulatory requirements. In 2011 ING Bank updated its framework for funding and liquidity risk management so that it provides for an integral approach of liquidity risk management and complies with the changed regulatory rules (CRDII, ILAAP). The framework contains, among others, the annual setting of a funding and liquidity risk appetite related to the ING Bank strategy, a continuous cycle of identification, assessment, control, monitoring and reporting of funding and liquidity risk, a policy covering all legal and regulatory rules, crisis planning and stress testing. The framework will be implemented in 2012.

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

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

Governance
At all levels in the organisation Non-Financial Risk Committees (NFRC's) are established that identify, measure and monitor the operational, compliance and legal risks of the region or business unit with appropriate quality of coverage (granularity) and to ensure that appropriate management action is taken by the responsible line managers at the appropriate level of granularity. NFRC's, chaired by the CEO of the entity, steer the risk management activities of the first and second line of defence in their entities.

The General Manager Operational Risk Management (ORM) is responsible for monitoring operational risks and developing and establishing the Operational Risk Framework within ING Bank. The General Manager ORM also establishes and approves the policies and minimum standards, supports the business line ORM staff, monitors the quality of operational risk management and assists and supports the Management Board Bank in managing ING Bank's operational risks. The NFRC is the primary approval and oversight committee. The Non-Financial Risk dashboard (NFRD) enables management to focus on the ten operational risk areas through the quarterly report on regional, divisional and Bank level.

The ORM function consists of functional departments for Operational risks (including policies, systems, SOX testing, capital allocation and reporting), for Information (Technology) risks and for Security & Investigations.

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

Operational risk framework

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

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

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

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

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

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

Model disclosure

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

Loss Distribution approach

The main objective of the LDA approach is to derive an objective Operational Risk capital amount based on the risk profile of a bank and its business units. This approach estimates the distribution of operational risk losses for each combination of business line and loss event type.

Risk profile

The AMA capital for the fourth quarter of 2011 amounts EUR 2,836 million. This is slightly below the capital estimate of previous year. This is explained by a capital reduction resulting from the divestments of ING Car Lease and REIM Fee Business, which is partially offset by a capital increase resulting from the regular external incident data update.

ING Bank

Economic and Regulatory Capital (Bank diversified only) by risk type

	Economic Capital		Regulatory Capital	
	2011	2010	**2011**	2010
Operational Risk	**1,683**	1,619	**2,836**	2,872

Main developments in 2011

The AMA (Advance Measurement Approach) 2.0 program will elevate operational risk management to best practice levels by 2012. The AMA 2.0 program will enable the business to influence its capital charge through sound Operational Risk management:

- Business managers as the clear owners of their operational risks and their capital charge;
- More accurate and relevant risk data and insights available for operational risk management;
- Capital model more reflective of ING Bank risk profile to incentivise business to keep operational risks under control;
- More weighting to internal data sources in the capital model, which includes a set of business driven scenarios, risk assessments, audit data and internal loss information; and
- Major business decisions supported by accurate capital numbers that align to the Non-Financial Risk Dashboard (NFRD).

AMA 2.0 program delivers an ambitious set of improvements in the management of operational risk

- Comprehensive, transparent and effective Non-Financial Risk Committee (NFRC) hierarchy at top-of-the-house;
- Risk appetite statements for regions and divisions as anchor point for operational risk management;
- Key risk indicators for top risks at bank and Regional/ Function level to monitor the ING Bank risk profile;
- Set of key risk scenarios as capital model input and to prioritise risk management activities;
- Key Control Testing to justify capital levels and set a cost incentive to improve controls; and
- Capture of all material internal losses and share main lessons learned to avoid repetition inside the group.

The NFR Awareness Program is designed with the objective that all ING Bank employees are aware of the relevant risks, the potential impact, the appropriate mitigating measures and their personal role in applying those measures. The new approach significantly improves risk awareness by putting ING Bank's businesses in the lead, working closely with risk professionals. A tailored approach per target group, embedded activities in regular business planning and target setting and focus on desired behaviours and realistic ways of apply rules are the basic elements of the new approach. It also gives an overall structure to the many risk awareness activities carried out by ORM, Compliance and Legal and ensures that ING Bank's risk awareness activities are better focused on the key risks we face as a business.

ING Bank has further improved its IT risk profile through IT security control implementations and IT process improvements. Specific focus in 2011 was given to further improvements around IT security monitoring, IT platform security and IT user access while specific anti-cybercrime measures were also effectuated.

ING BANK COMPLIANCE RISK

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

ING Bank believes that fully embedded Compliance Risk Management Controls preserves and enhances the trust of its customers, staff and shareholders. Being trusted is essential to building sustainable businesses. ING Bank's Business Principles set the foundation for the high ethical standards ING Bank expects of all our business activities. ING Bank's Business Principles require all staff at every level to conduct themselves, not only in compliance with laws and regulations, but also by acting with integrity, being open and clear, respectful, and responsible.

Clear and practical policies and procedures are embedded in ING Bank business processes in all Business Lines. Systems are in place to enable management to track current and emerging Compliance Risk issues, to communicate these to internal and external stakeholders, and to drive continuous improvement. ING Bank understands that good Compliance Risk Management involves understanding and delivering on the expectations of customers and other stakeholders, thereby strengthening the quality of key relationships.

Governance

The Compliance Risk Management function

The Chief Compliance Officer (CCO) is the General Manager of Compliance Risk Management and is responsible for developing and establishing the Bank-wide Compliance Risk Management Charter & Framework, establishes the Minimum Standards for managing Compliance Risks and assists and supports the Management Board Bank in managing ING Bank's Compliance Risks.

ING Bank uses a functional approach Lines to ensure systematic and consistent implementation of the Bank-wide Charter & Framework, policies, Minimum Standards and related procedures. The Local Compliance Officer has the responsibility to assist local management in managing Compliance Risk within that business unit. The Regional or Universal Bank Compliance Officer has a management and supervisory role over all functional activities of the Compliance Officers in the respective region or Universal Bank. The CCO and the Bank Compliance Risk Management team provide overall direction to the Regional or Universal Bank Compliance Officers.

To avoid potential conflicts of interest, it is imperative that the Compliance Officers are impartial and objective when advising business management on Compliance Risk in their business unit, region, country or entity. To facilitate this, a strong functional reporting line to the next higher level Compliance Officer is in place. The functional reporting line has clear accountabilities relating to objective setting, remuneration, performance management and the appointment of new Compliance Risk Management staff as well as obligations to veto and escalate.

Scope
The Compliance Risk Management function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry. The Compliance Risk Management function actively educates and supports the business in managing compliance risks including anti-money laundering, preventing terrorist financing, conflicts of interest, proper sales and trading conduct and protection of customer interest.

ING Bank separates Compliance Risk into four conduct-related integrity risk areas: client conduct, personal conduct, organisational conduct as well as financial conduct. ING Bank 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.

Compliance Risk Management Framework
The Framework consists of three key components:

1. The Compliance Risk Management process
The process has five key activities carried out in accordance with the requirements of the Framework:
A. Identification of Compliance Risk Obligations;
B. Risk Assessment;
C. Compliance Risk Mitigation (includes Training and Education);
D. Compliance Risk Monitoring (includes Action Tracking); and
E. Compliance Risk Reporting (includes Internal Events Reporting and Response).

2. Advisory
Compliance Officers proactively advise their CEO, Management, local boards and committees, the next higher level Compliance Officer, and employees on Compliance Risk, responsibilities, obligations and concerns.

3. Scorecard
The Compliance Risk Management function works with the Operational Risk Management Scorecard process to evaluate how well the Compliance Risk Management Framework is embedded in each business. Scoring is based on the ability of the business unit to demonstrate that the required policies and procedures are implemented.

Extra-territorial regulations
Financial institutions continue to be closely scrutinised by regulatory authorities, governmental bodies, shareholders, rating agencies, customers and others to ensure they comply with the relevant laws, regulations, standards and expectations. Bank regulators and other supervisory authorities in Europe, the US and elsewhere continue to oversee the activities of financial institutions to ensure that they operate with integrity and conduct business in an efficient, orderly and transparent manner. ING Bank seeks to meet the standards and expectations of regulatory authorities and other interested parties through a number of initiatives and activities, including scrutinizing account holder information, payment processing and other transactions to support compliance with regulations governing money laundering, economic and trade sanctions, bribery and other corrupt practices. The failure or alleged failure by ING Bank to meet applicable standards in these areas could result in, among other things, suspension or revocation of ING Bank's licenses, cease and desist orders, fines, civil or criminal penalties and other disciplinary action which could materially damage ING Bank's reputation and financial condition, and accordingly ING Bank's primary focus is to support good business practice through its Business Principles and policies.

ING's continued actions to mature its compliance risk management programme will ensure that ING continues to comply appropriately with international standards and laws. ING has an on-going objective to continuously strengthen the Financial Economic Crime (FEC) controls related to:
- managing Anti-Money Laundering (AML);
- Combat Terrorist Financing (CTF); and
- Export Trade and Sanction risks.

As a result of our frequent evaluation of all businesses from economic, strategic and risk perspectives ING Bank continues to believe that for business reasons doing business involving certain specified countries should be discontinued, which includes that ING Bank has a policy not to enter into new relationships with clients from these countries and processes remain in place to discontinue existing relationships involving these countries. At present these countries include Myanmar, North Korea, Sudan, Syria, Iran and Cuba. Each of these countries is subject to a variety of EU, US and other sanctions regimes. Cuba, Iran, Sudan, and Syria are identified by the US as state sponsors of terrorism and are subject to US economic sanctions and export controls.

Regulatory measures and law enforcement agencies investigations
ING Bank N.V. has continued discussions with its Dutch bank regulator De Nederlandsche Bank (DNB) related to transactions involving persons in countries subject to sanctions by the EU, the US and other authorities and its earlier review of transactions involving sanctioned parties. ING Bank completed the global implementation of enhanced compliance and risk management procedures, and continues working to further strengthen the Financial Economic Crime controls as agreed with DNB.

ING Bank remains in discussions with authorities in the US concerning these matters, including ING Bank's compliance with Office of Foreign Asset Control requirements. ING Bank has received requests for information from US Government agencies including the US Department of Justice and the New York County District Attorney's Office. ING Bank is cooperating fully with the ongoing investigations and is engaged in discussions to resolve these matters with the US authorities; however, it is not yet possible to reliably estimate the timing or amount of any potential settlement, which could be significant.

Main developments in 2011
- **Regulator relationships** – Bank Compliance Risk Management continued to invest in pro-active relationships with regulators in the jurisdictions where ING Bank operates, striving for an open approach and cooperation in identifying and mitigating compliance risks for ING Bank.
- **Promoting Integrity Programme** – Bank Compliance Risk Management, together with Human Resources and Corporate Communications & Affairs, continued with the roll-out of the Promoting Integrity Programme (PIP), a global employee education programme focusing on ING Bank's values (including the ING Bank Business Principles) and the role they play in the business and workplace. Short e-modules were developed on Customer Trust and Anti-Fraud and were followed by manager-led dialogue sessions, where employees discussed what integrity means for them and how the Business Principles and ING Bank Policies and standards can be applied in their daily work.
- **Ongoing enhancement of Financial Economic Crime controls** – ING Bank continued its strong commitment to preventing any involvement in criminal activity. Existing activities were further strengthened by increased monitoring and internal audits as well as awareness and training programmes and an internal annual sign-off process for senior management concerning implementation of policies and procedures relating to Financial Economic Crime including business with sanctioned parties.
- **Gifts, Entertainment and Anti-Bribery Policy** – ING Bank issued a revised Gifts, Entertainment and Anti-Bribery Policy to align with the changing regulatory landscape in respect of anti-bribery which provides for severe penalties in case of bribery offences and with new extra-territorial anti-bribery legislation, such as the UK Bribery Act.
- **Learning** – Continuous global education and awareness training was provided through face-to-face training sessions and learning tools on topics such as Ultra High Risk Countries & Export Trade, Financial Economic Crime, and Gifts, Entertainment and Anti-Bribery. Compliance Risk Management also continued its mandatory global Compliance Officer Training programme for all compliance officers new to ING Bank.

ING BANK BUSINESS RISK
Business Risk for ING Bank has been defined as the exposure to value loss due to fluctuations in volumes, margins and costs, as well as client behaviour risk. It is the risk inherent to strategy decisions and internal efficiency. The calculation of Business Risk Capital is done by calculation of two components,
(i) Expense risk relates to the (in)flexibility to adjust expenses, when that is needed.
(ii) Client behaviour risk relates to clients behaving differently than expected and the effect that this behaviour can have on customer deposits and mortgage pre-payments. The client behaviour risk is calculated by stressing the underlying assumptions in the models for behavioural assets and liabilities.

Each of these components is calculated separately, and combined to one business risk figure via the variance-covariance methodology.

ING INSURANCE

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

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

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

Governance

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

ING Insurance

ONGOING CHANGES IN THE REGULATORY ENVIRONMENT

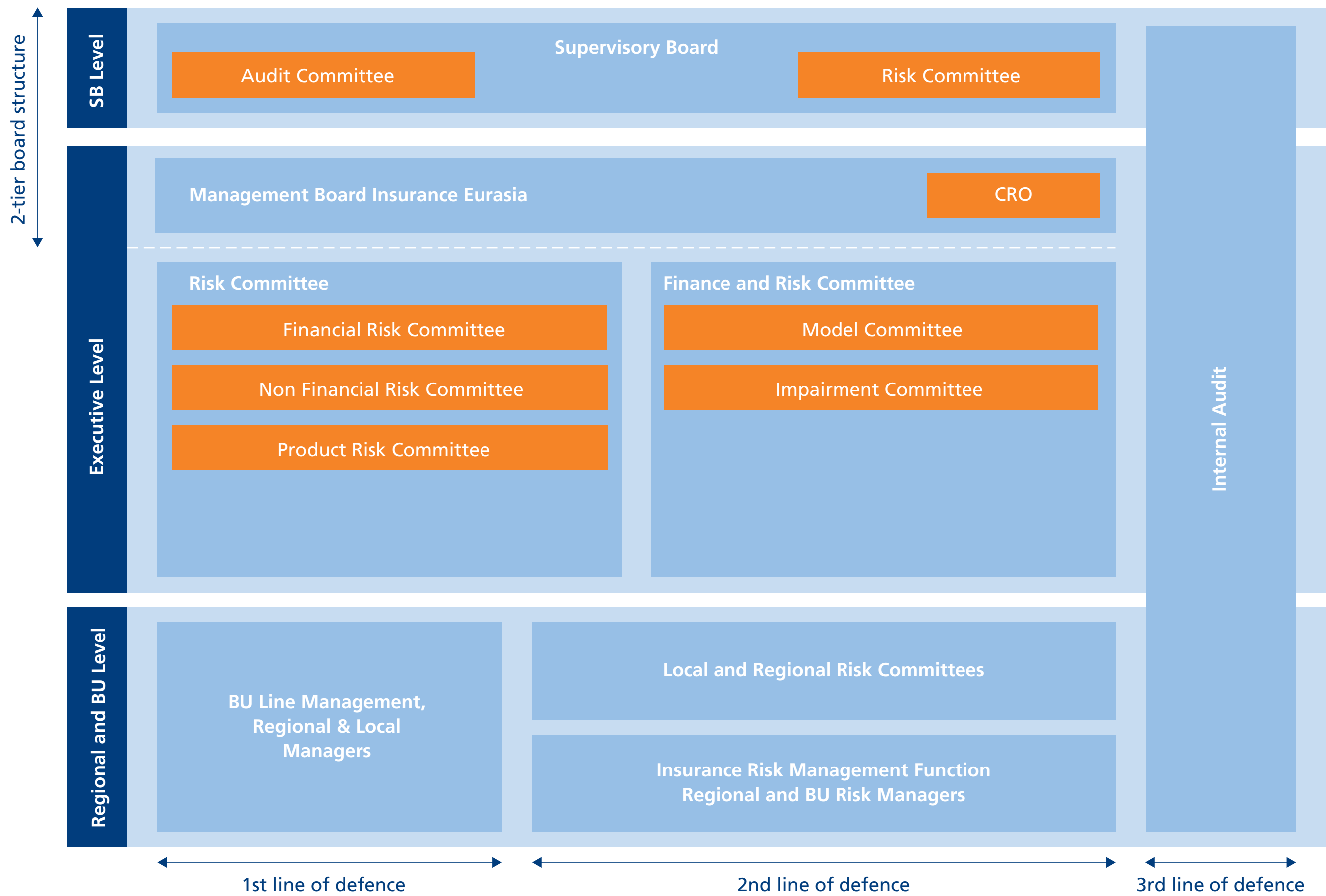
- The most important regulatory issue for the insurance industry is the continued development by the European Union of the Solvency II capital adequacy framework. Solvency II is intended to be based on economic, risk-based and market-consistent principles whereby capital requirements across Europe are directly dependent on an insurer's assets and liabilities. 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, avoids pro-cyclicality and should be able to withstand market volatility. The EU politicians and regulators drafting the framework should therefore ensure that the measures to be implemented are robust enough throughout the cycle. ING Insurance Eurasia is working actively with its colleagues in the insurance industry to advise EU politicians and regulators come up with concrete proposals that further these objectives.
- The insurance business is sensitive to 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 from 21 December 2012 onwards. This will only impact new business and exclude repricing and extensions. Pension fund law changes in Poland were approved and signed at the end of March 2011. These changes are expected to negatively impact future earnings.
- The Dodd-Frank Act, its implementing regulations and other financial regulatory reform initiatives could have adverse consequences for the financial services industry, including ING Insurance US and/or materially affect the results of operations, financial condition and liquidity. The 2010 Dodd-Frank Act directs existing and newly-created government agencies and bodies to conduct certain studies and promulgate a multitude of regulations implementing the law, a process that is underway and is expected to continue over the next few years. While some studies have already been completed and the rule-making process has begun, there continues to be significant uncertainty regarding the results of ongoing studies and the ultimate requirements of those regulations that have not yet been adopted. Until final regulations are promulgated pursuant to the Dodd-Frank Act, the full impact of the Dodd-Frank Act on the businesses, products, results of operation and financial condition will remain unclear.
- State insurance regulators and the National Association of Insurance Commissioners (NAIC) regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and could have a material adverse effect on the financial condition and results of operations. The NAIC continues to work on comprehensive reforms related to life insurance reserves and the accounting for such reserves, although the timing and extent of further changes to statutory reserves and reporting requirements are uncertain.

ING INSURANCE EURASIA

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

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

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



Risk management continued

ING Insurance Eurasia

Board level risk oversight

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

The Supervisory Board is responsible for supervising the policy of the MBI Eurasia and the general course of affairs of the company and its businesses. For Risk Management purposes the Supervisory Board is assisted by two sub-committees:

- The Audit Committee assists the Supervisory Board in supervising and advising the MBI Eurasia with respect to the structure and operation of internal risk management and control systems, as well as compliance with legislation and regulations applicable to ING Insurance Eurasia and its subsidiaries;
- The Risk Committee assists the Supervisory Board in supervising and advising the MBI Eurasia with respect to ING Eurasia's strategy and its risk policies, including the risks inherent in its business activities.

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

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

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

Executive Level

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

- Finance and Risk Committee
  The primary responsibility of the committee is to align finance and risk decisions that have an impact on internal and/or external reporting of ING Insurance Eurasia. This includes advising on, (pre-)approving, reviewing and taking actions on issues that impact the financial condition of ING Insurance Eurasia. The Finance and Risk committee has two sub-committees dealing with different risk areas:
  - *Eurasia Model Committee* – The authority that approves methodologies, models and parameters used for measuring Risk, Economic Capital and Market –Consistent Valuations which are applied within ING Insurance Eurasia.
  - *Impairment Committee* – The authority where impairments for financial reporting purposes are approved (including loan loss provisions).

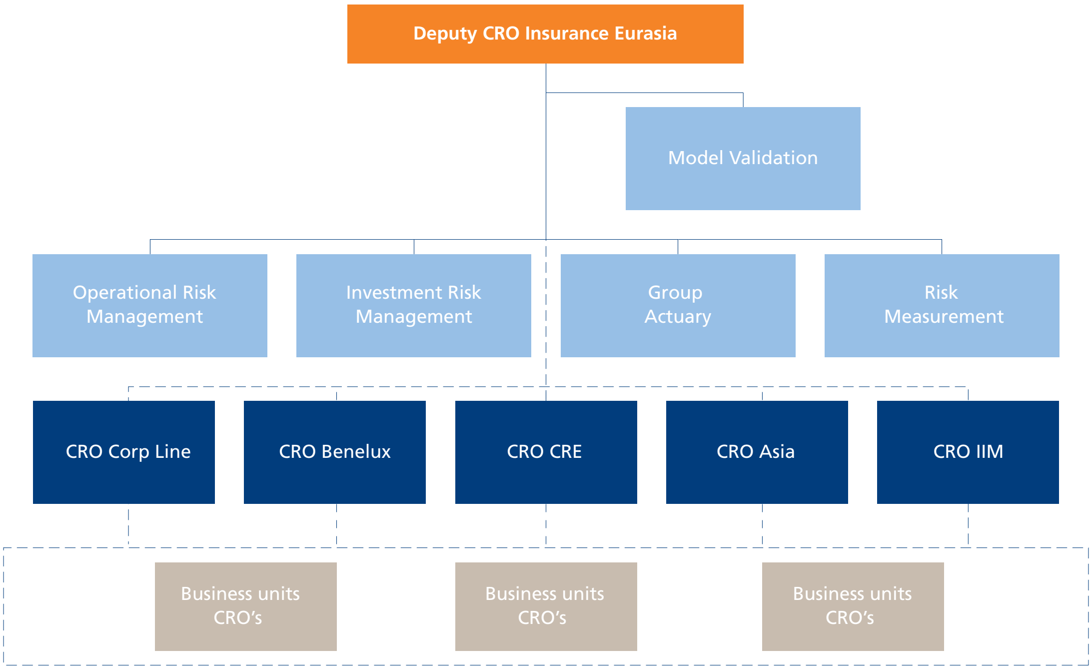
- Risk Committee MBI Eurasia
  The Risk Committee MBI Eurasia includes all MBI Eurasia members and heads of finance & risk staff departments. It discusses and decides on risk related items, approving limits and tolerance levels per risk category and approving and mandating action plans for specific financial, product and operational risk issues. The Risk Committee MBI Eurasia has three sub-committees dealing with different risk areas:
  - Financial Risk Committee – Oversees all financial risks within the ING Insurance Eurasia entities
  - Product Risk Committee – Oversees all insurance product risks within the ING Insurance Eurasia entities
  - Non-Financial Risk Committee – Oversees all non-financial risks within ING Insurance Eurasia

Risk Management Function

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

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

ING Insurance Eurasia



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

Product Approval and Review Process

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

New Investment class and investment mandate process

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

Reserve adequacy

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

Policies

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

ING Insurance Eurasia

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 all internal models. To ensure independence from the business and other risk departments the department head reports directly to the Deputy CRO.

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

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

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

Financial Risks
For financial risks, the risk tolerance is translated into risk limits on several sensitivities assuming a moderate stress scenario. These limits are set on a regional and business unit level.

- AFR sensitivities – The potential reduction of the current net asset value (based on fair values) to a change in different risk factors;
- IFRS Earnings sensitivities – The sensitivity of realised pre tax earnings of the insurance operations to a change in different risk factors over a full year, using scenario analysis.

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

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

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

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

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

Non-Financial Risks

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

Non-Financial Risk Dashboard

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

Stress Testing

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

ING INSURANCE EURASIA RISK PROFILE

Risk type description

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

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

ECONOMIC CAPITAL

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

Model disclosure

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

- Market risk – Assets and Liabilities are replicated by the business units using a finite set of standard financial instruments. The set of standard instruments consists of zero coupon bonds, market indices, equity forwards, swaptions, callable bonds, FX options and equity options. Each unit is provided with 300 risk neutral and 200 risk volatile scenarios which are created for multiple equity indices and exchange rates, consistent with a multi-currency dynamic term structure model. The risk volatile scenarios ensure that the replicating portfolio is calibrated against enough extreme scenarios such that it can be used safely in Economic Capital calculations. Local actuarial software uses these 500 scenarios to derive stochastic cash flows. Based on this a replicating portfolio is derived. The quality of the replication is monitored by several statistical criteria, including R-squared, and benchmarked against market value sensitivities such as duration, convexity and changes in value for larger interest rate and equity shocks. By including equity options, FX options and swaptions in the replicating instruments ING Insurance Eurasia is able to incorporate implied volatility risk in the considered risk types. Credit spread risk is captured through credit-risk-bearing zero coupon bonds in the set of replicating instruments;
- Credit default risk capital – Calculated on all portfolios which contain credit or transfer risk, including investment portfolios. The EC is calculated based on the following seven drivers: Probability of Default (measure of the standalone creditworthiness of individual debtors), Exposure at Default (estimated size of the financial obligation at the moment of default in the future), Loss Given Default (estimated recovery value of the underlying collateral or guarantees received (if any) and the unsecured part), Industry of the debtor, Country of the debtor, Remaining tenor of the underlying transactions and Type of Assets;
- Insurance Risk – Calculated by the business unit for all sub-risks for Life, Morbidity and P&C Risk;

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- Business Risk – Calculated by the business unit for Persistency, Expense and Premium-rerating Risk;
- Operational Risk – Calculated by a corporate risk model for all business units, in alignment with Solvency II Standard Formula.

EC Calculation and aggregation

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

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

Risk profile

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

Economic Capital 2010 reconciliation

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

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

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

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

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

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

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

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

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While the figures above are shown by business line, the diversification across ING Insurance Eurasia businesses is calculated across business units. Total diversification between ING Insurance Eurasia's business units and the Corporate Line Insurance is 34% (2010: 28%).

Economic Capital for ING Insurance Eurasia decreased from 2010 to 2011 primarily due to significant de-risking activities in the Benelux and overall lower market valuations, partly offset by increased interest rate risk in Asia Pacific as actual market rates have become closer to guarantees embedded in the insurance products. The Economic Capital assigned to Corporate Line Insurance Eurasia primarily relates to foreign exchange translation risk of the market value surplus of the business units in non-euro countries to the euro.

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

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

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

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 on a one-year horizon.

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

ING Insurance Eurasia

ECONOMIC CAPITAL

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

Sensitivities

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

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

Mitigation

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

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

BUSINESS RISK

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

ING Insurance Eurasia

ECONOMIC CAPITAL

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

MARKET RISK

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

Model disclosure

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

	Description	Key Drivers
Interest Rate	Impact of interest rate changes in assets and liabilities 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: Duration gap for Traditional Life products in Korea caused by non-availability of long duration assets and embedded options in the guaranteed separate account pension business in the Netherlands.
Equity	Impact of changes in equity prices which impacts direct equity exposure and loss of fee income from unit linked, Variable Annuity (VA), pension and fund business. AFR & IFRS earnings sensitivities: – Measured by the impact of a 25% drop in equity prices	IFRS Earnings, AFR & EC: Direct equity exposure and embedded options in guaranteed separate account pension business in the Netherlands and embedded options in VA business in Japan
FX	Impact of losses related to changes in exchange rates AFR & IFRS earnings sensitivities: – Measured by the impact of a 10% up and down movement of currencies compared to the euro	IFRS Earnings: Translation risk of IFRS earnings from non-Euro businesses AFR & EC: Translation risk of market value surplus from non-euro businesses
Implied Volatility (Equity & Interest Rate)	Impact of losses on assets and liabilities due to movements in the volatility implied from market option prices. AFR & IFRS earnings sensitivities: – For interest rate measured by the impact of a relative increase of 30% in implied volatilities – For Equity measured by the impact of a relative increase in implied volatilities based on tenor: 80% for tenors less than 1 year, up 30% for tenors between 1and 3 years, up 20% for tenors between 3–7 years and up 10% for tenors of 7 years and above. NOTE: this impact was not disclosed in 2010 for IFRS earnings as it was considered to be immaterial	IFRS Earnings, AFR & EC: Embedded options in: – traditional Life products in Korea – guaranteed separate account pension business in the Netherlands – VA business in Japan
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 (for example KRW government bonds in Korea) are excluded, exception only applicable to Greek bonds. – Shocks for structured credit are 50% higher than for corporate and government bonds. – Liquidity premium is shocked by 50 basis points up to a certain tenor depending on the currency (e.g. EURO 15 years, USD 30 years) In order to avoid double counting Credit Default Risk is only captured for IFRS earnings, while Credit Spread Risk is only measured for AFR. The only exception is impaired assets for which Credit Spread risk is measured for IFRS earnings.	IFRS: Impaired assets in Greece. AFR & EC: Debt securities in all regions. Liquidity premium offset primarily in the Benelux
Real Estate Price Risk	Impact of the value of Real Estate assets because of a change in earnings related to Real Estate activities and/or a change in required investor yield AFR & IFRS earnings sensitivities: – For AFR this is measured by the impact of a 15% drop in real estate prices for all real estate holdings – For IFRS Earnings this is measured by the impact of a 15% drop in real estate prices only for the minority holdings and direct for all real estate revalued through P&L. Other holdings will be included in case of a possible impairments caused by the drop in prices	IFRS Earnings, AFR & EC: Real estate holdings in the Benelux

ING Insurance Eurasia

ECONOMIC CAPITAL

Economic Capital ING Insurance Eurasia (99.5% undiversified) by Risk Category		
	2011	2010
Market Risk	**7,651**	9,411

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

Sensitivities

Sensitivities for market risks	**AFR 2011**	**IFRS Earnings 2011**	AFR 2010	IFRS Earnings 2010
Interest Rate Up	**746**	**–220**	601	–170
Interest Rate Down	**–1,601**	**405**	–1,462	251
Equity	**–823**	**308**	–1,720	–85
FX	**–972**	**–89**	–877	–113
Implied Volatility	**–432**	**–116**	–463	n/a
Credit Spread	**–180**	**–35**	–1,912	0
Real Estate	**–790**	**–782**	–798	–791

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

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

REAL ESTATE

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

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

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

Real Estate Exposure Profile by Sector Type **Sector**	**Revalued through P&L 2011**	**Not revalued through P&L 2011**	Revalued through P&L 2010	Not revalued through P&L 2010
Residential	**109**	**967**	349	785
Office	**886**	**605**	1,321	199
Retail	**1,596**	**379**	1,933	0
Industrial	**440**	**0**	422	0
Other	**212**	**518**	166	502
Total	**3,243**	**2,469**	4,191	1,486

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

ING Insurance Eurasia

CREDIT RISK

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

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

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

- Derivatives transactions are only allowed under an ISDA-master agreement with Credit Support Annex, ensuring that ING Insurance Eurasia receives collateral from its counterparty for the total positive marked-to-market value of all bilateral derivative contracts between ING Insurance Eurasia and that counterparty. In case the net marked-to-market is negative, collateral must be posted with the counterparty.
- Money market lending is only done with banks of good credit standing. ING Insurance Eurasia maintains money market limits for each of these banks. The counterparties are continuously monitored for developments that could warrant lowering the limit.
- 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.

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

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

ECONOMIC CAPITAL

Economic Capital ING Insurance Eurasia (99.5% undiversified) by Risk Category		
	2011	2010
Credit Default Risk	**606**	627

Sensitivities

IFRS Earnings sensitivities for Insurance Credit Risks		
	2011	2010
Credit Default	**–160**	–236

ING Insurance Eurasia

Risk Profile

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

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

		2011	2010
1	(AAA)	**29.9%**	26.5%
2–4	(AA)	**16.3%**	15.3%
5–7	(A)	**28.0%**	31.3%
8–10	(BBB)	**8.7%**	9.2%
11–13	(BB)	**3.9%**	4.6%
14–16	(B)	**2.3%**	2.4%
17–22	(CCC & Problem Grade)	**10.9%**	10.7%
		100.0%	100.0%

(1) Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities.
The ratings reflect probabilities of default and do not take collateral into consideration and are based on ultimate parent.

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

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

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

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

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

Largest economic exposures: ING Insurance Eurasia portfolio, by geographic area (1)

	2011	2010
Netherlands	**21.7%**	21.3%
Belgium	**3.8%**	3.6%
Rest of Europe	**42.7%**	46.1%
Americas	**5.9%**	6.2%
Asia/Pacific	**25.0%**	21.7%
Rest of World	**0.9%**	1.1%
Total	**100.0%**	100.00%

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

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

ING Insurance Eurasia

Security lending business

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

Mitigation

ING Insurance Eurasia uses different credit risk mitigation techniques, of which the use of ISDA Master Agreements accompanied with Collateral Agreements for all OTC derivative-transactions is an important example. Other forms of cover are mortgages and guarantees, both are important to enhance the credit quality of ING Insurance Eurasia's mortgage portfolios.

Credit Covers

The table below shows the cover values per credit risk category. At ING Insurance Eurasia, cover is a term which is defined as any security, lien, mortgage, or collateral interest in an asset or guarantee, indemnification or undertaking received (either by contract and/or by law) that is intended to reduce the losses incurred subsequent to an event of default on an obligation (usually financial in nature) a customer may have towards ING Insurance Eurasia. Within ING Insurance Eurasia, covers are subdivided into two distinct groups, called collateral and promises. Reference is made to credit risk management classification as included in the accounting policies for the consolidated annual accounts for a reconciliation between credit risk outstandings categories and financial assets.

Collateral

Collateral is a security interest in assets. If the customer defaults on its promised performance, the asset is given as collateral or security for that obligation is liquidated, such that the proceeds can be applied towards full or partial compensation of the pledgor's (financial) obligation to ING Insurance Eurasia. Assets have monetary value and are generally owned by the person or organisation, who gives them as collateral to ING Insurance Eurasia. Examples of collateral are insurance policies or investment accounts of clients pledged to ING Insurance Eurasia as collateral for mortgage loans, or payables or funds withheld for reinsurance exposures.

Promises

Promises are defined as a legally binding declaration by persons or organisations that give ING Insurance Eurasia the right to expect and claim from those persons or organisations if an ING Insurance Eurasia's customer fails on its obligations to ING Insurance Eurasia. An example is the guarantee by the Dutch National Mortgage Guarantee scheme (NHG) for residential mortgage loans.

In the tables below the residential mortgage portfolio and the mortgage collateral amount are shown. Please note that the figures shown are based on credit collateral amounts, meaning the market values of these properties after haircuts.

Outstandings – Cover values including guarantees received

							31 December 2011
		Outstandings	Mortgages	Cash	Guarantees	Other	Total Credit Covers
Investment	Financial Institutions	**20,670**				**183**	**183**
	Other	**61,334**				**3**	**3**
Lending	Residential Mortgages	**5,603**	**7,062**		**482**	**398**	**7,942**
	Financial Institutions Lending	**777**					
	Commercial Lending	**3,086**	**341**				**341**
	Government Lending	**280**					
	Other	**88**					
Reinsurance	Financial Institutions	**531**		**139**		**62**	**201**
Other	Financial Institutions	**5,889**		**77**		**45**	**122**
Total		**98,258**	**7,403**	**216**	**482**	**691**	**8,792**

Risk management continued

ING Insurance Eurasia

Outstandings – Cover values including guarantees received

							31 December 2010
		Outstandings	Mortgages	Cash	Guarantees	Other	Total Credit Covers
Investment	Financial Institutions	22,023				194	194
	Other	56,167				1	1
Lending	Residential Mortgages	5,835	7,197		475	491	8,163
	Financial Institutions Lending	260					
	Commercial Lending	2,910	352				352
	Government Lending	326					
	Other						
Reinsurance	Financial Institutions	475		47		63	110
Other	Financial Institutions	6,059				10	10
Total		94,055	7,549	47	475	759	8,830

The credit covers in the above table represent the sum of all existing covers, however excess cover amounts on specific assets cannot be put in place for other assets without covers, or with a cover amount that is smaller than the underlying exposure. The valuation methods for covers may vary per cover.

In comparison to 2010 figures, the overall cover amount remained largely unchanged. The increase in cash collateral is due to the data quality improvements with regards to reinsurance exposures and bond repo positions in the Hong Kong life business. For residential mortgage lending, the total loan amount decreased nearly 4%, while the total cover amount for residential mortgages decreased approximately by 2%. The decrease was most notable in the category 'other cover' (which comprises of insurance policies received and pledged securities), mainly due to a decrease in the number of covers and the average cover value. The guaranteed value of the Dutch National Mortgage Guarantee scheme (NHG) is estimated to be EUR 1.6 billion. The estimated value of the guarantee can differ depending on the number and amount of rejected NHG claims under the scheme (rejection of claims can occur in case the lending institution does not fully comply with the NHG rules).

Loan-to-Value

The LTV ratio relates the total loan amount to the market value of the collateral. The market value is the registered value as adopted from the valuation report of a qualified appraiser or valuer. For example, the LTV of portfolio invested in The Netherlands is based on foreclosure value. When available, indexation is applied to revalue the collateral to the present value. In the LTV calculation the following property covers are included: residential and industrial/commercial properties, land and applicable other fixed assets. All other covers are excluded. In some countries residential mortgages are covered by governmental or commercial sponsors. For example the NHG (see previous section) in the Netherlands guarantees the repayment of a loan in case of a forced property sale. These covered mortgages are included in the calculation of the weighted average LTV. The ING Insurance Eurasia residential mortgage portfolio amounts to EUR 5.6 billion, making up 5% of the total ING Insurance Eurasia outstandings. The residential mortgage portfolio is for 97% concentrated in the Netherlands (Nationale-Nederlanden). The average LTV of the Dutch residential mortgage portfolio amounts to 86%.

Problem loans

At 31 December 2011 EUR 65 million was classified as a problem loan (2010: EUR 73 million).

Past-due obligations

ING Insurance Eurasia continually measures its portfolio in terms of payment arrears. Particularly the retail residential portfolios are closely monitored on a monthly basis to determine if there are any significant changes in the level of arrears. Generally, an obligation is considered 'past-due' if a payment of interest or principal is more than one day late. In practice, the first 15 days after an obligation becomes past due are considered to be operational in nature for the retail loans and small businesses. After this period, letters are sent to the obligor reminding the obligor of its (past due) payment obligations. If the arrear still exists after 60 days, the obligation is transferred to one of the departments that deals with these problem loans.

Aging analysis (past due but not impaired): outstandings [(1)] [(2)]

	2011	2010
Past due for 1–30 days	**82**	88
Past due for 31–60 days	**24**	28
Past due for 61–90 days	**17**	14
Total	**123**	130

(1) Based on residential mortgages only.
(2) The amount of past due but not impaired financial assets in respect of non-lending activities was not material.

ING Insurance Eurasia

Impaired loans and provisions

The credit portfolio is under constant review. Generally, all loans with past due financial obligations of more than 90 days are automatically reclassified as impaired. For the wholesale lending portfolios and securities obligations, there are generally reasons for declaring a loan impaired prior to being 90 days past due. These include, but are not limited to, ING Insurance Eurasia's assessment of the customer's perceived inability to meet its financial obligations, or the customer filing for bankruptcy or bankruptcy protection. In some cases, a material breach of financial covenants will also trigger a reclassification of a loan to the impaired category. ING Insurance Eurasia identifies those loans as impaired loans when it is likely that the principal and interest amounts contractually due will not be collected in accordance with the contractual terms of the loan agreements, based on current information and events. A formal analysis takes place quarterly to determine the provisions for possible bad debts, using a bottom-up approach. Conclusions are discussed in the Disclosure Committee, which advises the Management Board on specific provisioning levels.

During 2010 and 2011 there were no impairments for loans within ING Insurance Eurasia. Provisions reported here relate to personal loans and mortgages, and are mainly present in Benelux.

Provisions: ING Insurance Eurasia portfolio

	ING Insurance Eurasia	
	2011	2010
Opening balance	**73.0**	55.1
Write-offs	**–11.7**	–4.9
Recoveries	**1.9**	1.0
Increase/(decrease) in loan loss provision	**19.7**	21.6
Exchange differences	**–0.2**	0.2
Other changes	**0.5**	0.0
Closing balance	**83.2**	73.0

LIQUIDITY RISK

Liquidity risk refers to the risk that a company is unable to settle financial obligations when they fall due. Liquidity in this context is the availability of funds, or certainty that funds will be available without significant losses, to honour all commitments when due. ING Insurance Eurasia identifies two related liquidity risks: funding liquidity risk and market liquidity risk. Funding liquidity risk is the – primary – risk that ING Insurance Eurasia will not have the funds to meet its financial obligations when due. Market liquidity risk is the – secondary – risk that an asset cannot be sold without significant losses. The 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.

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.

ING Insurance Eurasia

The Operational risk function works with the Operational Risk Management (ORM) Scorecard process to evaluate yearly the embedding level of the ORM Framework in each business. Policies and minimum standards governing the framework are kept in the policy house. During 2011 Operational Risk started with the implementation of this policy house in which the existing policies are kept in a well structured and easy to access manner.

Risk appetite is defined as the risk level management is prepared to tolerate. The operational risk appetite levels are set by the management team of ING Insurance Eurasia. Via Non-Financial Risk Committees (NFRC's) it is ensured that responsible line managers mitigate the risks that are not within the risk appetite. Incidents and operational risks are tracked and reported on a quarterly basis to management in the Non-Financial Risk Dashboard.

Integrated risk assessments are performed at least once a year to determine the completeness of the risks in scope and the level of the risks. Mitigating actions are taken on those risks that are identified as risks beyond the risk appetite level. Status of the mitigating actions is tracked.

To ensure an independent Operational risk function and the possibility for the Operational risk officers to be impartial and objective when advising business management on Operational Risk in their Business Unit and Region, a dual reporting line, directly to Chief Risk Officer of their business and functionally to the next higher level Operational risk Officer, is in place. The head of Operational risk ultimately reports directly to the Deputy Chief Risk Officer.

ECONOMIC CAPITAL

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

	2011	2010
Operational Risk	640	633

COMPLIANCE RISK

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

ING Insurance Eurasia separates Compliance Risk into four conduct-related integrity risk areas: client conduct, personal conduct, organisational conduct as well as conduct required because of laws and regulations in the financial services industry. In addition to effective reporting systems, ING Insurance Eurasia has a Whistleblower procedure which encourages staff to speak up if they know of or suspect a breach of external regulations or internal policies or Business Principles.

As a result of frequent evaluation of all businesses from economic, strategic and risk perspectives, ING Insurance Eurasia continues to believe that doing businesses in Myanmar, North Korea, Sudan, Syria, Iran and Cuba should be discontinued. ING Insurance Eurasia has a policy not to enter into new relationships with clients from these countries and processes remain in place to discontinue existing relationships involving these countries.

ING Insurance Eurasia performs a due diligence process when developing products and invests considerably in the maintenance of risk management, legal and compliance procedures to monitor current sales practices. Customer protection regulations as well as changes in interpretation and perception by both the public at large and governmental authorities of acceptable market practices might influence client expectations. The risk of potential reputational and financial impact from products and sales practices exists because of the market situation, customer expectations, reported incidents and regulatory activity. As part of ING Insurance Eurasia's customer centric commitment, Compliance Risk Management and the business work closely together to optimise both products and services to meet the customers' needs.

ING Insurance Eurasia Compliance Risk Management has developed a framework governing the process of identifying, assessing, mitigating, monitoring and reporting compliance risks. The Compliance function works with the ORM Scorecard process to evaluate yearly the level in which the Compliance Risk Management Framework is embedded in each business.

To ensure an independent compliance function and the possibility for the Compliance Officers to be impartial and objective when advising business management on Compliance Risk in their Business Unit and Region, a dual reporting line, directly to General Management of their business and functionally to the next higher level Compliance Officer, is in place.

Main developments in 2011

- Building Customer Trust – As part of ING Insurance Eurasia's customer centric commitment, Compliance Risk Management and the business worked closely together to optimise both products and services to meet the customers' needs.
- Learning – Continuous education and awareness training was provided through face-to-face training sessions and online learning tools.

ING INSURANCE US

MISSION AND OBJECTIVES

As a financial services company active in investments, life insurance and retirement services ING Insurance US is naturally exposed to a variety of risks. The mission of risk management in ING Insurance US is to build a sustainable and competitive advantage by fully integrating risk management into daily business activities and strategic planning.

The following principles support this objective:

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

RISK GOVERNANCE

The risk governance is based on the "three lines of defence" framework which ensures that risk is managed in line with the risk appetite as defined by the Management Board AIH (MB AIH) and ratified by the Supervisory Board and is cascaded throughout ING Insurance US.

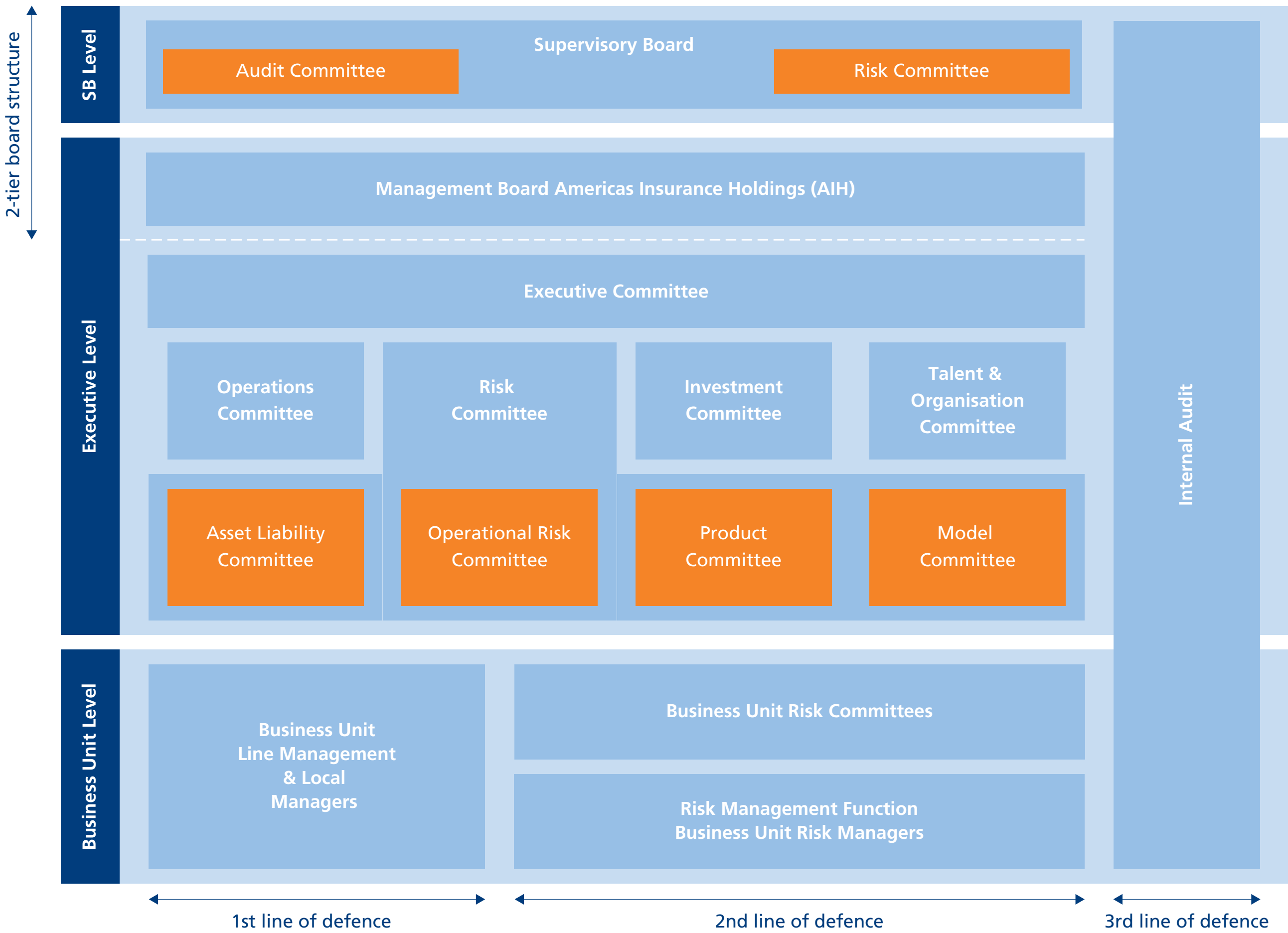
For most of 2011 ING Insurance US executive management delegated risk governance to a financial risk committee called "Business Line Insurance US & BL US Closed Block Variable Annuity Asset Liability Committee", the BL ALCO, and a non-financial risk committee called "Operational Risk Committee".

- BL ALCO
  Provided oversight on all financial risk related issues for ING Insurance US.
  Advised management on risk limits and appetites, approved investment mandates, oversaw assumption setting.
  Implemented and monitored ING Group risk policies ensuring consistency across business units.

- Operational Risk Committee
  Addressed bottoms up business unit operational risk matters.
  Coordinated across business units on issues including financial controls, business continuity, and information security.
  Implemented and monitored ING Group's operational risk policies across business units.

In the last quarter of 2011, ING Insurance US transitioned to an expanded risk governance structure as described below.

ING Insurance US



Board level risk oversight
ING Insurance US has a two-tier board structure consisting of the Management Board AIH (MB AIH) and the Supervisory Board.

The Supervisory Board is responsible for supervising the policy of the MB AIH, the general course of affairs of the Company and its businesses. For Risk Management purposes the Supervisory Board is assisted by two sub-committees:
- The Audit Committee assists in reviewing and assessing ING Insurance US's major risks and the operation of internal risk management and control systems, as well as policies and procedures regarding compliance and its applicable laws and regulations;
- The Risk Committee assists in matters related to risk governance, risk policies and risk appetite setting.

The Chief Risk Officer (CRO) attends the meetings of both committees. The MB AIH is responsible for managing the risks associated with the activities of ING Insurance US. The MB AIH responsibilities include ensuring the risk management and control systems are effective and ING Insurance US complies with relevant legislation and regulations. The MB AIH reports and discusses these issues on a regular basis with the Supervisory Board, and reports to the Audit Committee on a quarterly basis on ING Insurance US's risk profile versus its risk appetite.

As part of the integration of risk management into the annual strategic planning process, the MB AIH issues a Planning Letter which provides the organisation with the corporate strategic planning, and addresses key risk issues. Based on this letter the business units develop their business plans, including qualitative and quantitative assessment of the risks involved. As part of the process strategic limits and risk appetite levels are explicitly discussed. Based on the business plans the Management Board formulates the Strategic Plan which is submitted to the Supervisory Board for approval.

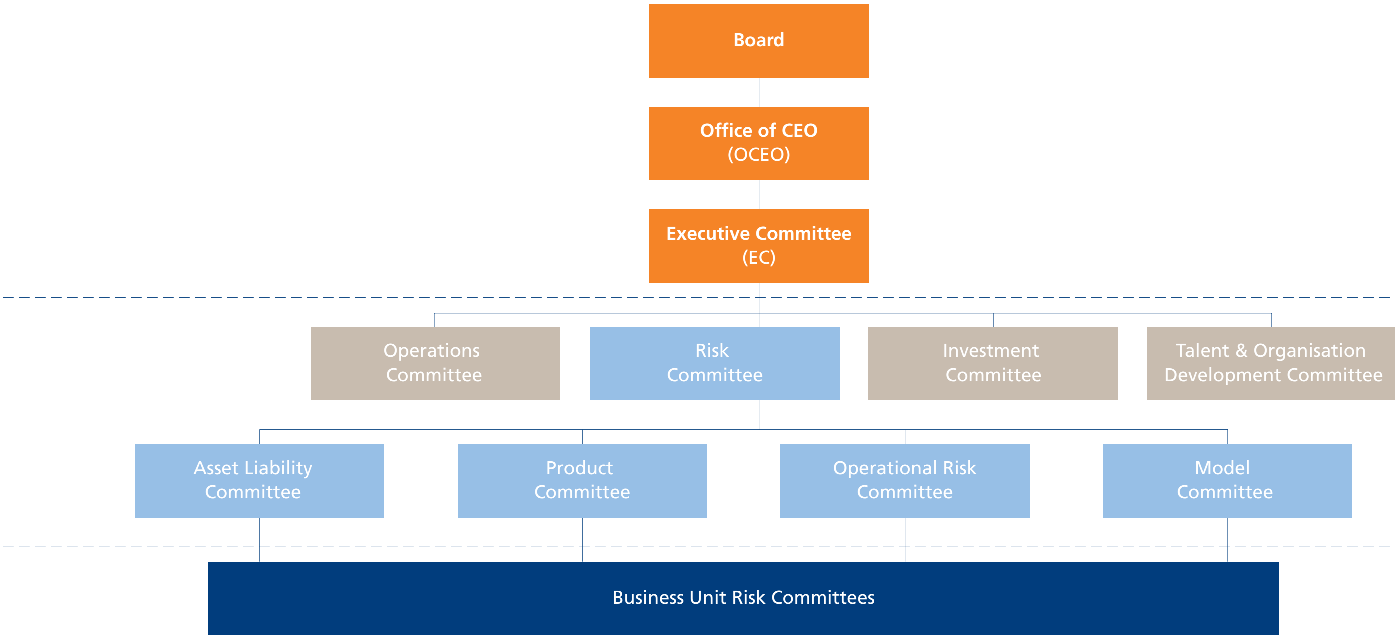
ING Insurance US

Executive Level
As noted above, during 2011 ING Insurance US transitioned from a financial risk committee called "Business Line Insurance US & BL US Closed Block Variable Annuity Asset Liability Committee" and a non-financial risk committee called "Operational Risk Committee" to the expanded structure described below.

For risk related issues the MB AIH relies on the Executive Committee which has delegated risk related tasks to the following committees:

- Risk Committee
  Assists the Executive Committee (EC) by focusing on ING Insurance US risk management and capital issues.
  Advises the EC with respect to financial, non-financial, product and model risk issues ("All Risks").
  Recommends, approves and reviews risk policies and determines risk appetite, tolerance and limits.
  The Risk Committee has a number of sub-committees focussing on different risk areas:

  – Product Committee
    Oversees all insurance product risk issues across ING Insurance US. These include insurance risks and interest rate sensitivity (interest guarantees, profit sharing to policyholders, lapse/surrender or increased exposure of products sold, and hedges).
    Responsible for preparation/approval on product risk items (e.g. product approval, actuarial assumption setting), monitoring underwriting and management of the product portfolio.
  – Operational Risk Committee
    Oversees all non-financial risk issues across ING Insurance US. This includes operational, compliance, legal and reputation risk.
    Responsible for preparation/pre-approval of non-financial risk items, oversight on non-financial risk issues, and deciding on reported risks and proposed accepted risk.
  – Model Committee
    Oversees all model and model validation risk issues across ING Insurance US.
    Responsible for preparation/pre-approval of model risk items and oversight on model validation.
  – Asset Liability Committee
    Reviews methods and techniques for calculating Asset Liability Management risk, advice about limits and check for breaches in the investment mandates.
    Addresses balance sheet management, Statutory Capital requirements, and liquidity needs and recommend to the Executive Committee.
    Oversees activities and initiatives related to ING Insurance US debt ratings and relationships with ratings agencies.
    Recommends capital and liquidity requirements to the Risk Committee.



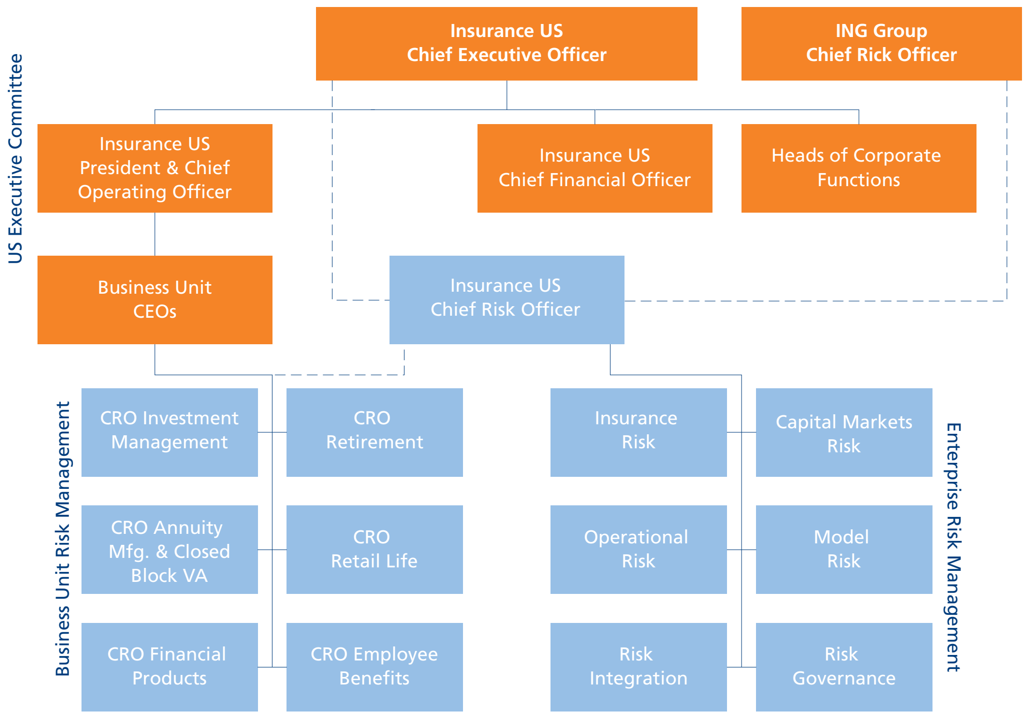
ING Insurance US

Risk Management Function

The Chief Risk Officer bears primary and overall responsibility for the risk management function within ING Insurance US, which identifies, measures, monitors and reports risk within ING Insurance US. The risk function maintains and updates the policy framework, develops and maintains risk methodologies and advises on the risk tolerance and risk profile. The CRO makes sure both the Supervisory Board and MB AIH are well informed and understand ING Insurance US's risk position at all times.

The ING Group CRO has delegated the day-to-day Risk Management within ING Insurance US to the ING Insurance US CRO. The ING Insurance US CRO's department (US Enterprise Risk Management) consists of several risk functions that support the overall business unit and ING Insurance US risk management activities.

Risk committees are established at the ING Insurance US and business unit levels. The Chief Risk Officers of the business units have a reporting line to the ING Insurance US CRO.



Product Approval and Review Process

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

Reserve adequacy

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

Policies

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

ING Insurance US

Model governance
During 2011 new models with regard to the disclosed metrics were approved by the Insurance Model Committee at the ING Group level. Under the new governance structure this will be the responsibility of the ING Insurance US Model Committee.

ING INSURANCE US RISK FRAMEWORK
In order to manage the risk on a day-to-day basis and balance value, earnings and capital decisions, ING Insurance US has implemented a risk limit framework. The risk limit framework follows a top down approach.

	Description
Risk Appetite	A qualitative measure defining the playing field ING Insurance US wants to act in. Driven by ING Insurance US's capital rating targets and local capital restrictions, and business strategy.
Risk Tolerance	A quantitative boundary intended to limit the risks taken, driven by the risk appetite.
Risk Limits	Limit setting to a granular level for business units throughout the organisation.

The risk appetite is managed by the following risk tolerance metrics:
- US Regulatory Capital Requirements- Defined as a multiple of the minimum capital required by the National Association of Insurance Commissioners (NAIC) with consideration of the capital requirements deemed appropriate to maintain the ratings level issued to the operating companies by various rating agencies, excluding entities that are not US domiciled;
- IFRS Earnings;
- Targets are set on the current ratio values, limits are set on these ratios after considering a moderate stress scenario; and
- ING Insurance US is considering the implementation of additional risk tolerance metrics, potentially including US GAAP Earnings, capital sensitivities that include non-US domiciled entities and a US management version of Economic Capital (which may not fully align with Solvency II).

Financial Risks
For financial risks, the risk tolerance is translated to risk limits on several sensitivities assuming a moderate stress scenario.
- US Regulatory Capital Requirements sensitivities
  The potential reduction, under a moderately adverse market and credit stress scenario, of the excess of available statutory capital above the minimum required under the US regulatory Risk Based Capital (RBC) methodology. The RBC methodology is prescribed by the National Association of Insurance Commissioners (NAIC) and applies to US domiciled regulated insurance entities. The amount of excess capital targeted is also dependent on rating agency models and requirements.
- IFRS Earnings sensitivities
  The sensitivity of realised pre tax earnings of the insurance operations over a 12 month period to moderate shocks to underlying risk factors.

Other than this, several other limit structures are put in place on corporate and business unit level. Examples include but are not limited to the following:
- Issuer concentration limits
- Mortality concentration limits
- Catastrophe and mortality exposure retention
- Minimum liquidity requirements
- Investment and derivatives guidelines and limits

Financial Risk Dashboard
The Financial Risk Dashboard (FRD) is a quarterly report that is a quarterly report that is discussed at the Risk Committee of the MB AIH and the Financial Risk Committee. The FRD provides a quarterly overview of the main financial risk metrics (IFRS earnings and Regulatory Capital sensitivities) compared to 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 Insurance US monitors the full implementation of ING Insurance US's risk policies, minimum standards and implementation guidelines. Business units have to demonstrate that the appropriate steps have been taken to control their operational and compliance risk. ING Insurance US applies scorecards to measure the quality of the internal control within a business unit. Scoring is based on the ability to demonstrate that the required risk management processes are in place and effective within the business units.

ING Insurance US

Non-Financial Risk Dashboard

The Non-Financial Risk Dashboard (NFRD) is a quarterly report that is a quarterly report that is discussed at the meetings of the Supervisory Board, AIH Executive Committee and ING Insurance US 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 Insurance US complements its regular risk reporting process with (ad hoc) stress tests. Stress testing examines the effect of exceptional but plausible scenarios on the capital position for ING Insurance US. Stress testing can be initiated internally or on certain request from external constituents.

RISK TYPE DESCRIPTION

ING Insurance US measures the following main types of risks that are associated with its business risk:

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

INSURANCE RISK

Insurance risks are comprised of actuarial and underwriting risks such as mortality, longevity, morbidity etc. which result from the pricing and acceptance of insurance contracts.

The table below shows the main risk categories for insurance risks within ING Insurance US. IFRS Earnings sensitivities are defined on a shock scenario at the 90% confidence level.

	Description	Key Drivers
Mortality	Within mortality risk there are two main parts: – Positive mortality risk exists when more insureds dying than expected, leading to higher claims than expected. – Negative mortality risk exists when insureds live longer than expected, leading to higher claims than expected (moderate shocks are not material to the P&L).	The largest earnings sensitivity to positive mortality risk arises in the Retail Life insurance business.
Morbidity	Morbidity or Health insurance covers insurance indemnifying or reimbursing losses (e.g. loss of income) caused by illness or disability, or for expenses of medical treatment necessitated by illness or disability. Morbidity risk comprises the risk of variability of size, frequency and time to payment of future claims, development of outstanding claims and allocated loss adjustment expenses (ALAE) for morbidity product lines over the remaining contract period.	Earnings sensitivity to morbidity risk (e.g. sickness, disability, accidental death, workers' compensation, medical insurance) is present in the Employee Benefits business.

Sensitivities

Mortality and morbidity sensitivities are calculated on a diversified basis at a 10% level assuming a normal probability distribution of results and a specified mortality/morbidity scenario to calibrate the distribution. The largest contribution to the mortality sensitivity comes from the Retail Life business while the morbidity exposure relates for a large part to the Employee Benefit business.

IFRS Earnings Sensitivities for Insurance Risks

	US Excl. CB-VA		CB-VA	
	2011	2010	**2011**	2010
Mortality	**–19**	–16	**–7**	–3
Morbidity	**–49**	–48	**0**	0

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7 Additional information

ING Insurance US

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

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

BUSINESS RISK
Business risk for insurance is essentially the risk insurance operations accept as consequence of choosing to be in the business. In practice this can be defined as the exposure to the possibility that experience differs from expectations with respect to expenses, the run-off of existing business (persistency/renewals), future premium rerating, etc. The calculation of Business Risk Capital is specified by the regulatory capital methodology prescribed by the National Association of Insurance Commissioners (NAIC). ING Insurance US targets a capital level equal to 425% of the Company Action Level specified by the NAIC.

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

The sensitivities shown are calculated at business unit level and cover US domiciled insurance entities. The sensitivities are based on moderate and simple to explain shocks to underlying risk factors. The following risk factors are taken into account:

	Description	Key Drivers
Interest Rate	– Impact on assets and liabilities due to movements of interest rates – Measured by the impact of a 1% upwards and downwards parallel shift of US Treasury curve	Sensitivities of various guarantees (e.g. minimum interest rate guarantees, and guaranteed living benefits). CB-VA and GMIRs of insurance products
Equity	– Impact of a drop in equity prices which impacts direct equity exposure and loss of fee income from variable and equity linked – Measured by the impact of a 25% drop in equity prices	Separate account and equity indexed business, and direct equity exposure
Credit (Default and Spread risk)	– Impact that credit default risk can have on credit impairment levels in a "1 in 10" scenario (using "1 in 10" 1-year default rates by rating category, combined with stressed "Loss Given Default" assumptions); plus impact that a "1-in-10" increase in credit spreads levels can have on previously impaired structured assets (re-impairment risk) and on CDS transactions that are carried at market value	General account business
Implied Volatility (Equity & Interest Rates)	– Impact of losses on assets and liabilities due to movements in the volatility implied from market option prices. – For interest rate – measured by the impact of a relative increase of 30% in implied swaption volatilities – For equity – measured by the impact of a relative increase in implied volatilities based on tenor – 80% for tenors less than 1 year, up 30% for tenors between 1and 3 years, up 20% for tenors between 3–7 years and up 10% for tenors of 7 years and above	Embedded guarantees in business and derivatives used to hedge equity exposures
FX	– Impact of losses related to changes in real estates – Measured by the worst case impact of a 10% up and down movement for each currency	Translation risk of market value surplus of non-USD businesses
Real Estate	– Impact of losses related to changes in real estate – Measured by impact of all real estate down 15%	

Sensitivities
The stress events are described above. The ING Insurance US earnings sensitivities are dominated by credit, equity and interest rate exposure.

ING Insurance US has no significant earnings sensitivity to Foreign Exchange Rates as ING Insurance US is managed on a local currency basis and therefore there is no translation risk to the Group reporting currency included. There is no significant earnings exposure to non-US currencies. From the ING Group perspective, there may be some translation risk between USD based operations and EUR basis.

ING Insurance US earnings sensitivies are shown in the tables below. Taking into account diversification between risk factors, ING Insurance US (excluding CBVA) is exposed to a EUR 1.0 billion decrease in expected IFRS Earnings within the context of the market and non-market sensitivity analysis. The changes from 2010 to 2011 are the result of many factors including:
- Reduction in interest rates increasing exposure to further declines in rates due to product guarantees;
- Hedging programs, including various actions taken to reduce the risk of declining rates;
- Turnover of the asset portfolio; and
- Incorporation of mean reversion in DAC calculations by Retirement Services

ING Insurance US

IFRS Earnings Sensitivities for Market Risks (1) (2)		
		US Excl. CBVA
	2011	2010
Interest Rate Up	**72**	13
Interest Rate Down	**–146**	–34
Equity	**–293**	–374
Credit-Default	**–355**	–513
Credit-Spread	**–188**	–269

(1) Implied Volatility, FX and Real Estate sensitivities do not have a material impact.
(2) Sensitivities are calculated at business unit level.

Estimated CBVA Immediate Earlings Sensitivities at 31 December 2011 (EUR Millions)	Immediate Change In Equity Market					
	–25%	–15%	–5%	+15%	+15%	+25%
Earnings sensitivity before RAT Policy Impact	750	500	100	–250	–600	–900
RAT Policy Impact (RAT50)	–950	–600	–200	0	0	0
Total estimated Post Refinement Earnings Sensitivity	–200	–100	–100	–250	–600	–900
Improvement in RAT 50 Sufficiency	-	-	-	200	600	950

Due to the lack of excess reserve adequacy, CBVA results may be volatile under certain economic scenarios. This volatility is shown in the table above which shows the estimated sensitivity of IFRS earnings to immediate changes in equity markets. For, example, as of 31 December, 2011 it is estimated that if equity markets were to increase 25%, CBVA would be exposed to an immediate EUR 0.9 billion decrease in IFRS Earnings and an increase in the reserve adequacy at the 50% confidence level of EUR 0.95 billion. This immediate sensitivity is not directly comparable to the 12 month sensitivities shown in the preceding table.

The credit default exposure relates to general account debt securities. Exposure to Asset Backed Securities (ABS) and Residential Mortgage Backed Securities (RMBS) contributes significantly to the earnings sensitivity.

Mitigation
ING Insurance US manages its risk exposure through contractual adjustment mechanisms such as changes to credited rates, the contractual terms related to new business, adjusting its capital structure within regulatory constraints, and, where deemed appropriate, hedging various exposures.

Real Estate
ING Insurance US has a small exposure to direct real estate, which is composed primarily of Home Office real estate and real estate from foreclosed loans.

Real Estate Exposure		
	2011	2010
Total	**125**	121

CREDIT RISK
ING Insurance US credit exposure arises from the investment of insurance premiums in assets subject to credit risk, largely in the form of unsecured bond investments, investments in private placements and commercial mortgages, as well as in structured finance products. In addition, ING Insurance US is exposed to credit counterparty risk exposure in derivatives transactions, sell/repurchase transactions, securities lending/borrowing and in reinsurance contracts.

Within ING Insurance US, the goal is to maintain a low-risk, well diversified credit risk portfolio that meets or exceeds market based benchmark returns. ING Insurance US has a policy of maintaining a high-quality investment grade fixed income portfolio while avoiding large risk concentrations. The emphasis is on managing total exposure and concentration risk by means of portfolio level risk limits and concentration limits for countries, individual borrowers and borrower groups. Counterparty credit risk is mitigated by only transacting with counterparties that meet minimum credit quality standards as well as by requesting collateral for all larger exposures.

ING Insurance US

The table below shows the main risk categories for credit risk within ING Insurance US:

	Description	Key Drivers
Issuer or Investment Risk	– Risk related to the impact of a credit default or rating migration, plus the risk that a change in general credit spread levels can have on the market value of these instruments – Measured at original cost (purchase price) less any prepayments or amortisations and excluding any accrued and unpaid interest or the effects of any impairment.	Investments in public bonds, commercial paper, securitisations and other publicly traded securities
Lending Risk	– Risk related to certain illiquid investments made by ING Insurance US – Measured at original cost (purchase price) less any prepayments or amortisations and excluding any accrued and unpaid interest or the effects of any impairment.	Privately placed bonds and commercial mortgage loans in the United States.
Pre Settlement Risk	– Risk of a counterparty defaulting on a transaction before settlement and ING Insurance US having to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. – Measured as the replacement value (mark-to-market) plus a potential future volatility concept, using a 3–7 year historical time horizon and a 97.5% (1.96 standard deviations) confidence level.	Options, swaps, and securities financing transactions used for hedging purposes

Risk Profile

Risk classes

As a result of the downgrade of the United States Government in August 2011 by S&P, the exposure to AAA rated assets decreased to 16.5%. This resulted in a large "inflow" in the AA category, but that was offset by insurance companies where ING Insurance US has (collateralised) reinsurance counterparty risk were downgraded from AA to A. The 17–22 category largely consists of unrated exposures. The exposure to assets actually rated CCC or below is less than 3% of the portfolio.

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

		ING Insurance US	
		2011	2010
1	(AAA)	**16.5%**	22.3%
2–4	(AA)	**13.7%**	13.9%
5–7	(A)	**25.3%**	23.4%
8–10	(BBB)	**24.0%**	21.3%
11–13	(BB)	**3.8%**	4.0%
14–16	(B)	**3.9%**	4.5%
17–22	(CCC & Problem Grade)	**12.8%**	10.6%
		100%	100%

(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 last year, with the largest decrease shown for Non-Bank Financial institutions which decreased by 2.9%. Please note that this category largely consists of special purpose vehicles that issue RMBS, ABS and CMBS securities.

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

	ING Insurance US	
	2011	2010
Non-Bank Financial Institutions	**38.6%**	41.5%
Real Estate	**8.5%**	7.9%
Central Governments	**8.2%**	8.4%
Natural Resources	**6.9%**	5.5%
Utilities	**6.0%**	5.2%
Commercial Banks	**4.4%**	3.4%
Food, Beverages & Personal Care	**3.6%**	3.2%
Chemicals, Health & Pharmaceuticals	**3.1%**	3.0%
Private Individuals	**2.2%**	2.3%
Telecom	**2.2%**	2.1%
General Industries	**2.1%**	1.6%
Other	**14.2%**	15.9%
	100%	100%

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

ING Insurance US largely invests in financial instruments issued in the United States, as required by regulation. Bonds and private placements issued by Western European corporations account for the majority of the non-US exposure. The decrease in exposures to the Netherlands is partially related to a reduction in the exposure to the Dutch state.

Largest economic exposures: ING Insurance US portfolio, by geographic area [1]

	ING Insurance US	
	2011	2010
United States	**77.4%**	77.7%
Netherlands	**5.7%**	8.2%
Rest of Europe	**9.3%**	6.8%
Rest of Americas	**4.4%**	4.2%
Asia/Pacific	**3.0%**	3.0%
Rest of World	**0.2%**	0.1%
Total	**100%**	100%

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

Securities Lending Business

As part of its securities financing business, ING Insurance US entities actively enter into agreements to sell and buy back marketable securities. These transactions can take many legal forms. Repurchase and reverse repurchase agreements, buy/sellback and sell/buyback agreements, and securities borrowing and lending agreements are the most common. The amount of marketable securities that ING Insurance US held as collateral under these types of agreements was EUR 0.8 billion in 2011 and EUR 2 billion in 2010. The change is largely due to a decrease in repurchase agreements and the elimination of the Cash Release securities lending program. These amounts exclude the cash leg of the respective transactions, as well as any pledges of securities under Tri-Party agreements (as the underlying is not directly pledged to or owned by ING Insurance US). As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or pledged in other (similar) transactions. ING is obliged to return equivalent securities in such cases.

Mitigation

Credit Risk in ING Insurance US portfolio is partially mitigated by collateral it has received.

- The entire block of commercial mortgages (EUR 6.7 billion) is collateralised with mortgages on real estate properties. The weighted average loan to (most recent) value of this portfolio was 55% as per 31 December 2011.
- The EUR 10 billion private placement portfolio is partially collateralised with assets pledged to the consortium of lenders.
- The EUR 1.7 billion policy loan portfolio is fully collateralised by the cash value of the underlying insurance policies.
- The gross counterparty risk exposure to reinsurance companies (EUR 5.8 billion per 31 December 2011) is largely collateralised with assets held in trust (EUR 4.0 billion), letters of credit (EUR 1.8 billion), or funds withheld (EUR 1.1 billion). Please note however that some exposures are over collateralised and that there is a total of EUR 1.7 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 2011, ING Insurance US was holding net collateral of EUR 0.35 billion supporting a net market value exposure of EUR 0.5 billion.

Exposures related to Securities Lending, Reverse Repo, and exchange traded instruments are obviously also collateralised.

Problem Loans

ING Insurance US does not have any material past-due or impaired loans. The only type of investments that fall into the loan category are commercial mortgage loans. As soon as such loans become non-performing, the collateral is typically liquidated or the loan is sold.

Impaired loans and provisions

ING Insurance US mainly has bond investments. The amount of impaired loans in its portfolio is very small and limited to commercial mortgage loans.

LIQUIDITY RISK

Liquidity risk refers to the risk that a company is unable to settle financial obligations when they come due, at reasonable cost and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions. As with other market risks, liquidity risk falls under the supervision of the Risk Committee function. Under the volatile market circumstances in 2011, funding and liquidity risk remains an important topic on the agenda of senior management and the Risk Committee, that needs continuous monitoring and management. External market and regulatory developments and internal financial developments are closely monitored. Regular stress testing and measurement of early warning indicators are, among others, used to provide additional management information.

ING Insurance US defines two levels of Liquidity Management. Short-term liquidity, or cash management covers the day-to-day cash requirements under normally expected or likely business conditions. Long-term liquidity management takes into consideration various expected and adverse business conditions, which might result in the inability of realising the current market values of the assets. The assets may only be sold at a further distressed price simply due to the lack of liquidity. Stress liquidity management looks at the company's ability to respond to a potential crisis situation. The day-to-day and ongoing cash management allows for a more proactive response to potential liquidity problems in distressed markets. Liquidity risk is measured through several metrics including ratios and cash flow scenario analysis, in a base case and under several stressed scenarios.

OPERATIONAL RISK

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the risk of reputation loss, as well as legal risk whereas strategic risks are not included. Operational risk also includes IT risk.

For Operational Risk, ING Insurance US follows the ING Group framework governing the process of identifying, assessing, mitigating, monitoring and reporting operational risks. The ING framework is based on the elements of the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission).

The Operational risk function works with the ING Operational Risk Management (ORM) Scorecard process to evaluate yearly the embedding level of the Operational Risk Management Framework in each business. Policies and minimum standards governing the framework are kept in the policy house. During 2011 Operational Risk started with the implementation of an ING Insurance US policy house in preparing for a stand-alone public organisation.

Risk appetite is defined as the risk level management is prepared to tolerate. The operational risk appetite levels are set by ING Group in the form of a risk footprint. Via Operational Risk Committees (ORCs) it is ensured that responsible line managers mitigate the risks that are not within the risk appetite. Incidents and operational risks are tracked and on a quarterly basis reported to management in the Non-Financial Risk Dashboard.

Integrated risk assessments are performed on an ongoing basis across the organisation. Mitigating actions are taken for those risks that are identified as risks beyond the risk appetite level. Status of the mitigating actions is formally tracked.

To ensure an independent Operational risk function and the possibility for the Operational risk officers to be impartial and objective when advising business management on Operational Risk, a dual reporting line, directly to ING Insurance US Chief Risk Officer and functionally to the next higher level ING Group Operational Risk Officer, is in place. The head of Operational risk ultimately reports directly to the ING Insurance US Chief Risk Officer.

ING INSURANCE US COMPLIANCE RISK

The ING Insurance US Compliance program and function are aligned with ING Group's Compliance Risk Management Charter and Framework and the related processes described elsewhere in this Report.

The Scope of the Compliance function

The ING Insurance US Compliance function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry. The Compliance function actively educates and supports the business in managing compliance risks including anti-money laundering, preventing terrorist financing, conflicts of interest, sales practices for insurance and investment products, trading conduct and protection of customer interests.

The Compliance function

In ING Insurance US, the Compliance function is an independent control and risk management department. The ING Insurance US Chief Compliance Officer reports directly to the ING Insurance US Chief Legal Officer, who is a member of the ING Insurance US Executive Committee. The ING Insurance US Chief Compliance Officer also has a functional reporting line to the ING Group Chief Compliance Officer.

Compliance Risk Management Framework

ING Insurance US adheres to the ING Group Compliance Framework, which consists of three key components: the Compliance Risk Management process, an Advisory component and the Scorecard. ING Insurance US Compliance executes a regular process of identifying, assessing, mitigating, monitoring and reporting compliance risks. The Compliance function works with Operational Risk Management's annual evaluation process, assessing the implementation of compliance program elements within each business line and across the enterprise.

ING Insurance US also maintains a Whistleblower process, which encourages staff to speak up, without fear of reprisal, if they know of or suspect a breach of laws, regulations or internal policies. ING Insurance US 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.

ING Insurance US

Main Compliance developments in 2011

- **Policies & Procedures**: ING Insurance US Compliance reviewed and prepared drafts of an updated Code of Business Conduct and Ethics, along with new or refreshed Corporate Compliance Policies tailored to the US business and regulatory regime. These will be issued and implemented in 2012.
- **Technology Enhancements**: ING Insurance US Compliance enhanced technology and tools to improve compliance risk management in the areas of anti-money laundering, position reporting and personal trading.
- **Enterprise Functions**: ING Insurance US Compliance enhanced its organisation by implementing greater focus on consistent enterprise-wide compliance processes and dedicated teams to support critical functions across all business lines, including advertising review, customer complaint resolution, branch office compliance inspections and compliance training. Compliance also integrated its team and processes supporting all of the ING Insurance US wholesale broker-dealers in the Retirement, Insurance and Annuity Manufacturing business lines to provide more effective and consistent controls.
- **Extra-territorial Laws**: The UK Bribery Act was effective 1 July 2011 and is deemed applicable to ING's business globally. Accordingly, the ING Group Gifts, Entertainment and Anti-Bribery Policy was amended to comply with the UK Bribery Act, and ING Insurance US adopted and implemented the amended Group policy to enhance ING Insurance US's existing anti-corruption and anti-bribery policies and procedures.
- **Employee Compliance Training**: Continuous education and awareness training was provided through the ING Learning Center, with four required Corporate Responsibilities Courses for all ING Insurance US employees, in addition to two targeted courses on Privacy and Anti-Money Laundering for certain designated employees.

REGULATORY CAPITAL

For the capital adequacy assessment of ING Insurance's US domiciled regulated insurance businesses, available capital is measured under US statutory accounting principles and required capital is measured under the US regulatory Risk Based Capital (RBC) methodology defined by the National Association of Insurance Commissioners (NAIC). Commonly in the US an insurer's financial strength and ability to meet policyholder obligations is measured in terms of the amount of statutory capital held in relation to the 'Company Action Level' RBC defined by the NAIC framework. Note that the level of capital required by rating agencies to maintain an acceptable claims paying ability rating is well above the regulatory minimum defined by Company Action Level RBC. Consequently, ING Insurance US manages its available capital primarily with respect to capital metrics that are aligned with the models of the various rating agencies.

The relevant capital requirements of the ING US business units consist of statutory Risk Based Capital requirements (RBC) for its US domiciled business, along with additional requirements for the Cayman Islands based subsidiary Security Life of Denver International (SLDI). ING US targets a RBC ratio of 425% for its US-domiciled business.

The asset target for variable annuity (VA) business within SLDI is based on Actuarial Guideline 43 (AG 43), a reserve standard written by the US National Association of Insurance Commissioners. AG 43 prescribes reserves based on applying standardised economic scenarios under the Conditional Tail Expectation (CTE) approach, a scenario testing methodology. For rating agency purposes, ING US targets assets satisfying the CTE requirement in excess of the 95% confidence level.

Since Regulatory filings still need to be completed, the actual targets are not available yet, but the total US target is estimated at EUR 7.0 billion.

Regulatory Capital Sensitivities

The ING Insurance US calculates regulatory capital sensitivities on the Risk-Based Capital model in order to provide insight into how the amount of available capital in excess of regulatory required capital is sensitive to an increase or decrease in different market and credit risk factors under a moderate stress scenario which corresponds approximately with a 1-in-10 event. Regulatory capital sensitivities are calculated in aggregate for the US domiciled regulated insurance entities, and exclude any effects of the sensitivities on the capital of non-US domiciled entities.

The sensitivities shown are calculated at business unit level and cover US domiciled insurance entities. The sensitivities are based on moderate and simple to explain shocks to underlying risk factors. The following risk factors are taken into account:

- Interest rates;
- Equity;
- Credit (credit default and credit spread risk);
- Implied volatility (equity & interest rates);
- Foreign exchange;
- Real Estate.

The Model Disclosure table previously shown in Market Risk section for Earnings at Risk is the same overview of the shock scenarios applied for regulatory capital sensitivities.

The regulatory capital sensitivity in aggregate is calculated by combining the joint impact of the various market stress events calculated by taking into account the correlations between risk types.

ING Insurance US

Sensitivities

The table below presents market risk sensitivity figures before diversification between risks. The stress events are described in the Model Disclosure section above.

Regulatory Capital Sensitivities (1) (2)

	US Excl. CBVA		CBVA	
	2011	2010	**2011**	2010
Interest Rate Up	**2**	–132	**24**	–6
Interest Rate Down	**–50**	49	**–226**	27
Equity	**–149**	–55	**–17**	–168
Credit – Default	**–272**	–366	**–8**	–12
Credit – Spread	**–410**	–355	**–21**	–20

(1) Implied Volatility, FX and Real Estate sensitivities do not have a material impact.
(2) Sensitivities are calculated at business unit level and cover US domiciled insurance entities.
(3) Sensitivities shown are calculated relative to management targets that are a multiple of 'Company Action Level' RBC, and those shown in the 2010 annual report were based on 'Company Action Level' RBC.

The changes from 2010 to 2011 are the result of many factors including:
- Reduction in interest rates increasing exposure to further declines in rates due to product guarantees;
- Hedging programs, including various actions taken to reduce the risk of declining rates;
- Hedging activities for Closed Block Variable Annuity related to both interest rates and equity exposure;
- Turnover of the asset portfolio; and
- Refinement of calculation of equity risk arising from hedge funds and limited partnerships was the primary driver of the increase in equity risk for US excluding CB-VA.

Taking into account diversification between risk factors, Insurance US (excluding CB-VA) is exposed to a EUR 0.9 billion decrease in regulatory capital and CB-VA is exposed to a EUR 0.3 billion decrease in regulatory capital within the context of the market and non-market sensitivity analysis.

INSURANCE INVESTMENTS

The Insurance Investments business consists of certain parts of ING Insurance that will not be part of the divestment of the Latin American, Eurasian and US business. In the course of the divestment process of these businesses the composition of the Insurance Investments portfolio may change. Furthermore, at some stage parts of the Insurance Investments portfolio itself may be divested or closed down. In some cases this can take many years. Currently the most important parts of this portfolio are:
- Financing activities of ING Insurance and some of it's sub holdings;
- Certain activities related to prior divestments, such as legal claims in Mexico and the ownership of a Mexican mortgage company;
- ING's stake in the Brazilian SulAmerica joint venture;
- The run-off of former non-life and reinsurance activities.

The largest asset is the Brazilian SulAmerica joint venture with a balance sheet value of EUR 394 million. Insurance Investments is primarily the responsibility of the ING CFO. Winding down financing activities is delegated to ING Capital Management. Other Insurance Investments businesses are managed by the newly appointed General Manager Insurance Investments. Insurance Investments is supported by the Finance and Risk functions of ING Group. From a risk perspective a key element of this structure is support from Group functions such as Credit Risk, Market Risk, Operational Risk and Legal & Compliance and Internal Audit and from the Functional Controller Insurance.

Capital management

amounts in millions of euros, unless stated otherwise

OBJECTIVES

ING Group Capital Management (Capital Management) is responsible for the sufficient capitalisation of ING Group entities at all times in order to manage the risk associated with ING's business activities. This involves the management, planning and allocation of capital within ING Group. ING's Corporate Treasury is part of Capital Management. It executes the necessary capital market transactions, term (capital) funding and risk management transactions. Capital Management monitors and plans capital adequacy on a consolidated basis at three levels: ING Group, ING Insurance and ING Bank. Capital Management takes into account the metrics and requirements of regulators (Insurance Group Directive (IGD) Solvency I, Tier 1 and BIS ratios and limits for hybrid capital), rating agencies (leverage ratios, Adjusted Equity) and internal models such as the economic capital and market value balance sheet approach for parts of ING Insurance including Available Financial Resources (AFR).

ING applies the following main capital definitions:

- Adjusted Equity (ING Group) – This rating agency concept is defined as shareholders' equity plus core Tier 1 securities, hybrid capital and prudential filters. See 'Capital Base' disclosures in this section. This capital definition is applied in comparing available capital to core debt for ING Group;
- Insurance Group Directive capital (ING Insurance) – This regulatory concept is defined as shareholders' equity plus hybrid capital, prudential filters and certain adjustments. IGD capital is calculated in accordance with method 3 'method based on accounting consolidation' of the Dutch Act on Financial Supervision. In this method the solvency margin is calculated on the basis of the consolidated accounts and is the difference of (i) the assets eligible for the inclusion in the calculation of the solvency margin based on the consolidated data; and (ii) the minimum amount of the solvency margin calculated on the basis of the consolidated data. In applying this method a solvency deficit of an insurance subsidiary, if any, is taken into account, as well as regulatory adjustments of the Dutch insurance subsidiaries based on the Dutch Act on Financial Supervision. See 'Capital Base' disclosures in this section. This capital definition is applied in comparing IGD capital to EU required capital base. This measurement of available capital is different from previous years;
- AFR (ING Insurance Eurasia) –This is a pre-tax market value concept, defined for the insurance operations of ING Insurance Eurasia as the market value of assets (MVA) less the market value of liabilities (MVL) on the balance sheet. The liabilities do not include perpetual hybrid capital which is included in AFR. The AFR valuation of ING Eurasia includes an adjustment for portfolio illiquidity. The AFR for pension funds is set equal to the statutory net equity. AFR is used as the measure of available capital in comparison with Economic Capital employed.
- EC, or Economic Capital (ING Insurance Eurasia), is the required capital for the insurance operations of ING Insurance Eurasia, based on a 99.5% confidence interval. This interval is aligned with the Solvency II capital requirement. The EC for pension funds is based on sectoral rules. The excess of AFR over EC is set based on the business strategy and resulting risk appetite defined by the Management Board Eurasia.
- Risk Based Capital (Domestic ING US Insurance only). In the US, regulators have well developed capital adequacy models and stress tests that reflect the unique characteristics of the US insurance industry. US domiciled insurance legal entities are required to hold minimum capital levels by state insurance regulators. The level of capital required by rating agencies to maintain an acceptable claims paying ability rating is well above these levels. The Domestic US Insurance business manages its statutory surplus primarily with respect to capital metrics that are aligned with the models of the various ratings agencies.
- Financial Leverage (ING Insurance). Financial Leverage is the sum of hybrid capital, sub-debt and net financial debt and is used to measure the debt ratio of ING Insurance starting 2010.

DEVELOPMENTS

In 2011 Capital Management's main focus remained to strengthen the capital position of ING Group, ING Bank and ING Insurance. ING's capital positions are well placed to deal with the uncertain financial environment, increasing regulatory requirements and the ambition to repay the remaining outstanding Core Tier 1 securities. Capital Management started managing towards separate US, Eurasia and Insurance Investments Financial Leverage and Capital Adequacy in 2011.

In May ING repaid EUR 2 billion of the Core Tier 1 securities issued in November 2008 at a 50% premium. Nevertheless ING maintained a strong capital position, driven mainly by strong capital generation at ING Bank. ING Bank met the additional capital requirements proposed by the EBA and agreed by the EU Council on 26 October 2011. In December 2011, ING successfully completed a liability management transaction with an average participation of 60%. The net impact of this transaction on ING Group's consolidated balance sheet was a reduction of EUR 2 billion in hybrid capital and a capital gain of EUR 0.7 billion.

On 8 March 2012, in preparation of the planned insurance and investment management divestments, ING Group has announced three separate exchange offers and consent solicitations on a total of three series of senior securities of ING Verzekeringen N.V. with a total nominal value of EUR 2.6 billion. The objective of the transaction is to remove potential ambiguity that the planned divestments may create with 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 transaction is scheduled to be completed in April 2012. Any difference between the book value of the currently outstanding securities and the fair value of the newly issued securities will be recognised in the profit and loss account upon completion of the exchange.

In 2011 ING Bank issued a total of EUR 23 billion long-term funding against EUR 10.7 billion of ING Bank's (including subsidiaries) long-term debt maturing.

POLICIES

The activities of Capital Management are executed on the basis of established policies, guidelines and procedures. The main documents that serve as guidelines for capital planning are the Capital Letter (comprising the approved targets and limits for capital), the Capital Planning Policy, the Dividend Policy and the Capital Request Policy. For the Corporate Treasury there are additional policies and limits that guide the management of the balance sheets and the execution of capital market transactions.

The above capital definitions and policies have been approved by the ING Group Executive Board or delegated authorities.

PROCESSES FOR MANAGING CAPITAL

In addition to measuring capital adequacy, Capital Management also ensures that sufficient capital is available through setting targets and limits relevant to the above mentioned metrics for ING Group, ING Bank, and ING Insurance and ensuring adherence to the set limits and targets through planning and executing capital management transactions. The process is supplemented by stress testing and scenario analysis. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process and results in a quarterly capital update report which is presented to both the ING Group Finance and Risk Committee and the ING Group Executive and Supervisory Boards. The main objective of the assessment is to ensure that ING Group as a whole has sufficient capital relative to its risk profile both in the short and the medium term.
A key priority of Capital Management is to make sure that strong stand-alone companies are created for banking and insurance in preparation of the separation. All operating entities need to stay adequately capitalised based on local regulatory and rating agency requirements and interdependencies should be reduced to a minimum. The entities should also be able to access capital markets independently.

CAPITAL ADEQUACY ASSESSMENT

During 2011, ING Group, ING Bank and ING Insurance were adequately capitalised.

ING Group's Capital base

	Group		Bank		Insurance	
	2011	2010 (1)	**2011**	2010	**2011**	2010
Shareholders' equity (parent)	**46,663**	40,904	**34,367**	34,452	**23,475**	20,159
Core Tier 1 securities	**3,000**	5,000				
Group hybrid capital (2)	**9,332**	12,039	**6,850**	8,438	**2,604**	2,094
Group leverage (3)	**7,917**	8,462				
Total capitalisation	**66,912**	66,405	**41,217**	42,890	**26,079**	22,253
Adjustments to equity:						
Revaluation reserve debt securities	**–4,142**	–1,158	**213**	–19		
Revaluation reserve crediting to life policyholders	**3,492**	1,488				
Revaluation reserve cash flow hedge	**–1,970**	–847	**822**	639	**–2,883**	–1,567
Goodwill (4)	**–2,006**	–2,908	**–1,390**	–1,645	**–786**	–1,425
Revaluation reserves fixed income & other	**–4,626**	–3,425	**–355**	–1,025	**–3,669**	–2,992
Revaluation reserves excluded from Tier 1 (5)			**–2,043**	–2,212		
Insurance hybrid capital (6)					**1,726**	2,250
Excess hybrid capital (7)		–43				–43
Minority interests			**817**	749	**62**	111
Deductions Tier 1			**–1,014**	–1,069		
Tier 1 capital for Bank			**38,622**	39,333		
Other qualifying capital (8)			**8,502**	9,813		
Insurance Group Directive adjustments (9)					**–2,792**	–1,244
Group leverage (core debt)	**–7,917**	–8,462				
Total capital (Adjusted Equity for Group, BIS capital for Bank and IGD capital for Insurance)	**54,369**	54,475	**47,124**	49,145	**21,406**	20,335

(1) These numbers have been restated to reflect the move towards fair value accounting for Guaranteed Minimum Withdrawal Benefits for life in the US closed block VA as of 1 January 2011. Further details on the restatement are available in the Accounting Policies for the consolidated annual accounts of ING Group under 'Changes in accounting policies'.
(2) Tier 1 instruments issued by ING Group (e.g. perpetual debt securities and preference shares) at nominal value. Group hybrid Tier 1 instruments other than preference shares are provided as hybrid capital to ING Bank or ING Insurance.
(3) Investments in subsidiaries less equity (including core Tier 1 securities) of the Group holding company. This net debt position is provided as equity to ING Insurance and ING Bank.
(4) According to the regulatory definition
(5) Includes mainly EUR –1,247 million (2010: EUR –1,727 million) in participations (e.g. Kookmin, Bank of Beijing) and other equity investments, EUR –355 million (2010: EUR –382 million) for Real estate for own use and EUR –441 million (2010: EUR –107 million) for own credit risk. The Dutch banking regulator requires this deduction to be made from Tier 1 capital. This deduction is added back to Tier 2 capital.
(6) Qualifying dated subordinated debt issued by ING Insurance at nominal value.
(7) Excess Insurance hybrids over the regulatory cap need to be deducted from both Insurance and Group capital.
(8) Consists of EUR 9,516 million (2010: EUR 10,882 million) Tier 2 capital and no Tier 3 (2010: nil), offset by EUR 1,014 million (2010: EUR 1,069 million) of regulatory deductions.
(9) An adjustment for the Dutch Financial supervision act. A 'test-of-adequacy' has to be included in the available capital measurement. The revaluation reserve debt securities and revaluation reserve crediting to life policyholders are not reversed out of the IGD capital definition.

Capital management continued

REGULATORY REQUIREMENTS

ING BANK

Capital adequacy and the use of regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision (The Basel Committee) and the European Union Directives, as implemented by the Dutch Central Bank (DNB) for supervisory purposes. The minimum Tier 1 ratio is 4% and the minimum total capital ratio (known as the BIS ratio) is 8% of all risk-weighted assets.

Basel II

As of 2008 ING Bank publishes risk-weighted assets (RWA), Tier 1 and BIS capital and the accompanying capital ratios based on Basel II data only. In addition, ING publishes the minimum required capital level according to Basel II and according to the Basel I floor. As of 2009 the Basel I floor is based on 80% of Basel I RWA. The minimum requirements according to Basel II and Basel I are both compared to total BIS available capital according to Basel II.

EBA capital exercise

An additional capital exercise was proposed by the EBA and agreed by the Council on 26 October 2011. This exercise required banks to strengthen their capital positions by building up a temporary capital buffer against sovereign debt exposures to reflect current market prices. In addition, it required them to establish a buffer such that the Core Tier 1 capital ratio reaches a level of 9% by the end of June 2012. ING Bank already meets the 9% Core Tier 1 ratio after the removal of the prudential filters on sovereign assets in the Available-for-Sale portfolio and prudent valuation of sovereign debt in the Held-to-Maturity and Loans and receivables portfolios, reflecting current market prices.

Capital position of ING Bank

	2011	2010
Shareholders' equity (parent)	**34,367**	34,452
Minority interests [(1)]	**817**	748
Subordinated loans qualifying as Tier 1 capital [(2)]	**6,850**	8,438
Goodwill and intangibles deductible from Tier 1 [(1)]	**–1,390**	–1,645
Deductions Tier 1	**–1,014**	–1,069
Revaluation reserve [(3)]	**–1,008**	–1,592
Available capital – Tier 1	**38,622**	39,332
Supplementary capital – Tier 2 [(4)]	**9,516**	10,882
Deductions	**–1,014**	–1,069
BIS capital	**47,124**	49,145
Risk-weighted assets	**330,421**	321,103
Core Tier 1 ratio	**9.62%**	9.62%
Tier 1 ratio	**11.69%**	12.25%
BIS ratio	**14.26%**	15.30%
Required capital based on Basel I floor [(5)]	**31,107**	29,860
BIS ratio based on Basel I floor [(5)]	**12.12%**	13.17%

(1) According to the regulatory definition.
(2) Subordinated loans qualifying as Tier 1 capital have been placed by ING Groep N.V. with ING Bank N.V.
(3) Includes revaluation debt securities, revaluation reserve cash flow hedge and revaluation reserves equity and real estate (see ING's Capital base table, footnote 5).
(4) Includes eligible lower Tier 2 loans and revaluation reserves equity and real estate revaluations removed from Tier 1 capital.
(5) Using 80% of Basel I Risk-Weighted Assets.

ING INSURANCE

The table below shows the Insurance Group Directive position which represents the consolidated regulatory Solvency I position of ING Insurance business. The Insurance companies complied with their respective local regulatory requirements.

Capital position of ING Insurance		
	2011	2010 [1]
Shareholders' equity (parent)	**23,475**	20,159
Hybrids issued by ING Group [2]	**2,604**	2,094
Hybrids issued by ING Insurance [3]	**1,726**	2,207
Required regulatory adjustments	**–6,399**	–4,125
IGD capital [4]	**21,406**	20,335
EU required capital base [4]	**9,515**	8,826
IGD Solvency I ratio [4,5]	**225%**	230%

(1) These numbers have been restated to reflect the move towards fair value accounting for Guaranteed Minimum Withdrawal Benefits for life in the US closed block VA as of 1 January 2011. Further details on the restatement are available in the Accounting Policies for the consolidated annual accounts of ING Group under 'Changes in accounting policies'.
(2) Hybrids issued by ING Group at notional value.
(3) Hybrids issued by ING Insurance at notional value capped at 25% of EU required capital.
(4) In the fourth quarter 2011, ING reviewed the calculation of the IGD ratio to ensure consistent application throughout the Group. As a consequence, several changes have been made, mainly related to (i) certain provisions which are internally reinsured and for which required capitals were netted out in the past and (ii) changes in the allocation of policyholder liabilities to the relevant capital requirement categories. The reported IGD Solvency I ratio in 2010 of 250% has been adjusted for this change into 230%.
(5) The actual required regulatory adjustments for IGD capital and the EU required capital may be different from the estimate since the statutory results are not final until filed with the regulators.

ING Insurance continues to aim that all operating entities are adequately capitalised based on local regulatory and rating agency requirements and that on a consolidated basis, the financial leverage (hybrids, sub-debt and net financial debt) of ING Insurance is appropriate relative to the capital base. The financial leverage decreased in 2011 mainly due to the divestment of the business in Latin America.

Capital base and financial leverage of ING Insurance		
	2011	2010 [1]
Shareholders' equity (parent)	**23,475**	20,159
Revaluation reserve debt securities	**–4,379**	–1,164
Revaluation reserve crediting to life policyholders	**3,492**	1,488
Revaluation reserve cash flow hedge	**–2,883**	–1,567
Goodwill	**–786**	–1,425
Minority interests	**62**	111
Capital base	**18,981**	17,602
Group Hybrid capital [2]	**2,617**	2,094
Insurance hybrid capital [3]	**1,751**	2,313
Total hybrids	**4,368**	4,407
External debt issued by ING Verzekeringen N.V.	**2,855**	3,347
External debt issued by US Holding companies	**930**	1,384
Other net financial debt [4]	**1,686**	2,273
Total financial debt	**5,471**	7,004

(1) These numbers have been restated to reflect the move towards fair value accounting for Guaranteed Minimum Withdrawal Benefits for life in the US closed block VA as of 1 January 2011. Further details on the restatement are available in the Accounting Policies for the consolidated annual accounts of ING Group under 'Changes in accounting policies'.
(2) Hybrids issued by ING Group at amortised cost value consistent with IFRS carrying value.
(3) Hybrids issued by ING Insurance at amortised cost value consistent with IFRS carrying value.
(4) Includes net internal borrowings from the operating subsidiaries, net of cash and current tax liability at the holding level and current tax liabilities of the holding companies, mainly ING Verzekeringen N.V. and ING America Insurance Holdings Inc.

Capital management continued

For ING Insurance in total, the capital base for financial leverage purposes is fully based on IFRS accounting, whereas the IGD capital is corrected for some regulatory adjustments. The table below provides a reconciliation.

Reconciliation between IGD capital and Capital base		
	2011	2010
IGD Capital	**21,406**	20,335
Hybrids issued by ING Group	**–2,604**	–2,094
Hybrids issued by ING Insurance	**–1,726**	–2,207
Revaluation reserve debt securities	**–4,379**	–1,164
Revaluation reserve crediting to life policyholders	**3,493**	1,488
Required regulatory adjustments	**2,791**	1,244
Capital base	**18,981**	17,602

For ING Insurance Eurasia, Available Financial Resources (AFR) continues to be important, especially as an evolving proxy for the Own Funds derivation from our internal model under Solvency II. The following table presents the reconciliation from the 2010 AFR and EC for Insurance excluding US as reported in the Annual Accounts 2010, to the comparable basis for Eurasia 2011. This reflects the changes in scope and methodology.

2010 AFR and EC reconciliation		
amounts in billions of euros	AFR	EC
As reported for ING Insurance excluding US in 2010	19.7	10.4
Excluding non-ING Insurance Eurasia AFR and EC	1.4	–2.0
ING Insurance Eurasia 2010, before changes	21.1	8.4
Change pension funds fee business to statutory basis	–1.5	–0.1
Change in models and methodology	–1.0	3.0
ING Insurance Eurasia 2010, on a basis comparable to 2011	18.6	11.3

The exclusion of non-ING Insurance Eurasia AFR and EC mainly relate to the business in Latin America and the financial leverage of ING Insurance excluding US that was considered in last year's AFR position and EC requirement. The capital structure of Eurasia underlying the AFR does not include any senior debt.

The fee-based pension funds business in Central and Eastern Europe are regulated by local sectoral rules rather than by Solvency II regulations for insurance entities. AFR and EC of the fee-based pensions administration business were previously calculated using market consistent valuation approach. This has been replaced by using the statutory net equity and required capital of the pension funds administration companies. The impact on AFR is EUR 1.5 billion and on EC EUR 0.1 billion.

ING Insurance Eurasia has carried out a review of the internal model in the context of a Solvency II gap analysis. In that review we benchmarked our models against the Solvency II Standard Formula, the EIOPA consultation papers and commentary of expert groups like CRO Forum and Groupe Consultatif. In the Annual Report 2010 it was estimated that these changes would result in a material increase of EC, between EUR 1 billion and EUR 2 billion. During 2011 further refinements and analyses took place which on a comparable basis would lead to an increase in the EC of 2010 of EUR 3.0 billion. The changes are related to equity risk (EUR 0.6 billion), operational risk (EUR 0.1 billion), credit spread and illiquidity premium risk (EUR 1.3 billion), business risk (EUR 0.1 billion) and less diversification (EUR 0.8 billion). The changes mainly due to new illiquidity premium method resulted in an AFR decrease of EUR 1.0 billion. The Solvency II legislative process is still ongoing. In particular, aspects determining the valuation of the policyholder liabilities and thereby the sensitivity to market and other risk factors on the own funds are not yet settled. The Economic Capital model will continue to be updated to reflect most recent market data, developments in best practices, and Solvency II legislation

At the end of 2010 the AFR for ING Insurance Eurasia was EUR 18.5 billion. As described in the Risk Paragraph. EC, based on 99.5% confidence interval was EUR 11.4 billion, which leads to excess of AFR over EC for 2010 of EUR 7.1 billion. For 2011 the AFR is EUR 17.3 billion, EC is EUR 10.5 billion and the excess of AFR over EC is EUR 6.8 billion.

For the capital adequacy assessment of ING Insurance's US domiciled regulated insurance business, available capital is measured under US statutory accounting principles and required capital is measured under the US regulatory Risk Based Capital (RBC) methodology as prescribed by the National Association of Insurance Commissioners (NAIC). For ING's US domiciled regulated insurance business, the consolidated RBC ratio (available capital/required capital) is estimated to be approximately 488% for the period ended 31 December 2011. The actual US consolidated RBC ratio may be different from the estimate since the statutory results are not final until filed with the regulators. For ING Insurance's US domiciled regulated insurance business, the RBC ratio was 426% at the end of 2010.

ING GROUP
The debt/equity ratio of ING Group as at year-end 2011 was 12.71% (2010: 13.44%).

ING Group reports to the Dutch Central Bank as required under the Dutch implementation of the financial conglomerates directive (FICO). The directive mainly covers risk concentrations in the group, intra-group transactions and an assessment of the capital adequacy of the Group.

In the following table, we show the Group's FICO ratio on the following basis:
- Insurance required capital from applying European Solvency I rules to all ING Insurance entities globally (regardless of local capital requirements);
- Bank required capital based on applying Basel II with the Basel I floor (80% of Basel I Risk Weighted Assets);
- Group FICO capital using an approach similar to that used for Bank BIS capital and Insurance IGD capital whereby Group leverage is deducted.

Regulatory capital adequacy ING Group

	2011	2010
BIS capital	47,123	49,145
IGD capital	21,406	20,336
Group leverage (core debt)	–7,917	–8,462
Regulatory capital	60,612	61,019
Required capital banking operations	31,107	29,860
Required capital insurance operations	9,515	8,826
Total required capital	40,622	38,686
FICO ratio	149%	158%

Capital adequacy and ratios

Quantitative disclosures on capital measures and ratios

		Group		Bank		Insurance
	2011	2010	2011	2010	2011	2010
Tier 1 ratio (Bank)						
Year-end actual Tier 1 ratio			11.69%	12.25%		
Regulatory minimum Tier 1 ratio			4.00%	4.00%		
Target minimum Tier 1 ratio			10.00%	10.00%		
BIS ratio (Bank)						
Year-end actual BIS ratio			14.26%	15.30%		
Regulatory minimum BIS ratio			8.00%	8.00%		
Target minimum BIS ratio			10.00%	10.00%		
Insurance Groups Directive						
Year-end actual Capital coverage ratio					225%	230%
Required capital					100%	100%
Target ratio					150%	150%
Debt/Equity ratio (Group)						
Debt/Equity ratio	12.71%	13.44%				
Target maximum Debt/Equity ratio	15.00%	15.00%				

Capital management continued

The Tier 1 ratio and the BIS ratio are regulatory requirements. Internally ING manages on the Core Tier 1 ratio, for which the target was raised from 8.0% to 8.5% in 2011. The actual ratios were 9.62% at the end of 2010 and also 9.62% at the end of 2011. ING expects the BIS ratio to lose its meaning.

Main credit ratings of ING at 31 December 2011

	Standard & Poor's		Moody's		Fitch	
	rating	outlook	rating	outlook	rating	outlook
ING Groep N.V.						
– long-term	A	stable	A1	stable	A	stable
ING Bank N.V.						
– short-term	A-1		P-1		F1+	
– long-term	A+	stable	Aa3	stable	A+	stable
– financial strength			C+			
ING Verzekeringen N.V.						
– short-term	A-2		P-2		F2	
– long-term	A–	negative	Baa2	developing	A–	negative

ING's key credit ratings and outlook are shown in the table above. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency.

A security rating is not a recommendation to buy, sell or hold securities and each rating should be evaluated independently of any other rating. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency if, in the rating agency's judgment, circumstances so warrant. ING accepts no responsibility for the accuracy or reliability of the ratings.

AUTHORISATION OF ANNUAL ACCOUNTS
Amsterdam, 12 March 2012

THE SUPERVISORY BOARD
Jeroen van der Veer, *chairman*
Peter A.F.W. Elverding, *vice-chairman*
J.P. (Tineke) Bahlmann
Henk W. Breukink
Sjoerd van Keulen
Piet C. Klaver
Joost Ch.L. Kuiper
Aman Mehta
Luc A.C.P. Vandewalle
Lodewijk J. de Waal

THE EXECUTIVE BOARD
Jan H.M. Hommen, *CEO and chairman*
Patrick G. Flynn, *CFO*

Parent company balance sheet of ING Group

as at 31 December before appropriation of result

amounts in millions of euros	2011	2010
Assets		
Investments in wholly owned subsidiaries **1**	**57,949**	54,594
Other assets **2**	**11,203**	11,965
Total assets	**69,152**	66,559
Equity 3		
Share capital	**919**	919
Share premium	**16,034**	16,034
Non-voting equity securities	**3,000**	5,000
Legal reserves [(1)]	**7,158**	5,674
Other reserves	**16,786**	15,467
Unappropriated result	**5,766**	2,810
	49,663	45,904
Liabilities		
Subordinated loans **4**	**10,017**	11,766
Other liabilities **5**	**9,472**	8,889
Total equity and liabilities	**69,152**	66,559

(1) Legal reserves includes Share of associates reserve of EUR 8,100 million (2010: EUR 6,613 million) and Currency translation reserve of EUR –942 million (2010: EUR –939 million).

References relate to the notes starting on page 290. These form an integral part of the parent company annual accounts.

Parent company profit and loss account of ING Group

for the years ended 31 December

amounts in millions of euros	2011	2010
Result of group companies after taxation	5,337	3,004
Other results after taxation	429	–194
Net result	5,766	2,810

Parent company statement of changes in equity of ING Group

for the years ended 31 December

amounts in millions of euros	Share capital	Share premium	Non-voting equity securities	Share of associates reserve	Currency translation reserve	Other reserves [1]	Total
Balance as at 1 January 2010	919	16,034	5,000	1,982	–955	15,665	38,645
Unrealised revaluations after taxation				3,549		–72	3,477
Realised gains/losses transferred to profit and loss				86			86
Transfer to insurance liabilities/DAC				–1,644			–1,644
Change in cash flow hedge reserve revaluations				475			475
Unrealised revaluations from net investment hedges				–777			–777
Exchange rate differences				2,851	16		2, 867
Other revaluations							
Total amount recognised directly in equity				4,540	16	–72	4,484
Net result						2,810	2,810
				4,540	16	2,738	7,294
Transfer to share of associates reserve				91		–91	
Employee stock option and share plans						–57	–57
Purchases/sales of treasury shares						22	22
Balance as at 31 December 2010	919	16,034	5,000	6,613	–939	18,277	45,904
Unrealised revaluations after taxation				**921**		**224**	**1,145**
Realised gains/losses transferred to profit and loss				**723**			**723**
Transfer to insurance liabilities/DAC				**–2,004**			**–2,004**
Change in cash flow hedge reserve				**1,124**			**1,124**
Unrealised revaluations from net investment hedges				**167**			**167**
Exchange rate differences				**–150**	**–3**		**–153**
Other revaluations							
Total amount recognised directly in equity				**781**	**–3**	**224**	**1,002**
Net result						**5,766**	**5,766**
				781	**–3**	**5,990**	**6,768**
Transfer to share of associates reserve				**706**		**–706**	
Employee stock option and share plans						**–59**	**–59**
Repayment of non-voting equity securities			**–2,000**				**–2,000**
Repurchase premium						**–1,000**	**–1,000**
Purchases/sales of treasury shares						**50**	**50**
Balance as at 31 December 2011	**919**	**16,034**	**3,000**	**8,100**	**–942**	**22,552**	**49,663**

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

Accounting policies for the parent company annual accounts of ING Group

BASIS OF PRESENTATION

The parent company accounts of ING Group are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Dutch Civil Code. The accounting policies applicable to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Dutch Civil Code. The principles of valuation and determination of results stated in connection with the consolidated balance sheet and profit and loss account are also applicable to the parent company balance sheet and profit and loss account with the exception of Investments in group companies and investments in associates which are recognised at net asset value with goodwill, if any, recorded under intangible assets.

The profit and loss account 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 reserve of the associates are reflected in the Share of associates reserve, which forms part of Shareholders' equity. Changes in balance sheet values due to the results of these associates, accounted for in accordance with ING Group accounting policies, are included in the profit and loss account. Other changes in the balance sheet value of these associates, other than those due to changes in share capital, are included in Share of associates reserve in Other reserves.

A legal reserve is carried at an amount equal to the share in the results of associates since their first inclusion at net asset value less the amount of profit distributions to which rights have accrued in the interim. Profit distributions which can be repatriated to the Netherlands without restriction are likewise deducted from the Share of associates reserve.

The comparative amounts for 2010 are restated for the change in accounting policy as disclosed in the section 'Changes in accounting policies' in the Accounting principles for the consolidated annual accounts.

Notes to the parent company annual accounts of ING Group

amounts in millions of euros, unless stated otherwise

1 INVESTMENTS IN WHOLLY OWNED SUBSIDIARIES

Investments in wholly owned subsidiaries	Balance sheet value	
	2011	2010
ING Bank N.V.	**34,345**	34,451
ING Verzekeringen N.V.		20,134
ING Insurance Topholding N.V.	**23,465**	
Other	**139**	9
	57,949	54,594

ING Insurance Topholding N.V. was incorporated on 29 March 2011. ING Group transferred ownership of ING Verzekeringen N.V. to ING Insurance Topholding N.V. on 29 December 2011.

Other includes certain intercompany eliminations between ING Bank N.V., ING Insurance Topholding N.V. and ING Verzekeringen N.V.

Changes in investments in wholly owned subsidiaries	**2011**	2010
Opening balance	**54,594**	45,786
Revaluations	**1,022**	4,514
Result of group companies	**5,337**	3,004
Capital contribution		1,500
Dividend	**–3,000**	–200
	57,953	54,604
Changes in ING Groep N.V. shares held by group companies	**–4**	–10
Closing balance	**57,949**	54,594

2 OTHER ASSETS

Other assets	**2011**	2010
Receivables from group companies	**10,716**	11,502
Other receivables, prepayments and accruals	**487**	463
	11,203	11,965

As at 31 December 2011 an amount of EUR 10,448 million (2010: EUR 11,524 million) is expected to be settled after more than one year from the balance sheet date.

3 EQUITY

Equity	**2011**	2010
Share capital	**919**	919
Share premium	**16,034**	16,034
Non-voting equity securities	**3,000**	5,000
Share of associates reserve	**8,100**	6,613
Currency translation reserve	**–942**	–939
Other reserves	**22,552**	18,277
Equity	**49,663**	45,904

The Share of associates reserve includes the following components: Reserve for non-distributable retained earnings of associates of EUR 1,573 million (2010: EUR 907 million) and Revaluation reserve of associates of EUR 6,527 million (2010: EUR 5,706 million).

Share capital				
	Ordinary shares (par value EUR 0.24)			
	Number x1,000		Amount	
	2011	2010	**2011**	2010
Authorised share capital	**14,500,000**	4,500,000	**3,480**	1,080
Unissued share capital	**10,668,439**	668,439	**2,561**	161
Issued share capital	**3,831,561**	3,831,561	**919**	919

No changes have occurred in the issued share capital in 2011 and 2010.

Share premium

Changes in Share premium are disclosed in the Parent company statement of changes in equity of ING Group.

Changes in other reserves and unappropriated result

2011	**Retained earnings**	**Treasury shares**	**Other reserves**	**Total Other reserves**	**Unappro-priated result**	**Total**
Opening balance	**21,444**	**–715**	**–5,262**	**15,467**	**2,810**	**18,277**
Result for the year					**5,766**	**5,766**
Unrealised revaluations after taxation	**224**			**224**		**224**
Changes in treasury shares		**50**		**50**		**50**
Repurchase premium	**–1,000**			**–1,000**		**–1,000**
Dividend						
Transfer to share of associates reserve	**–706**			**–706**		**–706**
Transfer to retained earnings	**2,810**			**2,810**	**–2,810**	
Employee stock option and share plans	**–59**			**–59**		**–59**
Closing balance	**22,713**	**–665**	**–5,262**	**16,786**	**5,766**	**22,552**

Changes in other reserves and unappropriated result

2010	Retained earnings	Treasury shares	Other reserves	Total Other reserves	Unappro-priated result	Total
Opening balance	22,670	–737	–5,262	16,671	–1,006	15,665
Result for the year					2,810	2,810
Unrealised revaluations after taxation	–72			–72		–72
Changes in treasury shares		22		22		22
Transfer to share of associates reserve	–91			–91		–91
Transfer to retained earnings	–1,006			–1,006	1,006	
Employee stock option and share plans	–57			–57		–57
Other						
Closing balance	21,444	–715	–5,262	15,467	2,810	18,277

As at 31 December 2011, the Share of associates reserve included an amount of EUR 836 million (2010: EUR 741 million) related to the former Stichting Regio Bank and the former Stichting Vakbondsspaarbank SPN that cannot be freely distributed.

Positive components of the Share of associates reserve and Currency translation reserve cannot be freely distributed. The reserve for cash flow hedges is included in the Share of associates reserve on a net basis. Retained earnings can be freely distributed, except for an amount equal to the negative balance in each of the components of the Currency translation reserve and Share of associates reserve. Unrealised gains and losses on derivatives, other than those used in cash flow hedges, are presented in the profit and loss account and are therefore part of Retained earnings and are not included in Share of associates reserve.

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

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

The total amount of non-distributable reserves is EUR 9,042 million (2010: EUR 7,552 million).

See Note 13 'Shareholders' equity (parent)/non-voting equity securities' in the consolidated annual accounts for additional information, including restrictions with respect to dividend and repayment of capital.

Change in treasury shares

	Amount		Number	
	2011	2010	**2011**	2010
Opening balance	**715**	737	**51,300,101**	47,047,225
Purchased/sold	**–17**	48	**–625,803**	6,393,739
Share-based payments	**–19**	–23	**–1,368,381**	–2,140,863
Other	**–14**	–47		
Closing balance	**665**	715	**49,305,917**	51,300,101

4 SUBORDINATED LOANS

Subordinated loans

Interest rate	Year of issue	Due date	Notional amount in original currency		Balance sheet value 2011	2010
9.000%	2008	Perpetual	EUR	10	**10**	10
8.500%	2008	Perpetual	USD	2,000	**1,527**	1,469
8.000%	2008	Perpetual	EUR	1,500	**1,500**	1,485
7.375%	2007	Perpetual	USD	1,500	**1,176**	1,111
6.375%	2007	Perpetual	USD	1,045	**804**	773
5.140%	2006	Perpetual	GBP	66	**79**	692
5.775%	2005	Perpetual	USD	364	**292**	741
6.125%	2005	Perpetual	USD	700	**533**	504
4.176%	2005	Perpetual	EUR	169	**168**	498
Variable	2004	Perpetual	EUR	563	**527**	994
6.200%	2003	Perpetual	USD	500	**376**	363
Variable	2003	Perpetual	EUR	432	**424**	729
7.200%	2002	Perpetual	USD	1,100	**839**	748
7.050%	2002	Perpetual	USD	800	**603**	528
Variable	2000	31 December 2030	USD	1,500	**1,159**	1,121
					10,017	11,766

The Subordinated loans rank subordinated to the Other liabilities in a winding-up of ING.

5 OTHER LIABILITIES

Other liabilities by type

	2011	2010
Debenture loans	5,500	6,571
Amounts owed to group companies	2,716	501
Other amounts owed and accrued liabilities	1,103	1,581
Derivatives from group companies	153	236
	9,472	8,889

Debenture loans

			Balance sheet value	
Interest rate	Year of issue	Due date	2011	2010
4.125%	2011	23 March 2015	653	
5.625%	2008	3 September 2013	1,053	1,072
4.699%	2007	1 June 2035	117	117
4.750%	2007	31 May 2017	1,932	1,890
Variable	2006	28 June 2011		749
Variable	2006	11 April 2016	998	997
4.125%	2006	11 April 2016	747	746
6.125%	2000	4 January 2011		1,000
			5,500	6,571

The number of debentures held by group companies as at 31 December 2011 was 369,160 with a balance sheet value of EUR 35 million (2010: 131,680 with a balance sheet value of EUR 13 million).

Amounts owed to group companies by remaining term

	2011	2010
Within 1 year	2,216	1
More than 1 year but less than 5 years	500	500
	2,716	501

The interest rate on the Amounts owed to group companies as at 31 December 2011 was 1.896% (2010: 2.850%).

Other amounts owed and accrued liabilities are payable within one year.

Derivatives from group companies by remaining term

	2011	2010
Within 1 year	28	25
More than 1 year but less than 5 years	125	
More than 5 years		211
	153	236

6 OTHER

Guarantees

As at 31 December 2011, ING Group had no guarantees outstanding on behalf of third parties (2010: nil). ING Group has issued statements of liability in connection with Section 403, Book 2 of the Dutch Civil Code and other guarantees for a number of group companies.

Fiscal unity

ING Groep N.V. forms a fiscal unity with several Dutch banking entities for corporation tax purposes. ING Groep N.V. and its banking subsidiaries that form part of the fiscal unity are jointly and severally liable for taxation payable by the fiscal unity.

REMUNERATION OF SENIOR MANAGEMENT, EXECUTIVE BOARD AND SUPERVISORY BOARD

The information on share-based payment plans and remuneration of the members of the Executive Board and the Supervisory Board is included in the Consolidated annual accounts (page 172 up to and including page 173).

AUTHORISATION OF PARENT COMPANY ANNUAL ACCOUNTS

Amsterdam, 12 March 2012

THE SUPERVISORY BOARD
Jeroen van der Veer, *chairman*
Peter A.F.W. Elverding, *vice-chairman*
J.P. (Tineke) Bahlmann
Henk W. Breukink
Sjoerd van Keulen
Piet C. Klaver
Joost Ch.L. Kuiper
Aman Mehta
Luc A.C.P. Vandewalle
Lodewijk J. de Waal

THE EXECUTIVE BOARD
Jan H.M. Hommen, *CEO and chairman*
Patrick G. Flynn, *CFO*

Independent auditor's report

To: the Shareholders, the Supervisory Board and the Executive Board of ING Groep N.V.

REPORT ON THE ANNUAL ACCOUNTS

We have audited the accompanying annual accounts 2011 of ING Groep N.V., Amsterdam (as set out on pages 90 to 295). The annual accounts include the consolidated annual accounts and the parent company annual accounts. The consolidated annual accounts comprise the consolidated balance sheet as at 31 December 2011, the profit and loss account, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The parent company annual accounts comprise the parent company balance sheet as at 31 December 2011, the parent company profit and loss account for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing, and the standards of the Public Company Accounting Oversight Board (United States). This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether about the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated annual accounts

In our opinion, the consolidated annual accounts give a true and fair view of the financial position of ING Groep N.V. as at 31 December 2011 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the parent company annual accounts

In our opinion, the parent company annual accounts give a true and fair view of the financial position of ING Groep N.V. as at 31 December 2011 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the report of the Executive Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the report of the Executive Board, to the extent we can assess, is consistent with the annual accounts as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 12 March 2012

Ernst & Young Accountants LLP

signed by C.B. Boogaart

Proposed appropriation of result

amounts in millions of euros, except for amounts per share

PROPOSED APPROPRIATION OF RESULT

The result is appropriated pursuant to Article 37 of the Articles of Association of ING Groep N.V., the relevant stipulations of which state that the Executive Board, subject to the approval of the Supervisory Board, determines what part of the result is to be appropriated to reserves and that the remaining part of the result shall be at the disposal of the General Meeting.

For 2011, the Executive Board, with the approval of the Supervisory Board, has determined to appropriate the entire result to reserves, so that no dividend will be paid.

In 2011 no interim dividend was paid.

Proposed appropriation of result

Net result	**5,766**
Addition to reserves pursuant to Article 37 (4) of the Articles of Association	**5,766**
At the disposal of the General Meeting of Shareholders pursuant to Article 37 (5) of the Articles of Association	**0**
Dividend of EUR 0.00 per ordinary share	

Risk factors

Any of the risks described below could have a material adverse effect on the business activities, financial condition, results of operations and prospects of ING. The market price of ING shares could decline due to any of these risks, and investors could lose all or part of their investments. Additional risks of which the Company is not presently aware could also affect the business operations of ING and have a material adverse effect on ING's business activities, financial condition, results of operations and prospects. In addition, the business of a multinational, broad-based financial services firm such as ING is inherently exposed to risks that only become apparent with the benefit of hindsight. The sequence in which the risk factors are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

RISKS RELATED TO FINANCIAL CONDITIONS, MARKET ENVIRONMENT AND GENERAL ECONOMIC TRENDS

Because we are a financial services company conducting business on a global basis, our revenues and earnings are affected by the volatility and strength of the economic, business and capital markets environments specific to the geographic regions in which we conduct business. The ongoing turbulence and volatility of such factors have adversely affected, and may continue to adversely affect, the profitability and solvency of our insurance, banking and asset management business.
Factors such as interest rates, securities prices, credit spreads, liquidity spreads, exchange rates, consumer spending, changes in client behaviour, business investment, real estate and private equity valuations, government spending, inflation, the volatility and strength of the capital markets, political events and trends, and terrorism all impact the business and economic environment and, ultimately, our solvency and the amount and profitability of business we conduct in a specific geographic region. In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, higher corporate and private debt defaults, lower business investments, and lower consumer spending, the demand for banking and insurance products is usually adversely affected and ING's reserves and provisions typically would increase, resulting in overall lower earnings. Securities prices, real estate values and private equity valuations may also be adversely impacted, and any such losses would be realized through profit and loss and shareholders' equity. Some insurance products contain minimum return or accumulation guarantees. If returns do not meet or exceed the guarantee levels we may need to set up additional reserves to fund these future guaranteed benefits. In addition, we may experience an elevated incidence of claims and lapses or surrenders of policies. Our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Similarly, a downturn in the equity markets causes a reduction in commission income we earn from managing portfolios for third parties, income generated from our own proprietary portfolios, asset-based fee income on certain insurance products, and our capital base. We also offer a number of insurance and financial products that expose us to risks associated with fluctuations in interest rates, securities prices, corporate and private default rates, the value of real estate assets, exchange rates and credit spreads. See also' '—Interest rate volatility and other interest rate changes may adversely affect our profitability', '—Turbulence and volatility in the financial markets have adversely affected us, and may continue to do so', and '—Market conditions observed over the last year may increase the risk of loans being impaired. We are exposed to declining property values on the collateral supporting residential and commercial real estate lending' below.

In case one or more of the factors mentioned above adversely affects the profitability of our business this might also result, among other things, in the following:

- the unlocking of deferred acquisition costs impacting earnings; and/or
- reserve inadequacies which could ultimately be realised through profit and loss and shareholders' equity; and/or
- the write down of tax assets impacting net results; and/or
- impairment expenses related to goodwill and other intangible assets, impacting net results; and/or
- movements in Risk Weighted Assets for the determination of required capital.

Shareholders' equity and our net result may be significantly impacted by turmoil and volatility in the worldwide financial markets. Negative developments in financial markets and/or economies may have a material adverse impact on shareholders' equity and net result in future periods, including as a result of the potential consequences listed above. See 'Turbulence and volatility in the financial markets have adversely affected us, and may continue to do so below'.

Adverse capital and credit market conditions may impact our ability to access liquidity and capital, as well as the cost of credit and capital.
The capital and credit markets have been experiencing extreme volatility and disruption since the second half of 2008. In some cases, market developments have resulted in restrictions on the availability of liquidity and credit capacity for certain issuers.

We need liquidity in our day-to-day business activities to pay our operating expenses, interest on our debt and dividends on our capital stock; maintain our securities lending activities; and replace certain maturing liabilities. The principal sources of our funding are deposit funds, insurance premiums, annuity considerations, cash flow from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. Sources of liquidity in normal markets may also include a variety of short- and long-term instruments, including repurchase agreements, commercial paper, medium- and long-term debt, subordinated debt securities, capital securities and stockholders' equity.

In the event current resources do not satisfy our needs, we may need to seek additional financing. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects. Similarly, our access to funds may be limited if regulatory authorities or rating agencies take negative actions against us. If our internal sources of liquidity prove to be insufficient, there is a risk that external funding sources might not be available, or available at unfavourable terms.

Disruptions, uncertainty or volatility in the capital and credit markets, such as that experienced over the past few years, including in relation to the ongoing European sovereign debt crisis, may also limit our access to capital required to operate our business. Such market conditions may in the future limit our ability to raise additional capital to support business growth, or to counter-balance the consequences of losses or increased regulatory capital requirements. This could force us to (1) delay raising capital, (2) reduce, cancel or postpone payment of dividends on our shares, (3) reduce, cancel or postpone interest payments on other securities, (4) issue capital of different types or under different terms than we would otherwise, or (5) incur a higher cost of capital than in a more stable market environment. This would have the potential to decrease both our profitability and our financial flexibility. Our results of operations, financial condition, cash flows and regulatory capital position could be materially adversely affected by disruptions in the financial markets.

In the course of 2008 and 2009, governments around the world, including the Dutch government, implemented unprecedented measures to provide assistance to financial institutions, in certain cases requiring (indirect) influence on or changes to governance and remuneration practices. In certain cases governments nationalised companies or parts thereof. The measures adopted in the Netherlands include both liquidity provision and capital reinforcement, and a Dutch Credit Guarantee Scheme. The liquidity and capital reinforcement measures expired on 10 October 2009, and the Credit Guarantee Scheme of the Netherlands expired on 31 December 2010. Our participation in these measures has resulted in certain material restrictions on us, including those required by to with the European Commission ('EC') as part of our Restructuring Plan. See 'Risks Related to the Restructuring Plan – Our agreements with the Dutch State impose certain restrictions regarding the issuance or repurchase of our shares and the compensation of certain senior management positions', 'Risks Related to the Restructuring Plan – The implementation of the Restructuring Plan and the divestments anticipated in connection with that plan will significantly alter the size and structure of the Group and involve significant costs and uncertainties that could materially impact the Group'. The Restructuring Plan as well as any potential future transactions with the Dutch State or any other government, if any, or actions by such government regarding ING could adversely impact the position or rights of shareholders, bondholders, customers or creditors and our results, operations, solvency, liquidity and governance.

We are subject to the jurisdiction of a variety of banking and insurance regulatory bodies, some of which have proposed regulatory changes that, if implemented, would hinder our ability to manage our liquidity in a centralised manner. Furthermore, regulatory liquidity requirements in certain jurisdictions in which we operate are generally becoming more stringent, including those forming part of the 'Basel III' requirements discussed further below under '–We operate in highly regulated industries. There could be an adverse change or increase in the financial services laws and/or regulations governing our business', undermining our efforts to maintain this centralised management of our liquidity. These developments may cause trapped pools of liquidity, resulting in inefficiencies in the cost of managing our liquidity, and hinder our efforts to integrate our balance sheet, which is an essential element of our Restructuring Plan.

The default of a major market participant could disrupt the markets.
Within the financial services industry the severe distress or default of any one institution (including sovereigns) could lead to defaults or severe distress by other institutions. Such distress or defaults could disrupt securities markets or clearance and settlement systems in our markets. This could cause market declines or volatility. Such a failure could lead to a chain of defaults that could adversely affect us and our contract counterparties. Concerns about the credit worthiness of a sovereign or financial institution (or a default by any such entity) could lead to significant liquidity and/or solvency problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a sovereign or a counterparty may lead to market-wide liquidity problems and losses or defaults by us or by other institutions. This risk is sometimes referred to as 'systemic risk' and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom we interact on a daily basis and financial instruments of sovereigns in which we invest. Systemic risk could have a material adverse effect on our ability to raise new funding and on our business, financial condition, results of operations, liquidity and/or prospects. In addition, such a failure could impact future product sales as a potential result of reduced confidence in the financial services industry.

Management believes that despite increased attention recently, systemic risk to the markets in which we operate continues to exist, and dislocations caused by the interdependency of financial market participants continues to be a potential source of material adverse changes to our business, results of operations and financial condition.

Because our life and non-life insurance and reinsurance businesses are subject to losses from unforeseeable and/or catastrophic events, which are inherently unpredictable, our actual claims amount may exceed our established reserves or we may experience an abrupt interruption of activities, each of which could result in lower net results and have an adverse effect on our results of operations.
In our life and non-life insurance and reinsurance businesses, we are subject to losses from natural and man-made catastrophic events. Such events include, without limitation, weather and other natural catastrophes such as hurricanes, floods, earthquakes and epidemics that may be more severe or difficult to predict as a result of variable climate conditions, as well as events such as terrorist attacks and political and social unrest.

The frequency and severity of such events, and the losses associated with them, are inherently unpredictable and cannot always be adequately reserved for. Furthermore, we are subject to actuarial and underwriting risks such as, for instance, mortality, longevity, morbidity, and adverse claims development which result from the pricing and acceptance of insurance contracts. In accordance with industry practices, modelling of natural catastrophes is performed and risk mitigation measures are taken. In case claims occur, reserves are established based on estimates using actuarial projection techniques. The process of estimating is based on information available at the time the reserves are originally established and includes updates when more information becomes available. Although we continually review the adequacy of the established claim reserves, there can be no assurances that our actual claims experience will not exceed our estimated claim reserves. If actual claim amounts exceed the estimated claim reserves, our earnings may be reduced and our net results may be adversely affected.

In addition, and as discussed further below under 'Risks Related to the Group's Business, Operations, and Regulatory Environment– Operational risks are inherent in our business', because unforeseeable and/or catastrophic events can lead to an abrupt interruption of activities, our banking and insurance operations may be subject to losses resulting from such disruptions. Losses can relate to property, financial assets, trading positions, insurance and pension benefits to employees and also to key personnel. If our business continuity plans are not able to be put into action or do not take such events into account, our financial condition could be adversely affected.

We operate in highly regulated industries. There could be an adverse change or increase in the financial services laws and/or regulations governing our business.
We are subject to detailed banking, insurance, asset management and other financial services laws and government regulation in each of the jurisdictions in which we conduct business. Regulatory agencies have broad administrative power over many aspects of the financial services business, which may include liquidity, capital adequacy and permitted investments, ethical issues, anti-money laundering, anti-terrorism measures, privacy, record keeping, product and sale suitability, and marketing and sales practices, and our own internal governance practices. Banking, insurance and other financial services laws, regulations and policies currently governing us and our subsidiaries may also change at any time and in ways which have an adverse effect on our business, and it is difficult to predict the timing or form of any future regulatory or enforcement initiatives in respect thereof. Also, regulators and other supervisory authorities in the EU, the US and elsewhere continue to scrutinize the financial services industry and its activities under regulations governing such matters as money-laundering, prohibited transactions with countries subject to sanctions, and bribery or other anti-corruption measures. Regulation is becoming increasingly more extensive and complex and regulators are focusing increased scrutiny on the industries in which we operate, often requiring additional Company resources. These regulations can serve to limit our activities, including through our net capital, customer protection and market conduct requirements, and restrictions on businesses in which we can operate or invest. If we fail to address, or appear to fail to address, appropriately any of these matters, our reputation could be harmed and we could be subject to additional legal risk, which could, in turn, increase the size and number of claims and damages asserted against us or subject us to enforcement actions, fines and penalties.

In light of current conditions in the global financial markets and the global economy, regulators have increased their focus on the regulation of the financial services industry. Most of the principal markets where we conduct our business have adopted, or are currently considering, major legislative and/or regulatory initiatives in response to the financial crisis. Governmental and regulatory authorities in the Netherlands, the United Kingdom, the United States and elsewhere are implementing measures to increase regulatory control in their respective financial markets and financial services sectors, including in the areas of prudential rules, capital requirements, executive compensation, crisis and contingency management, bank levies and financial reporting, among others. Additionally, governmental and regulatory authorities in the Netherlands as well as in a multitude of jurisdictions continue to consider new mechanisms to limit the occurrence and/or severity of future economic crises (including proposals to restrict the size of financial institutions operating in their jurisdictions and/or the scope of operations of such institutions). We cannot predict whether or when future legislative or regulatory actions may be taken, or what impact, if any, actions taken to date or in the future could have on our business, results of operations and financial condition.

Despite our efforts to maintain effective compliance procedures and to comply with applicable laws and regulations, there are a number of risks in areas where applicable regulations may be unclear, subject to multiple interpretation or under development or may conflict with one another, where regulators revise their previous guidance or courts overturn previous rulings, or we fail to meet applicable standards. Regulators and other authorities have the power to bring administrative or judicial proceedings against us, which could result, amongst other things, in suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action which could materially harm our results of operations and financial condition.

Basel III
In addition, the Basel Committee on Banking Supervision has announced higher global minimum capital standards for banks, and has introduced a new global liquidity standard and a new leverage ratio. The Committee's package of reforms, collectively referred to as the 'Basel III' rules, will, among other requirements, increase the amount of common equity required to be held by subject banking institutions, prescribe the amount of liquid assets and the long-term funding a subject banking institution must hold at any given moment, and limit leverage. Banks will be required to hold a 'capital conservation buffer' to withstand future periods of stress such that the total Tier 1 common equity ratio, when fully phased in on 1 January 2019, will rise to 7%. Basel III also introduces a 'countercyclical buffer' as an extension of the capital conservation buffer, which permits national regulators to require banks to hold more capital during periods of high credit growth (to strengthen capital reserves and moderate the debt markets). Further, Basel III calls for stricter definitions of capital that will have the effect of disqualifying many hybrid securities, potentially including those issued by the Group, from inclusion in regulatory capital, as well as the higher capital requirements for trading, derivative and securitisation activities to be introduced at the end of 2011 as part of a number of reforms to the Basel II framework. In addition, the Basel Committee and Financial Stability Board (FSB) are currently considering measures that may have the effect of requiring higher loss absorbency capacity, liquidity surcharges, exposure limits and special resolution regimes for 'systemically important financial institutions' (SIFIs) and so-called 'Global' SIFIs (G-SIFI), in addition to the Basel III requirements otherwise applicable to most financial institutions. ING has been designated as a G-SIFI.

For European banks these requirements will be implemented through the Capital Requirement Directive (CRD) IV, which might deviate in its final state from the original Basel III requirements. While the full impact of the new Basel III rules, and any additional requirements for SIFIs or G-SIFIs if and as applicable to the Group, will depend on how they are implemented by national regulators, including the extent to which regulators and supervisors can set more stringent limits and additional capital requirements or surcharges, as well as on the economic and financial environment at the time of implementation and beyond, we expect these rules can have a material impact on ING's operations and financial condition and may require the Group to seek additional capital. Further, the International Accounting Standards Board ('IASB') is considering changes to several IFRS standards, which changes could also have a material impact on our reported results and financial condition.

Solvency II
The European Council has agreed upon a full scale revision of the solvency framework and prudential regime applicable to insurance and reinsurance companies known as 'Solvency II', which was adopted on 25 November 2009 (Directive 2009/138/EG). A key aspect of Solvency II is the closer alignment of the assessment of risks and capital requirements with economic capital methodologies. Under the Solvency II regime, insurance companies may be permitted to make use of an internal economic capital model as a basis for calculation of their capital needs and solvency position (in the Netherlands, such a model (including ING's model) has to be approved by the Dutch Central Bank).

The final text of the Level I Framework Directive includes rules regarding, among other things, own funds, capital requirements, investments and group supervision. Following adoption of this Level I Framework Directive, the European Commission and EIOPA (European Insurance and Occupational Pensions Authority), formerly CEIOPS, have initiated the development of detailed rules following the Lamfalussy process. Under this process, Directives related to financial institutions are developed on the basis of a four level approach intended to complement the principles of the Directive Level 2 measures will be issued by the European Commission (delegated acts and/or implementing technical standards proposed by EIOPA) and Level 3 guidance will be issued by EIOPA.

Solvency II, if implemented, will effect a full revision of the insurance industry's solvency framework and prudential regime and will impose group level supervision mechanisms. We are unable to predict precisely how any regulations resulting from such initiatives and proposals could affect our results of operations, financial condition and liquidity.

Formally, each member state of the European Economic Area ('EEA'), including the Netherlands, is currently required to begin implementing Solvency II by 31 October 2012. Discussions are ongoing to postpone the Solvency II implementation date (likely until 2014 or 2015), and a European Parliament vote on this matter is currently expected in the spring of 2012. In case such voting is further delayed and the European Parliament does not approve a postponement of the implementation of Solvency II well in advance of 31 October 2012, the current Solvency II framework may need to be applied effective as of 31 October 2012. Implementation of Solvency II by 31 October 2012 may be further complicated by the fact that Level 2 measures and Level 3 guidance is not expected to be finalized by such date and the fact that it is unlikely that all member states will have their regulatory framework in place at that time. We cannot currently predict how these uncertainties at the EU and national levels, if not resolved in a timely fashion, will impact the insurance industry generally or our business and operations in particular.

Significant efforts towards establishing a more cohesive and streamlined European supervisory framework, including the establishment of the European Systemic Risk Board and a European Insurance and Occupational Pensions Authority, may also affect the Group's operations.

EU Insurance Guarantee Scheme
In July 2010, the European Commission released a white paper detailing the need to establish minimum levels of protection for consumers of life and non-life insurance products in the event that insurance companies in the European Union with which they do business were to become insolvent. Though the mechanisms for providing any such protections remain under review by the European Commission, the European Parliament and the member states, the European Commission may currently be considering providing this protection by (i) mandating the creation of (or harmonisation of existing) national level insurance guarantee schemes and/or (ii) implementing an EU-wide insurance guarantee scheme, which such scheme(s) may require significant prefunding by insurance companies. The implementation of an insurance guarantee scheme requiring significant levels of prefunding (or, in the event that prefunding is not required, the occurrence of circumstances requiring the commencement of event-driven contributions) may have a material and adverse impact on the liquidity, financial condition and operations of companies engaged in the insurance business, including us.

Dodd-Frank Act
Furthermore, in the United States, the Dodd-Frank Wall Street Reform and Consumer Protection Act ('Dodd-Frank' or the 'Dodd-Frank Act') has imposed comprehensive changes to the regulation of financial services in the United States and has implications for non-US financial institutions with a US presence, such as ING. Dodd–Frank directs existing and newly–created government agencies and bodies to promulgate regulations implementing the law, a process that is underway and is expected to continue over the next few years. While some studies have already been completed and the rulemaking process has begun, there continues to be significant uncertainty regarding the results of ongoing studies and the ultimate requirements of regulations that have not yet been adopted. We cannot predict with any certainty how Dodd–Frank and such regulations will affect the financial markets generally, impact the Group's business, credit or financial strength ratings, results of operations, cash flows or financial condition or advise or require the Group to raise additional capital. Key aspects of Dodd-Frank that we have identified to date as possibly having an impact on the Group include:

- The newly established risk regulator – the Financial Stability Oversight Council (the 'FSOC') – may designate the Group as a company whose material financial distress, or whose nature, scope, size, scale, concentration, interconnectedness or mix of activities, could pose a threat to the financial stability of the United States. In such an instance, the Group would become subject to the oversight of the Federal Reserve. If the Group becomes subject to the examination, enforcement and supervisory authority of the Federal Reserve, the Federal Reserve would have authority to impose capital requirements on the Group and its subsidiaries. The Group cannot predict what capital regulations the Federal Reserve will promulgate under these authorisations, either generally or as applicable to organisations with the Group's operations, nor can management predict how the Federal Reserve will exercise potential general supervisory authority over the Group as to its business practices or those of its subsidiaries. If designated as systemically important by the FSOC, the Group would become subject to unspecified stricter prudential standards, including stricter requirements and limitations relating to risk–based capital, leverage, liquidity and credit exposure, as well as overall risk management requirements, management interlock prohibitions and a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress. The Group may become subject to stress tests to be promulgated by the Federal Reserve in consultation with the newly created Federal Insurance Office (discussed below) to determine whether, on a consolidated basis, the Group has the capital necessary to absorb losses as a result of adverse economic conditions. We cannot predict how the stress tests will be designed or conducted or whether the results thereof will cause the Group to alter its business practices or affect the perceptions of regulators, rating agencies, customers, counterparties or investors about the Group's financial strength. The FSOC may also recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices that the Group and other insurers or other financial services companies engage in;
- Title II of Dodd–Frank provides that a financial company may be subject to a special orderly liquidation process outside the federal bankruptcy code, administered by the Federal Deposit Insurance Corporation as receiver, upon a determination that the company is in default or in danger of default and presents a systemic risk to US financial stability. We cannot predict how ratings agencies or creditors of us or our subsidiaries will evaluate this potential risk or whether it will impact our financing or hedging costs;
- Title VII Dodd–Frank creates a new framework for regulation of the over–the–counter (OTC) derivatives markets and certain market participants which could affect various activities of the Group and its subsidiaries. New margin and capital requirements on market participants contained in final regulations adopted by the Commodity Futures Trading Commission ('CFTC') (and in regulations that may to be adopted by the SEC) and the CFTC could substantially increase the cost of hedging and related operations, affect the profitability of our products or their attractiveness to our customers, or cause us to alter our hedging strategy or change the composition of risks we do not hedge;
- Dodd–Frank establishes a Federal Insurance Office ('FIO') within the Department of the Treasury to be headed by a director appointed by the Secretary of the Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office would perform various functions with respect to insurance (other than health insurance), including participating in the FSOC's decisions regarding insurers (potentially including the Group and its subsidiaries), to be designated for stricter regulation. The FIO may recommend enhanced regulations to the states;
- Dodd–Frank establishes the Bureau of Consumer Financial Protection ('BCFP') as an independent agency within the Federal Reserve to regulate consumer financial products and services offered primarily for personal, family or household purposes. The BCFP will have significant authority to implement and enforce federal consumer financial laws, including the new protections established under Dodd–Frank, as well as the authority to identify and prohibit unfair and deceptive acts and practices. In addition, the BCFP will have broad supervisory, examination and enforcement authority over certain consumer products, such as mortgage lending. Insurance products and services are not within the BCFP's general jurisdiction, and broker–dealers and investment advisers are not subject to the BCFP's jurisdiction when acting in their registered capacity;

- Dodd–Frank also includes various securities law reforms that may affect the Group's business practices and the liabilities and/or exposures associated therewith, including a provision intended to authorize the SEC to impose on broker-dealers fiduciary duties to their customers, as applies to investment advisers under existing law, which new standard could potentially expose certain of ING's US broker-dealers to increased risk of SEC enforcement actions and liability. The SEC staff released a study on this issue.

Although the full impact of Dodd-Frank cannot be determined until the various studies mandated by the law are conducted and implementing regulations are adopted, many of the legislation's requirements could have profound and/or adverse consequences for the financial services industry, including for us. Dodd-Frank could make it more expensive for us to conduct business, require us to make changes to our business model or satisfy increased capital requirements, subject us to greater regulatory scrutiny or to potential increases in whistleblower claims in light of the increased awards available to whistleblowers under Dodd-Frank and have a material effect on our results of operations or financial condition.

Foreign Account Tax Compliance Act
Under US federal tax legislation passed in 2010, a 30% withholding tax will be imposed on 'withholdable payments' made to non-US financial institutions (including non-US investment funds and certain other non-US financial entities) that fail (or that have 50% affiliates which are also non-US financial institutions that fail) to provide certain information regarding their US accountholders and/or certain US investors (such US accountholders and US investors, 'US accountholders') to the US Internal Revenue Service (the 'IRS'). For non-US financial institutions that fail to comply, this withholding will generally apply without regard to whether the beneficial owner of a withholdable payment is a US person or would otherwise be entitled to an exemption from US federal withholding tax. 'Withholdable payments' generally include, among other items, payments of US-source interest and dividends and the gross proceeds from the sale or other disposition of property that may produce US-source interest and dividends. The US Internal Revenue Service (the 'IRS') has issued guidance stating that this withholding tax is expected to take effect on a 'phased' schedule, starting in January 2014.

In general, non-publicly traded debt and equity interests in investment vehicles will be treated as 'accounts' and subject to these reporting requirements. In addition, the IRS has stated that certain insurance policies and annuities may be considered accounts for these purposes.

The Group closely monitors all present and new legislation that is or will be applicable for its organisation, and is currently investigating all implications of this legislation. While investigating these implications, the Group is and will be in close contact with all of its stakeholders, including its peers and financial industry representative organisations.

The Group intends to take all necessary steps to comply with this legislation (including entering into such agreements with the US tax authorities as may be required), in accordance with the timeframe set by the US tax authorities. However, if the Group cannot enter into such agreements or satisfy the requirements thereunder (including as a result of local laws prohibiting information sharing with the IRS, as a result of contracts or local laws prohibiting withholding on certain payments to accountholders, policyholders, annuitants or other investors, or as a result of the failure of accountholders, policyholders, annuitants or other investors to provide requested information), certain payments to the Group may be subject to US withholding tax under this legislation. The possibility of such withholding tax and the need for accountholders, policyholders, annuitants and investors to provide certain information may adversely affect the sales of certain of the Group's products. In addition, entering into agreements with the IRS and compliance with the terms of such agreements and with this legislation and any regulations or other guidance promulgated thereunder may substantially increase the Group's compliance costs. Because regulatory guidance implementing this legislation remains under development, the future impact of this law on the Group is uncertain.

Dutch Intervention Act
In October 2011 the Ministry of Finance submitted a bill to the Dutch Parliament called the 'Intervention Act'. The Intervention Act would amend the Dutch Financial Supervision Act and the Dutch Insolvency Act and set out what actions can be taken by Dutch authorities when banks and insurers fail and cannot be wound up under ordinary insolvency rules due to concerns regarding the stability of overall financial system. The proposal provides for two categories of measures. The first category includes measures related to the timely and efficient liquidation of failing banks and insurers and would give the Dutch Central Bank (De Nederlansche Bank N.V., 'DNB') the power to transfer customer deposits, assets and/or liabilities other than deposits and shares of an entity to third parties or to a bridge bank. The DNB would also be granted the power to influence the internal decision making of failing institutions. The second category includes measures intended to safeguard the stability of the financial system as a whole and grants special powers to the Minister of Finance, including the power to take ownership of failing financial institutions. The Intervention Act also includes proposals to limit the ability of counterparties to exercise their rights after any of the measures mentioned above has been put into place. The Intervention Act has not been approved by the Dutch Parliament as of this writing (and remains subject to change). If approved, the Intervention Act is not expected to enter into force until 1 July 2012 at the earliest. We are unable to predict what effects, if any, the Intervention Act (if passed) may have on the financial system generally, our counterparties, or on us, our operations or our financial position.

The Financial Stability Board
In addition to the adoption of these measures, regulators and lawmakers around the world are actively reviewing the causes of the financial crisis and exploring steps to avoid similar problems in the future. In many respects, this work is being led by the Financial Stability

Board ('FSB'), consisting of representatives of national financial authorities of the G20 nations. The G20 and the FSB have issued a series of papers and recommendations intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated. These proposals address such issues as financial group supervision, capital and solvency standards, systemic economic risk, corporate governance including executive compensation, and a host of related issues associated with responses to the financial crisis. The lawmakers and regulatory authorities in a number of jurisdictions in which the Group's subsidiaries conduct business have already begun introducing legislative and regulatory changes consistent with G20 and FSB recommendations, including proposals governing consolidated regulation of insurance holdings companies by the Financial Services Agency in Japan, proposals governing executive compensation by the financial regulators in the Netherlands (DNB), Germany (BaFIN) and the United Kingdom (FSA).

Additional Governmental Measures
Governments in the Netherlands and abroad have also intervened over the past few years on an unprecedented scale, responding to stresses experienced in the global financial markets. Some of the measures adopted subject us and other institutions for which they were designed to additional restrictions, oversight or costs. For restrictions related to the core Tier 1 Securities and the IABF, see 'Risks related to the Restructuring Plan — Our agreements with the Dutch State impose certain restrictions regarding the issuance or repurchase of our shares and the compensation of certain senior management positions'. As a result of having received state aid through the Dutch State Transactions, we were required to submit our Restructuring Plan to the EC in connection with obtaining final approval for the Dutch State Transactions. See 'Risks related to the Restructuring Plan — The implementation of the Restructuring Plan and the divestments anticipated in connection with that plan will significantly alter the size and structure of the Group and involve significant costs and uncertainties that could materially impact the Group'.

Sections 382 and 383 of the U.S. Internal Revenue Code contain tax attribute limitation rules, the general purpose of which is to prevent trafficking in tax losses and credits (i.e. they are anti-abuse rules), but which can apply without regard to whether a 'loss trafficking' transaction occurs or is intended. These rules are triggered when an 'ownership change' (as specially defined for U.S. federal income tax purposes) occurs. As of 31 December 2011, we believe that our U.S. subsidiaries have not had an 'ownership change' for purposes of Sections 382 and 383. However, this determination 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 our US subsidiaries to use tax attributes, and could correspondingly decrease the value of these attributes.

On 28 September 2011, the European Commission published a proposal for a financial transaction tax that would be levied on transactions in financial instruments by financial institutions if at least one of the parties to the transaction is located in the European Union. If not adopted by the European Union as a whole, such a tax might nonetheless be adopted by one or more European Union member states (as has recently been proposed in the Netherlands and approved in France by the French Parliament on certain financial instruments). As proposed, this tax could require us to pay a tax on transactions in financial instruments with parties (including, with respect to the EU-wide proposal, Group affiliates) located in the European Union. The Ministry of Finance in the Netherlands has put forward a proposal to introduce a banking tax in the Netherlands. That proposal, if approved by the Dutch Parliament, will likely result in increased taxes on ING's Banking operations, which could negatively impact our operations, financial condition and liquidity. In addition, it is possible that the United States Congress may adopt a form of 'financial crisis responsibility' fee and tax on banks and other financial firms to mitigate costs to taxpayers of various government programs established to address the financial crisis and to offset the costs of potential future crises. The Obama Administration's 2013 revenue proposals include such a fee. Any regulations resulting from these financial transaction tax initiatives and proposals could affect our operational results, financial condition and liquidity, and could negatively impact the costs and scope of our transactions, including transactions with other financial institutions.

Test Achats Decision
On 1 March 2011, the European Court of Justice issued its judgment in the widely-followed Test Achats case. The Test Achats decision, in effect, provides that the use of gender as a factor in the pricing of or benefits under life and non-life insurance coverage is incompatible with the principles of equal treatment of men and women under the EU Charter. The Test Achat decision provides for a transition period, however, until 21 December 2012, after which the use of such gender-based factors will no longer be permissible. It is unclear whether this prohibition also applies to existing insurance contracts. While it is too early to assess the impacts of the Test Achats case on ING's insurance business, it is expected that the industry generally will incur potentially significant compliance-related costs as policy forms, underwriting and pricing criteria, and related systems undergo required modifications. On 22 December 2011, the European Commission issued guidelines to assist the insurance industry in implementing unisex pricing by 21 December 2012 (i.e., the end of the transition period specified in the Test Achats decision). ING is unable at this stage to quantify the extent of any such costs or other impacts on its business, and intends to follow closely the implementation of the Test Achats decision and the guidelines published by the European Commission.

Turbulence and volatility in the financial markets have adversely affected us, and may continue to do so.
General
Our results of operations are materially impacted by conditions in the global capital markets and the economy generally. Concerns over the slow economic recovery, the European sovereign debt crisis, unemployment, the availability and cost of credit, the level of US national debt and the US mortgage market, inflation levels, energy costs and geopolitical issues all have contributed to increased volatility and diminished expectations for the economy and the markets in recent years.

While certain of such conditions have improved over 2009 and 2010, these conditions have generally resulted in greater volatility, widening of credit spreads and overall shortage of liquidity and tightening of financial markets throughout the world. In addition, prices for many types of asset-backed securities ('ABS') and other structured products have significantly deteriorated. These concerns have since expanded to include a broad range of fixed income securities, including those rated investment grade and especially the sovereign debt of some EEA countries and the United States, the international credit and interbank money markets generally, and a wide range of financial institutions and markets, asset classes, such as public and private equity, and real estate sectors. As a result of these and other factors, sovereign governments across the globe, including in regions where the Group operates, have also experienced budgetary and other financial difficulties, which have resulted in austerity measures, downgrades in credit rating by credit agencies, planned or implemented bail-out measures and, on occasion, civil unrest (for further details regarding sovereign debt concerns, see '– US Sovereign Credit Rating' and '– European Sovereign Debt Crisis' below). As a result, the market for fixed income instruments has experienced decreased liquidity, increased price volatility, credit downgrade events, and increased probability of default. In addition, the confluence of these and other factors has resulted in volatile foreign exchange markets. Securities that are less liquid are more difficult to value and may be hard to dispose of. International equity markets have also been experiencing heightened volatility and turmoil, with issuers, including ourselves, that have exposure to the real estate, mortgage, private equity and credit markets particularly affected. These events and market upheavals, including extreme levels of volatility, have had and may continue to have an adverse effect on our revenues and results of operations, in part because we have a large investment portfolio and extensive real estate activities around the world. In addition, the confidence of customers in financial institutions is being tested. Consumer confidence in financial institutions may, for example, decrease due to our or our competitors' failure to communicate to customers the terms of, and the benefits to customers of, complex or high-fee financial products. Reduced confidence could have an adverse effect on our revenues and results of operations, including through an increase of lapses or surrenders of policies and withdrawal of deposits. Because a significant percentage of our customer deposit base is originated via Internet banking, a loss of customer confidence may result in a rapid withdrawal of deposits over the Internet.

As a result of the ongoing and unprecedented volatility in the global financial markets since 2007, we have incurred substantial negative revaluations and impairments on our investment portfolio, which have impacted our shareholders' equity and earnings. During 2009, 2010 and 2011 the revaluation reserve position improved substantially, positively impacting shareholders' equity. Although we believe that reserves for insurance liabilities are generally adequate at the Group, inadequacies in certain product areas have developed.

The aforementioned impacts have arisen primarily as a result of valuation and impairment issues arising in connection with our investments in real estate (both in and outside the US) and private equity, exposures to European sovereign debt and to US mortgage-related structured investment products, including sub-prime and Alt-A Residential and Commercial Mortgage-Backed Securities ('RMBS' and 'CMBS', respectively), Collateralised Debt Obligations ('CDOs') and Collateralised Loan Obligations ('CLOs'), monoline insurer guarantees, private equity and other investments. In many cases, the markets for investments and instruments have been and remain highly illiquid, and issues relating to counterparty credit ratings and other factors have exacerbated pricing and valuation uncertainties. Valuation of such investments and instruments is a complex process involving the consideration of market transactions, pricing models, management judgment and other factors, and is also impacted by external factors such as underlying mortgage default rates, interest rates, rating agency actions and property valuations. We continue to monitor our exposures, however there can be no assurances that we will not experience further negative impacts to our shareholders' equity or profit and loss accounts in future periods.

US Sovereign Credit Rating

After a period of uncertainty as to whether US lawmakers would be able to reach the political consensus needed to raise the federal debt ceiling, and notwithstanding that US lawmakers passed legislation to raise the federal debt ceiling before the US actually defaulted on any of its obligations, on 5 August 2011, Standard & Poor's Ratings Group, Inc. lowered its long-term sovereign credit rating on the United States of America from AAA to AA+. Although other ratings agencies have not similarly lowered the long-term sovereign credit rating of the United States of America, they have put that credit rating on review. There continues to be a perceived risk of a future sovereign credit ratings downgrade of the US government, including the rating of US Treasury securities. It is foreseeable that the ratings and perceived creditworthiness of instruments issued, insured or guaranteed by institutions, agencies or instrumentalities directly linked to the US government could also be correspondingly affected by any such downgrade. Instruments of this nature are key assets on the balance sheets of financial institutions and are widely used as collateral by financial institutions to meet their day-to-day cash flows in the short-term debt market. A downgrade of the sovereign credit ratings of the US government and the perceived creditworthiness of US government-related obligations could impact our ability to obtain funding that is collateralised by affected instruments, as well as affecting the pricing of that funding when it is available. A downgrade may also adversely affect the market value of such instruments. We cannot predict if, when or how any changes to the credit ratings or perceived creditworthiness of these organisations will affect economic conditions. Such ratings actions could result in a significant adverse impact to the Group.

European Sovereign Debt Crisis
In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these EU 'peripheral' states to continue to service their sovereign debt obligations. These concerns impacted financial markets and resulted in high and volatile bond yields on the sovereign debt of many EU nations. Despite assistance packages to Greece, Ireland and Portugal, the creation of a joint EU-IMF European Financial Stability Facility in May 2010, and announced plans in the summer of 2011 to expand financial assistance to Greece, uncertainty over the outcome of the EU governments' financial support programs and worries about sovereign finances persisted and, notwithstanding increased purchases of sovereign bonds by the European Central Bank and measures taken by other central banks to enhance global liquidity, ultimately spread from 'peripheral' to 'core' European Union member states in the fall of 2011. Market concerns over the direct and indirect exposure of European banks and insurers to the EU sovereign debt further resulted in a widening of credit spreads and increased costs of funding for some European financial institutions. In December 2011, European leaders agreed to implement steps (and continue to meet regularly to review, amend and supplement such steps) to encourage greater long-term fiscal responsibility on the part of the individual member states and bolster market confidence in the Euro and European sovereign debt; however, such proposed steps are subject to final agreement (and in some cases, ratification and/or other approvals) by the European Union member states that are party to such arrangements and thus the implementation of such steps in their currently-contemplated form remains uncertain, and even if such steps are implemented, there is no guarantee that they will ultimately and finally resolve uncertainties regarding the ability of Eurozone states to continue to service their sovereign debt obligations. Further, even if such long-term structural adjustments are ultimately implemented, the future of the Euro in its current form, and with its current membership, remains uncertain.

Risks and ongoing concerns about the debt crisis in Europe, as well as the possible default by, or 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 and other financial institutions, including us. In the event of any default or similar event with respect to a sovereign issuer, some financial institutions may suffer significant losses for which they would require additional capital, which may not be available. Market and economic disruptions stemming from the crisis in Europe have affected, and may continue to affect, consumer confidence levels and spending, bankruptcy rates, levels of incurrence of and default on consumer debt and home prices, among other factors. There can be no assurance that the market disruptions in Europe, including the increased cost of funding for certain government and financial institutions, will not spread, nor can there be any assurance that future assistance packages will be available or, even if provided, will be sufficient to stabilize the affected countries and markets in Europe or elsewhere. To the extent uncertainty regarding the economic recovery continues to negatively impact consumer confidence and consumer credit factors, our business and results of operations could be significantly and adversely impacted. In addition, 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 create significant uncertainties regarding the enforceability and valuation of Euro denominated contracts to which we (or our counterparties) are a party and thereby materially and adversely affect our and/or our counterparties' liquidity, financial condition and operations. Such uncertainties may include the risk that (i) an obligation that was expected to be paid in Euros is redenominated into a new currency (which may not be easily converted into other currencies without significant cost), (ii) currencies in some European Union member states may devalue relative to others, (iii) former Eurozone member states may impose capital controls that would make it complicated or illegal to move capital out of such countries, and/or (iv) some courts (in particular, courts in countries that have left the Eurozone) may not recognize and/or enforce claims denominated in Euros (and/or in any replacement currency). 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 also cause other significant market dislocations and lead to other adverse economic and operational impacts that are inherently difficult to predict or evaluate, and otherwise have potentially materially adverse impacts on us and our counterparties, including our depositors, lenders, borrowers and other customers.

During the week of 5 December 2011, Standard & Poor's Ratings Group, Inc., citing ongoing political and economic uncertainties related to the European sovereign debt crisis, placed the credit ratings of the European Union, its member states included in the Eurozone (other than Cyprus and Greece) and several European banks on 'credit watch negative', indicating that Standard & Poor's Ratings Group, Inc. might reduce the credit ratings of one or more such entities in the near term. On 13 January 2012, Standard & Poor's Ratings Group, Inc. proceeded to downgrade the credit ratings of France, Austria, Italy, Spain, Portugal and a handful of other EEA states (while reaffirming the credit ratings of Germany, the Netherlands, Ireland and other EEA states). Further related downgrades of European sovereign ratings and of corporate ratings have occurred since that date, including the downgrade of Greece's sovereign credit rating to 'selective default' by Standard & Poor's Ratings Group, Inc. on 27 February 2012 as a result of a debt restructuring that is expected to impose significant losses on private creditors (including ING). These announcements, as well as any further future downgrades, could negatively affect borrowing costs of the affected entities, increase overall economic volatility, and affect the operation of our businesses.

Because we operate in highly competitive markets, including our home market, we may not be able to increase or maintain our market share, which may have an adverse effect on our results of operations.
There is substantial competition in the Netherlands and the other countries in which we do business for the types of insurance, commercial banking, investment banking, asset management and other products and services we provide. Customer loyalty and retention can be influenced by a number of factors, including relative service levels, the prices and attributes of products and services, and actions taken by competitors. If we are not able to match or compete with the products and services offered by our competitors, it could adversely impact

our ability to maintain or further increase our market share, which would adversely affect our results of operations. Such competition is most pronounced in our more mature markets of the Netherlands, Belgium, the Rest of Western Europe, the United States, Canada and Australia. In recent years, however, competition in emerging markets, such as Latin America, Asia and Central and Eastern Europe, has also increased as large financial services companies from more developed countries have sought to establish themselves in markets which are perceived to offer higher growth potential, and as local institutions have become more sophisticated and competitive and have sought alliances, mergers or strategic relationships with our competitors. The Netherlands and the United States are our largest markets. Our main competitors in the banking sector in the Netherlands are ABN AMRO Bank and Rabobank. Our main competitors in the insurance sector in the Netherlands are Achmea, ASR, Delta Lloyd and Aegon. Our main competitors in the United States are insurance companies such as Lincoln National, Hartford, Aegon Americas, AXA, Met Life, Prudential, Nationwide and Principal Financial. Competition could also increase due to new entrants in the markets that may have new operating models that are not burdened by potentially costly legacy operations. Increasing competition in these or any of our other markets may significantly impact our results if we are unable to match the products and services offered by our competitors. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by or merged into other firms or have declared bankruptcy. These developments could result in our competitors gaining greater access to capital and liquidity, expanding their ranges of products and services, or gaining geographic diversity. We may experience pricing pressures as a result of these factors in the event that some of our competitors seek to increase market share by reducing prices. In addition, under the Restructuring Plan we were required to agree to certain restrictions imposed by the EC, including with respect to our price leadership in EU banking markets and our ability to make acquisitions of financial institutions and other businesses. See 'Risks related to the Restructuring Plan — The limitations required by the EC on our ability to compete and to make acquisitions or call certain debt instruments could materially impact the Group'.

Because we do business with many counterparties, the inability of these counterparties to meet their financial obligations could have a material adverse effect on our results of operations.

General

Third-parties that owe us money, securities or other assets may not pay or perform under their obligations. These parties include the issuers and guarantors (including sovereigns) of securities we hold, borrowers under loans originated, customers, trading counterparties, counterparties under swaps, credit default and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries. Severe distress or defaults by one or more of these parties on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure, etc., or even rumours about potential severe distress or defaults by one or more of these parties or regarding the financial services industry generally, could lead to losses for us, and defaults by other institutions. In light of experiences with significant constraints on liquidity and high cost of funds in the interbank lending market, and given the high level of interdependence between financial institutions, we are and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of sovereigns and other financial services institutions. This is particularly relevant to our franchise as an important and large counterparty in equity, fixed-income and foreign exchange markets, including related derivatives, which exposes it to concentration risk.

We routinely execute a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, insurance companies and other institutional clients, resulting in large daily settlement amounts and significant credit exposure. As a result, we face concentration risk with respect to specific counterparties and customers. We are exposed to increased counterparty risk as a result of recent financial institution failures and weakness and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the creditworthiness of, one or more financial services institutions could therefore lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions.

With respect to secured transactions, our credit risk may be exacerbated when the collateral held by us cannot be realised, or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. We also have exposure to a number of financial institutions in the form of unsecured debt instruments, derivative transactions and equity investments. For example, we hold certain hybrid regulatory capital instruments issued by financial institutions which permit the issuer to defer coupon payments on the occurrence of certain events or at their option. The EC has indicated that, in certain circumstances, it may require these financial institutions to defer payment. If this were to happen, we expect that such instruments may experience ratings downgrades and/or a drop in value and we may have to treat them as impaired, which could result in significant losses. There is no assurance that losses on, or impairments to the carrying value of, these assets would not materially and adversely affect our business or results of operations.

In addition, we are subject to the risk that our rights against third parties may not be enforceable in all circumstances. The deterioration or perceived deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and/or adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our income and risk weighting, leading to increased capital requirements. While in many cases we are permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. Our credit risk may also be exacerbated when the collateral we hold cannot be realised or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure that is due to us, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those currently experienced. The termination of contracts and the foreclosure on collateral may subject us to claims for the improper exercise of our rights under such contracts. Bankruptcies, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity.

Any of these developments or losses could materially and adversely affect our business, financial condition, results of operations, liquidity and/or prospects.

Reinsurers
Our insurance operations have bought protection for risks that exceed certain risk tolerance levels set for both our life and non-life businesses. This protection is bought through reinsurance arrangements in order to reduce possible losses. Because in most cases we must pay the policyholders first, and then collect from the reinsurer, we are subject to credit risk with respect to each reinsurer for all such amounts. As a percentage of our net reinsurance exposure as of 31 December 2011, the greatest exposure after collateral to an individual external reinsurer was approximately 21%, approximately 47% related to four other external reinsurers and the remainder of the reinsurance exposure related to various other reinsurers. The inability or unwillingness of any one of these reinsurers to meet its financial obligations to us, or the insolvency of our reinsurers, could have a material adverse effect on our net results and our financial results.

Market conditions observed over the last year may increase the risk of loans being impaired. We are exposed to declining property values on the collateral supporting residential and commercial real estate lending.
We are exposed to the risk that our borrowers (including sovereigns) may not repay their loans according to their contractual terms and that the collateral securing the payment of these loans may be insufficient. We may continue to see adverse changes in the credit quality of our borrowers and counterparties, for example as a result of their inability to refinance their indebtedness, with increasing delinquencies, defaults and insolvencies across a range of sectors. This may lead to impairment charges on loans and other assets, higher costs and additions to loan loss provisions. A significant increase in the size of our provision for loan losses could have a material adverse effect on our financial position and results of operations.

Economic and other factors could lead to further contraction in the residential mortgage and commercial lending market and to further decreases in residential and commercial property prices which could generate substantial increases in impairment losses.

Interest rate volatility and other interest rate changes may adversely affect our profitability.
Changes in prevailing interest rates may negatively affect our business including the level of net interest revenue we earn, and for our banking business the levels of deposits and the demand for loans. In a period of changing interest rates, interest expense may increase at different rates than the interest earned on assets. Accordingly, changes in interest rates could decrease net interest revenue. Changes in the interest rates may negatively affect the value of our assets and our ability to realize gains or avoid losses from the sale of those assets, all of which also ultimately affect earnings.

Declining interest rates may result in:
- life insurance and annuity products being relatively more attractive to consumers due to minimum guarantees with respect to such products that are frequently mandated by regulators;
- increased premium payments on products with flexible premium features;
- a higher percentage of insurance and annuity contracts remaining in force from year-to-year, potentially resulting in greater claims costs than we expected and creating asset liability duration mismatches;
- addition to provisions for guarantees included in life insurance and annuity contracts, as the guarantees become more valuable to policy holders;
- lower investment earnings because the interest earnings on our fixed income investments will likely have declined in parallel with market interest rates on our assets recorded at fair value;
- reserve strengthening by affecting the results of our reserve adequacy testing;
- higher prepayment or redemption of mortgages and fixed maturity securities in our investment portfolios as borrowers seek to borrow at lower interest rates. Consequently, we may be required to reinvest the proceeds in securities bearing lower interest rates;
- lower profitability as the result of a decrease in the spread between interest rates charged to policyholders and returns on our investment portfolios;
- lower profitability since we may not be able to fully track the decline in interest rates in our savings rate.

In addition, certain statutory capital and reserve requirements are based on formulas and models that consider interest rates, and an extended period of low interest rates may increase the statutory capital we are required to hold and the amount of assets we must maintain to support statutory reserves.

Rapidly increasing interest rates may result in:
- decrease the demand for loans;
- increase in policy loans, and withdrawals and surrenders of life insurance policies and fixed annuity contracts as policyholders choose to forego insurance protection and seek higher investment returns. Obtaining cash to satisfy these obligations may require us to liquidate fixed maturity investments at a time when market prices for those assets are depressed because of increases in interest rates. This may result in realised investment losses. Regardless of whether we realize an investment loss, these cash payments would result in a decrease in total invested assets, and may decrease our net income. Premature withdrawals may also cause us to accelerate amortisation of deferred policy acquisition costs, which would also reduce our net income;
- prepayment losses if prepayment rates are lower than expected or if interest rates increase to rapidly to adjust the accompanying hedges.

We may incur losses due to failures of banks falling under the scope of state compensation schemes.
In the Netherlands and other jurisdictions deposit guarantee schemes and similar funds ('Compensation Schemes') have been implemented from which compensation may become payable to customers of financial services firms in the event the financial service firm is unable to pay, or unlikely to pay, claims against it. In many jurisdictions in which we operate, these Compensation Schemes are funded, directly or indirectly, by financial services firms which operate and/or are licensed in the relevant jurisdiction. As a result of the increased number of bank failures, in particular since the fall of 2008, we expect that levies in the industry will continue to rise as a result of the Compensation Schemes. In particular, we are a participant in the Dutch Deposit Guarantee Scheme, which guarantees an amount of EUR 100,000 per person per bank (regardless of the number of accounts held). The costs involved with making compensation payments under the Dutch Deposit Guarantee Scheme are allocated among the participating banks by the Dutch Central Bank, (De Nederlandsche Bank N.V. (the 'DNB'), based on an allocation key related to their market shares with respect to the deposits protected by the Dutch Deposit Guarantee Schemes. Given our size we may incur significant compensation payments to be made under the Dutch Deposit Guarantee Scheme, which we may be unable to recover from the bankrupt estate. The ultimate costs to the industry of payments which may become due under the Compensation Schemes, remains uncertain although they may be significant and these and the associated costs to us may have a material adverse effect on our results of operations and financial condition. Going forward the Dutch Deposit Guarantee Scheme will change from an ex-post scheme, where we contribute after the failure of a firm, to an ex-ante scheme where we pay yearly contributions to ensure the scheme holds a target level of fund regardless of whether any failures occur. The costs associated with potential future yearly contributions are today unknown, but given our size may be significant.

RISKS RELATED TO THE GROUP'S BUSINESS, OPERATIONS, AND REGULATORY ENVIRONMENT

We may be unable to manage our risks successfully through derivatives.
We employ various economic hedging strategies with the objective of mitigating the market risks that are inherent in our business and operations. These risks include currency fluctuations, changes in the fair value of our investments, the impact of interest rate, equity markets and credit spread changes and changes in mortality and longevity. We seek to control these risks by, among other things, entering into a number of derivative instruments, such as swaps, options, futures and forward contracts including from time to time macro hedges for parts of our business, either directly as a counterparty or as a credit support provider to affiliate counterparties.

Developing an effective strategy for dealing with these risks is complex, and no strategy can completely insulate us from risks associated with those fluctuations. Our hedging strategies also rely on assumptions and projections regarding our assets, liabilities, general market factors and the credit worthiness of our counterparties that may prove to be incorrect or prove to be inadequate. Accordingly, our hedging activities may not have the desired beneficial impact on our results of operations or financial condition. Poorly designed strategies or improperly executed transactions could actually increase our risks and losses. Hedging strategies involve transaction costs and other costs, and if we terminate a hedging arrangement, we may also be required to pay additional costs, such as transaction fees or breakage costs. There have been periods in the past, and it is likely that there will be periods in the future, during which we have incurred or may incur losses on transactions, perhaps significant, after taking into account our hedging strategies. Further, the nature and timing of our hedging transactions could actually increase our risk and losses. In addition, hedging strategies involve transaction costs and other costs. Our hedging strategies and the derivatives that we use and may use may not adequately mitigate or offset the risk of interest rate volatility, and our hedging transactions may result in losses.

Our hedging strategy additionally relies on the assumption that hedging counterparties remain able and willing to provide the hedges required by our strategy. Increased regulation, market shocks, worsening market conditions (whether due to the ongoing Euro crisis or otherwise), and/or other factors that affect or are perceived to affect the financial condition, liquidity and creditworthiness of ING may reduce the ability and/or willingness of such counterparties to engage in hedging contracts with us and/or other parties, affecting our overall ability to hedge our risks and adversely affecting our business, operations, financial condition and liquidity.

ING Group may be unable to retain key personnel.
As a financial services enterprise with a decentralised management structure, ING Group relies to a considerable extent on the quality of local management in the various countries in which ING Group operates. The success of ING Group's operations is dependent, among other things, on ING Group's ability to attract and retain highly qualified professional personnel. Competition for key personnel in most countries in which ING Group operates is intense. ING Group's ability to attract and retain key personnel, in particular senior officers, experienced portfolio managers, mutual fund managers and sales executives, is dependent on a number of factors, including prevailing market conditions and compensation packages offered by companies competing for the same talent.

As a part of the responses of the European Commission and governments throughout Europe to the financial crisis in 2008, there have been various legislative initiatives, including those set out in Directive 2010/76/EU (CRD III), the Guidelines on Remuneration Policies and Practices published by (the predecessor of) the European Banking Authority (EBA) and the Regulation of the Dutch Central Bank on Sound Remuneration Policies (Regeling beheerst beloningsbeleid Wft 2011) and the Dutch legislative proposal to prohibit the payment of variable remuneration to board members and day-to-day policy makers of financial institutions that receive state aid in the future, to ensure that financial institutions' remuneration policies and practices are consistent with and promote sound and effective risk management, and that impose restrictions on the remuneration of personnel, in particular senior management, with a focus on risk alignment of performance-related remuneration. These restrictions have had and will have an impact on existing ING Group's remuneration policies and individual remuneration packages of personnel.

These restrictions, alone or in combination with the other factors described above, could adversely affect ING Group's ability to retain or attract qualified employees.

Because we use assumptions about factors, the use of different assumptions about these factors may have an adverse impact on our results of operations.
The establishment of insurance provisions, including the impact of minimum guarantees which are contained within certain variable annuity products, the adequacy test performed on the provisions for life policies and the establishment of Deferred Acquisition Costs (DAC) and Value of Business Acquired (VOBA) are inherently uncertain processes involving assumptions about factors such as court decisions, changes in laws, social, economic and demographic trends, inflation, investment returns, policyholder behaviour (e.g., lapses, persistency, etc.) and other factors, and, in the life insurance business, assumptions concerning mortality, longevity and morbidity trends. The use of different assumptions about these factors could have a material effect on insurance provisions and underwriting expense. Changes in assumptions may lead to changes in the insurance provisions over time. Furthermore, some of these assumptions can be volatile.

Because we use assumptions to model client behaviour for the purpose of our market risk calculations, the difference between the realisation and the assumptions may have an adverse impact on the risk figures and future results.
We use assumptions in order to model client behaviour for the risk calculations in our banking and insurance books. Assumptions are used to determine insurance liabilities, the price sensitivity of savings and current accounts and to estimate the embedded optional risk in the mortgage and investment portfolios. The realisation or use of different assumptions to determine the client behaviour could have material adverse effect on the calculated risk figures and ultimately future results.

ING Insurance has a significant exposure to the take up of policy options by policyholders. The exposure is greatest for variable annuity business with guarantees deeply in-the-money, policyholder behaviour is difficult to predict and small changes in the proportion of policyholders taking up an option can have a significant financial impact. Furthermore, assumptions about policyholder behaviour are sometimes made for new insurance business without a substantial amount of experiential data. These assumptions may prove imperfect, which can have a material impact on results. See- 'Because we use assumptions about factors, the use of different assumptions about these factors may have an adverse impact on our results of operations' –for a discussion of US variable annuity-related charges taken in the fourth quarter of 2011.

We may incur further liabilities in respect of our defined benefit retirement plans if the value of plan assets is not sufficient to cover potential obligations, including as a result of differences between results and underlying actuarial assumptions and models.
ING Group companies operate various defined benefit retirement plans covering a significant number of our employees. The liability recognised in our consolidated balance sheet in respect of our defined benefit plans is the present value of the defined benefit obligations at the balance sheet date, less the fair value of each plan's assets, together with adjustments for unrecognised actuarial gains and losses and unrecognised past service costs. We determine our defined benefit plan obligations based on internal and external actuarial models and calculations using the projected unit credit method. Inherent in these actuarial models are assumptions including discount rates, rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs, consumer price index, and the expected return on plan assets. These assumptions are based on available market data and the historical performance of plan assets, and are updated annually. Nevertheless, the actuarial assumptions may differ significantly from actual results due to changes in market conditions, economic and mortality trends and other assumptions. Any changes in these assumptions could have a significant impact on our present and future liabilities to and costs associated with our defined benefit retirement plans.

Our risk management policies and guidelines may prove inadequate for the risks we face.
The methods we use to manage, estimate and measure risk are partly based on historic market behaviour. The methods may, therefore, prove to be inadequate for predicting future risk exposure, which may be significantly greater than what is suggested by historic experience. For instance, these methods may not predict the losses seen in the stressed conditions in recent periods, and may also not adequately allow prediction of circumstances arising due to the government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers or other information that is publicly known or otherwise available to us. Such information may not always be correct, updated or correctly evaluated.

We are subject to a variety of regulatory risks as a result of our operations in certain countries.
In certain countries in which we operate, judiciary and dispute resolution systems may be less developed. As a result in case of a breach of contract we may have difficulties in making and enforcing claims against contractual counterparties and, if claims are made against us, we might encounter difficulties in mounting a defence against such allegations. If we become party to legal proceedings in a market with an insufficiently developed judiciary system, it could have an adverse effect on our operations and net result.

In addition, as a result of our operations in certain countries, we are subject to risks of possible nationalisation, expropriation, price controls, exchange controls and other restrictive government actions, as well as the outbreak of hostilities, in these markets. In addition, the current economic environment in certain of these countries in which we operate may increase the likelihood for regulatory initiatives to enhance consumer protection or to protect homeowners from foreclosures. Any such regulatory initiative could have an adverse impact on our ability to protect our economic interest in the event of defaults on residential mortgages.

Because we are continually developing new financial products, we might be faced with claims that could have an adverse effect on our operations and net result if clients' expectations are not met.
When new financial products are brought to the market, communication and marketing aims to present a balanced view of the product (however, there is a focus on potential advantages for the customers). Whilst we engage in a due diligence process when we develop products, if the products do not generate the expected profit, or result in a loss, or otherwise do not meet expectations, customers may file mis-selling claims against us. Mis-selling claims are claims from customers who allege that they have received misleading advice or other information from either ING internal or external advisors (even though ING does not always have full control over the external advisors). Complaints may also arise if customers feel that they have not been treated reasonably or fairly, or that the duty of care has not been complied with. While a considerable amount of time and money has been invested in reviewing and assessing historic sales practices, and in the maintenance of risk management, legal and compliance procedures to monitor current sales practices, there can be no assurance that all of the issues associated with current and historic sales practices have been or will be identified, nor that any issues already identified will not be more widespread than presently estimated. The negative publicity associated with any sales practices, any compensation payable in respect of any such issues and/or regulatory changes resulting from such issues could have a material adverse effect on our reputation, operations and net result. 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.

Ratings are important to our business for a number of reasons. Downgrades could have an adverse impact on our operations and net results.
We have credit ratings from Standard & Poor's Ratings Service, Moody's Investor Service and Fitch Ratings. Each of the rating agencies reviews its ratings and rating methodologies on a recurring basis and may decide on a downgrade at any time. In the event of a downgrade the cost of issuing debt will increase, having an adverse effect on net results. Certain institutional investors may also be obliged to withdraw their deposits from ING following a downgrade, which could have an adverse effect on our liquidity.

Claims paying ability, at the Group or subsidiary level, and financial strength ratings are factors in establishing the competitive position of insurers. A rating downgrade could elevate lapses or surrenders of policies requiring cash payments, which might force us to sell assets at a price that may result in realised investment losses. Among others, total invested assets decreases and deferred acquisition costs might need to be accelerated, adversely impacting earnings. A downgrade may adversely impact relationships with distributors of our products and services and customers, which may affect new sales and our competitive position.

Furthermore, ING Bank's assets are risk weighted. Downgrades of these assets could result in a higher risk weighting which may result in higher capital requirements. This may impact net earnings and the return on capital, and may have an adverse impact on our competitive position. For ING's insurance businesses in a number of jurisdictions, such as the US and the EU, downgrades of assets will similarly affect the capital requirements for ING Insurance in those jurisdictions.

Our business may be negatively affected by a sustained increase in inflation.
A sustained increase in the inflation rate in our principal markets would have multiple impacts on us and may negatively affect our business, solvency position and results of operations. For example, a sustained increase in the inflation rate may result in an increase in market interest rates which may:
(1) decrease the estimated fair value of certain fixed income securities we hold in our investment portfolios resulting in:
- reduced levels of unrealised capital gains available to us which could negatively impact our solvency position and net income;
- a decrease of collateral values;

(2) result in increased surrenders of certain life & savings products, particularly, those with fixed rates below market rates;
(3) require us, as an issuer of securities, to pay higher interest rates on debt securities we issue in the financial markets from time to time to finance our operations which would increase our interest expenses and reduce our results of operations; and/or
(4) result in decreased fee income associated with a decline in the variable annuity balances invested in fixed income funds.

A significant and sustained increase in inflation has historically also been associated with decreased prices for equity securities and sluggish performance of equity markets generally. A sustained decline in equity markets may:
(1) result in impairment charges to equity securities that we hold in our investment portfolios and reduced levels of unrealised capital gains available to us which would reduce our net income and negatively impact our solvency position;
(2) negatively impact performance, future sales and surrenders of certain products where underlying investments are often allocated to equity funds; and/or
(3) negatively impact the ability of our asset management subsidiaries to retain and attract assets under management, as well as the value of assets they do manage, which may negatively impact their results of operations; and/or
(4) result in decreased fee income associated with a decline in the variable annuity balances invested in fixed income funds.

In addition, in the context of certain property & casualty risks underwritten by our insurance subsidiaries (particularly 'long-tail' risks), a sustained increase in inflation with a resulting increase in market interest rates may result in (1) claims inflation (i.e., an increase in the amount ultimately paid to settle claims several years after the policy coverage period or event giving rise to the claim), coupled with (2) an underestimation of corresponding claims reserves at the time of establishment due to a failure to fully anticipate increased inflation and its effect on the amounts ultimately payable to policyholders, and, consequently, (3) actual claims payments significantly exceeding associated insurance reserves which would negatively impact our results of operations. In addition, a failure to accurately anticipate higher inflation and factor it into our product pricing assumptions may result in a systemic mispricing of our products resulting in underwriting losses which would negatively impact our results of operations.

Operational risks are inherent in our business.
Our businesses depend on the ability to process a large number of transactions efficiently and accurately. Losses can result from inadequate trained or skilled personnel, IT failures, inadequate or failed internal control processes and systems, regulatory breaches, human errors, employee misconduct including fraud, or from external events that interrupt normal business operations. We depend on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. The equipment and software used in our computer systems and networks may be at or near the end of their useful lives or may not be capable of processing, storing or transmitting information as expected. Certain of our computer systems and networks may also have insufficient recovery capabilities in the event of a malfunction or loss of data. In addition, such systems and networks may be vulnerable to unauthorised access, computer viruses or other malicious code and other external attacks or internal breaches that could have a security impact and jeopardize our confidential information or that of our clients or our counterparts. These events can potentially result in financial loss, harm to our reputation and hinder our operational effectiveness. We also face the risk that the design and operating effectiveness of our controls and procedures prove to be inadequate or are circumvented. Furthermore, widespread outbreaks of communicable diseases, such as the outbreak of the H1N1 influenza virus, may impact the health of our employees, increasing absenteeism, or may cause a significant increase in the utilisation of health benefits offered to our employees, either or both of which could adversely impact our business. Unforeseeable and/or catastrophic events can lead to an abrupt interruption of activities, and our operations may be subject to losses resulting from such disruptions. Losses can result from destruction or impairment of property, financial assets, trading positions, the payment of insurance and pension benefits to employees and the loss of key personnel. If our business continuity plans are not able to be implemented or do not take such events into account, losses may increase further.

We have suffered losses from operational risk in the past and there can be no assurance that we will not suffer material losses from operational risk in the future.

Reinsurance may not be available, affordable or adequate to protect us against losses. We may also decide to reduce, eliminate or decline primary insurance or reinsurance coverage.
As part of our overall risk and capacity management strategy we purchase reinsurance for certain risks underwritten by our various insurance business segments. Market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect our ability to write future business.

In addition, we determine the appropriate level of primary insurance and reinsurance coverage based on a number of factors and from time to time decide to reduce, eliminate or decline coverage based on our assessment of the costs and benefits involved. In such cases, the uninsured risk remains with us.

Our business may be negatively affected by adverse publicity, regulatory actions or litigation with respect to us, other well-known companies or the financial services industry in general.
Adverse publicity and damage to our reputation arising from our failure or perceived failure to comply with legal and regulatory requirements, financial reporting irregularities involving other large and well known companies, increasing regulatory and law enforcement scrutiny of 'know your customer' anti-money laundering, prohibited transactions with countries subject to sanctions, and bribery or other anti-corruption measures and anti-terrorist-financing procedures and their effectiveness, regulatory investigations of the mutual fund, banking and insurance industries, and litigation that arises from the failure or perceived failure by us to comply with legal, regulatory and compliance requirements, could result in adverse publicity and reputation harm, lead to increased regulatory supervision, affect our ability to attract and retain customers, maintain access to the capital markets, result in cease and desist orders, suits, enforcement actions, fines and civil and criminal penalties, other disciplinary action or have other material adverse effects on us in ways that are not predictable.

RISKS RELATED TO THE RESTRUCTURING PLAN

The implementation of the Restructuring Plan and the divestments anticipated in connection with that plan will significantly alter the size and structure of the Group and involve significant costs and uncertainties that could materially impact the Group.
In November 2008 the Dutch State purchased the core Tier 1 Securities, and in the first quarter of 2009 we entered into the Illiquid Asset Back-up Facility (IABF) with the Dutch State. As a result of having received state aid through the Dutch State Transactions, we were required to submit a restructuring plan (the 'Restructuring Plan') to the EC in connection with obtaining final approval for the Dutch State Transactions under the EC state aid rules. On 26 October 2009, we announced our Restructuring Plan, pursuant to which we are required to divest by the end of 2013 all of our insurance business, including the investment management business, as well as ING Direct US, which operates our direct banking business in the United States, and certain portions of our retail banking business in the Netherlands. The EC's approval of the Restructuring Plan was issued on 18 November 2009. On 28 January 2010 ING lodged an appeal with the General Court of the European Union (the 'General Court') against specific elements of the EC's decision regarding the Restructuring Plan. On 2 March 2012, the Court partially annulled the Commission's decision of 18 November 2009 and as a result of a new decision must be issued by the Commission. Interested parties can file an appeal against the General Court's judgment before the Court of Justice of the European Union within two months and ten days after the date of the General Court's judgment.

In connection with the Restructuring Plan, we were required to agree to not be a price leader in certain EU markets with respect to certain retail, private and direct banking products and to refrain from (i) acquisitions of financial institutions and (ii) acquisitions of other businesses if this would delay our repayment of the remaining core Tier 1 Securities. Those limitations may last until at least 18 November 2012 and could adversely affect our ability to maintain or grow market share in key markets as well as our results of operations. See 'Risks Related to the Group – The limitations required by the EC on our ability to compete and to make acquisitions or call certain debt instruments could materially impact the Group'.

There can be no assurance that we will be able to implement the Restructuring Plan successfully or complete the announced divestments on favourable terms or at all, particularly in light of both the plan's 2013 deadline and expected challenging market conditions in which other financial institutions may place similar assets for sale during the same time period and may seek to dispose of assets in the same manner. Any failure to successfully implement the Restructuring Plan may result in EC enforcement actions and may have a material adverse impact on the assets, profitability, capital adequacy and business operations of the Group. Moreover, in connection with the implementation of the Restructuring Plan, including any proposed divestments, we or potential buyers may need to obtain various approvals, including of shareholders, works councils and regulatory and competition authorities, and we and potential buyers may face difficulties in obtaining these approvals in a timely manner or at all. In addition, the implementation of the Restructuring Plan may strain relations with our employees, and specific proposals in connection with the implementation may be opposed by labour unions or works councils. Furthermore, following the announcement of the Restructuring Plan, several of our subsidiaries have been downgraded or put on credit watch by rating agencies. See 'Risks Related to the Group – Ratings are important to our business for a number of reasons. Downgrades could have an adverse impact on our operations and net results'.

Other factors that may impede our ability to implement the Restructuring Plan successfully include an inability of prospective purchasers to obtain funding due to the deterioration of the credit markets, insufficient access to equity capital markets, a general unwillingness of prospective purchasers to commit capital in the current market environment, antitrust concerns, any adverse changes in market interest rates or other borrowing costs and any declines in the value of the assets to be divested. Similarly, it may also be difficult to divest all or part of our insurance or investment management business through one or more initial public offerings. There can also be no assurance that we could obtain favourable pricing for a sale of all or part of our insurance or investment management business in the public markets or succeed in turning the relevant subsidiaries into viable stand-alone businesses. A divestment may also release less regulatory capital than we would otherwise expect.

Any failure to complete the divestments on favourable terms, could have a material adverse impact on our assets, profitability, capital adequacy and business operations. If we are unable to complete the announced divestments in a timely manner, we would be required to find alternative ways to reduce our leverage, and we could be subject to enforcement actions or proceedings by the EC. In particular, if we do not succeed in completing divestitures as described in the Restructuring Plan within the timelines set out therein, the EC may request the Dutch State to appoint a divestiture trustee with a mandate to complete the relevant divestiture with no minimum price.

The implementation of the divestments announced in connection with the Restructuring Plan, including the separation of the insurance and most of the investment management operations from the banking operations, will also give rise to additional costs related to the legal and financial assessment of potential transactions. The implementation may also result in increased operating and administrative costs. The process of completing the steps contemplated by the Restructuring Plan may be disruptive to our business and the businesses we are trying to sell and may cause an interruption or reduction of our business and the businesses to be sold as a result of, among other factors, the loss of key employees or customers and the diversion of management's attention from our day-to-day business as a result of the need to manage the divestment process as well as any disruptions or difficulties that arise during the course of the divestment process. We may face other difficulties in implementing the Restructuring Plan and completing the planned divestments. For instance, the divestments, individually or in the aggregate, may trigger provisions in various contractual obligations, including debt and capital instruments, which could require us to modify, restructure or refinance those or other related obligations. We may not be able to effect any such restructuring or refinancing on similar terms as the current contractual obligations or at all. In addition, the announced divestments could be the subject of challenges or litigation, and a court could delay any of the divestment transactions or prohibit them from occurring on their proposed terms, or from occurring at all, which could adversely affect our ability to use the funds of the divestments to repay the core Tier 1 Securities, reduce or eliminate our double leverage and strengthen our capital ratios as anticipated and eliminate the constraints on competition imposed by the EC.

The limitations required by the EC on our ability to compete and to make acquisitions or call certain debt instruments could materially impact the Group.
As part of our Restructuring Plan, we have undertaken with the EC to accept certain limitations on our ability to compete in certain retail, private and direct banking markets in the European Union and on our ability to acquire (i) financial institutions and (ii) businesses insofar this would delay our repayment of the remaining core Tier 1 Securities held by the Dutch State. These restrictions in principle apply until the earlier of (1) 18 November 2012, and (2) the date upon which we repay all remaining core Tier 1 Securities held by the Dutch State. We were also required to agree to limitations on our ability to call Tier–2 capital and Tier 1 hybrid debt instruments. If the EC does not approve the calling of Tier–2 capital and Tier 1 hybrid debt instruments in the future, this may have adverse consequences for us, result in additional payments on these instruments and limit our ability to seek refinancing on more favourable terms. The limitations described above will impose significant restrictions on our banking business operations and on our ability to take advantage of market conditions and growth opportunities. Such restrictions could adversely affect our ability to maintain or grow market share in key markets, as well as our results of operations.

Upon the implementation of the Restructuring Plan, we will be less diversified and may experience competitive and other disadvantages.
Following completion of the planned divestments under the Restructuring Plan, we expect to become a significantly smaller, regional financial institution focused on retail, direct and commercial banking in the Benelux region and certain other parts of Europe, as well as selected markets outside Europe. Although we will remain focused on banking operations, we may become a smaller bank than that represented by our current banking operations. In the highly competitive Benelux market and the other markets in which we operate, our competitors may be larger, more diversified and better capitalised and have greater geographical reach than us, which could have a material adverse effect on our ability to compete, as well as on our profitability. The divested businesses may also compete with the retained businesses, on their own or as part of the purchasers' enlarged businesses. In addition, the restrictions on our ability to be a price leader and make acquisitions and on our compensation policies could further hinder our capacity to compete with competitors not burdened with such restrictions, which could have a material adverse effect on our results of operations. There can be no assurance that the implementation of the Restructuring Plan will not have a material adverse effect on the market share, business and growth opportunities and results of operations for our remaining core banking businesses.

Our Restructuring Programs may not yield intended reductions in costs, risk and leverage.
On 26 October 2009, we announced that we had reached an agreement with the EC on the Restructuring Plan. Projected cost savings and impact on our risk profile and capital associated with these initiatives are subject to a variety of risks, including:
- contemplated costs to effect these initiatives may exceed estimates;
- divestments planned in connection with the Restructuring Plan may not yield the level of net proceeds expected, as described under 'Risks Related to the Group – The implementation of the Restructuring Plan and the divestments anticipated in connection with that plan will significantly alter the size and structure of the Group and involve significant costs and uncertainties that could materially impact the Group';
- initiatives we are contemplating may require consultation with various regulators as well as employees and labour representatives, and such consultations may influence the timing, costs and extent of expected savings;
- the loss of skilled employees in connection with the initiatives; and
- projected savings may fall short of targets.

While we have begun and expect to continue to implement these strategies, there can be no assurance that we will be able to do so successfully or that we will realize the projected benefits of these and other restructuring and cost saving initiatives. If we are unable to realize these anticipated cost reductions, our business may be adversely affected. Moreover, our continued implementation of restructuring and cost saving initiatives may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our agreements with the Dutch State impose certain restrictions regarding the issuance or repurchase of our shares and the compensation of certain senior management positions.
For so long as the Dutch State holds at least 25% of the core Tier 1 Securities, for so long as the IABF is in place or for so long as any of the government guaranteed senior unsecured bonds issued by ING Bank N.V. under the Credit Guarantee Scheme of the Netherlands (the 'Government Guaranteed Bonds') are outstanding, we are prohibited from issuing or repurchasing any of our own shares (other than as part of regular hedging operations and the issuance of shares according to employment schemes) without the consent of the Dutch State's nominees on the Supervisory Board. In addition, under the terms of the core Tier 1 Securities and IABF, we have agreed to institute certain restrictions on the compensation of the members of the Executive Board and senior management, including incentives or performance-based compensation. These restrictions could hinder or prevent us from attracting or retaining the most qualified management with the talent and experience to manage our business effectively. In connection with these transactions, the Dutch State was granted the right to nominate two candidates for appointment to the Supervisory Board. The Dutch State's nominees have veto rights over certain material transactions. Our agreements with the Dutch State have also led to certain restrictions imposed by the EC as part of the Restructuring Plan, including with respect to our price leadership in EU banking markets and our ability to make acquisitions of financial institutions and other businesses. See '– The limitations required by the EC on our ability to compete and to make acquisitions or call certain debt instruments could materially impact the Group above'.

Whenever the overall return on the (remaining) core Tier 1 securities issued to the Dutch State is expected to be lower than 10% p.a., the European Commission may consider the imposition of additional behavioural constraints.
As stated in the decision of the European Commission of 12 November 2008 (in State aid N 528/2008 – The Netherlands), the core Tier 1 state-aid measure must be (re)notified to the European Commission by the Dutch authorities if the overall return on the core Tier 1 Securities of at least 10% p.a. is not expected to be achieved. Such (re)notification by the Dutch authorities is particularly required (i) if ING abstains from paying dividend on its shares for a period of two consecutive years or for three years in the five years following the date of the aforementioned decision or (ii) if after a transition period of one year following the date of the aforementioned decision, the share price over a period of two consecutive years remains on average below EUR 13.00. In such cases, the European Commission may require additional (behavioural) constraints as a condition of the compatibility of the measure.

In 2011, ING reported to the Dutch authorities that ING has abstained from paying dividends on its shares for a period of two consecutive years (i.e. 2009 and 2010). ING (publicly) indicated in 2011 that provided that the strong capital generation continues, it intends to repurchase the remaining EUR 3 billion Core Tier 1 securities from retained earnings ultimately by May 2012 on terms that are acceptable to all stakeholders. In this context, ING also indicated that this repurchase is conditional upon there having been no material changes regarding ING's capital requirements and/or (ING's outlook on) external market circumstances. Any repayment of the remaining Core Tier Securities is furthermore conditional on approval from the Dutch Central Bank ('De Nederlandsche Bank')

Early 2012, ING indicated that it aims to repay the remaining core Tier 1 securities as soon as possible – ideally a (part) in 2012 – but that given the ongoing crisis in the eurozone and increasing regulatory capital requirements, it needs to take a cautious approach and pay special attention to liquidity, funding and capital. Against this background, ING is discussing the (terms and timing of the) repayment of the remaining EUR 3 billion Core Tier 1 securities with the Dutch Authorities and the European Commission.

Any of the fact that ING has not paid a dividend for (at least) two consecutive years, the status and outcome of discussions with the Dutch State and the European Commission on the terms of the repayment of the Core Tier 1 Securities and/or a change in ING's repayment schedule due to market circumstances, increased capital requirements and/or other relevant factors, could result in the European Commission imposing additional (behavioural) constraints on us as a condition of the compatibility of the measure of and/or requiring a higher minimum overall return on the Securities than 10% p.a.

ADDITIONAL RISKS RELATING TO OWNERSHIP OF ING SHARES

Because we are a Dutch company and because the Stichting ING Aandelen holds more than 99.9% of our ordinary shares, the rights of our depositary receiptholders may differ from the rights of shareholders in other jurisdictions or companies that do not use a similar trust structure, which could affect your rights as an equity investor.

While holders of our bearer depositary receipts are entitled to attend and speak at our General Meeting of Shareholders ('General Meeting'), voting rights are not attached to the bearer depositary receipts. Stichting ING Aandelen ('the Trust') holds more than 99.9% of our ordinary shares, and exercises the voting rights attached to the ordinary shares (for which bearer depositary receipts have been issued). Holders of bearer depositary receipts who attend – in person or by proxy – the General Meeting must obtain and are entitled to voting rights by proxy from the Trust. Holders of bearer depositary receipts and holders of the ADSs (American depositary shares) representing the bearer depositary receipts who do not attend the General Meeting may give binding voting instructions to the Trust. The Trust is entitled to vote on any ordinary shares underlying the bearer depositary receipts for which the Trust has not granted voting proxies, or voting instructions have not been given to the Trust. In exercising its voting discretion, the Trust is required to be guided primarily by the interests of the holders of bearer depositary receipts, while also taking into account:
- our interests; and
- the interests of our affiliates.

The Trust may, but has no obligation to, consult with the holders of bearer depositary receipts in exercising its voting rights in respect of any ordinary shares for which it is entitled to vote. These arrangements differ from practices in other jurisdictions, and accordingly may affect the rights of the holders of bearer depositary receipts and their power to affect ING's business and operations.

The share price of ING shares has been, and may continue to be, volatile.

The share price of our bearer depositary receipts has been volatile in the past, and the share price and trading volume of our bearer depositary receipts may continue to be subject to significant fluctuations due, in part, to changes in our actual or forecast operating results and the inability to fulfil the profit expectations of securities analysts, as well as to the high volatility in the securities markets generally and more particularly in shares of financial institutions. Other factors, besides our financial results, that may impact our share price include, but are not limited to:
- market expectations of the performance and capital adequacy of financial institutions in general;
- investor perception of the success and impact of our strategies;
- investor perception of our positions and risks;
- a downgrade or review of our credit ratings;
- the implementation and outcome of our Restructuring Plan;
- potential litigation or regulatory action involving ING or sectors we have exposure to through our insurance and banking activities;
- announcements concerning financial problems or any investigations into the accounting practices of other financial institutions; and
- general market circumstances.

There can be no assurance that we will pay dividends on our ordinary shares in the future.

It is ING's policy to pay dividends in relation to the long-term underlying development of cash earnings. Dividends can only be declared by shareholders when the Executive Board considers such dividends appropriate, taking into consideration the financial conditions then prevailing and the longer-term outlook. Given the uncertain financial environment, ING will not pay a dividend over 2011 and there can be no assurance that we will pay dividends in the future.

The remaining core Tier 1 Securities issued to the Dutch State may be converted into ordinary shares or bearer depositary receipts and dilute existing shareholders.

The terms of the core Tier 1 Securities permit us, on or after 12 November 2011, to convert any or all of the remaining core Tier 1 Securities (EUR 3 billion per 11 May 2011) into ordinary shares or bearer depositary receipts on the basis of one core Tier–1 security for 1,335 ordinary shares or bearer depositary receipts. Any such conversion would dilute existing shareholders. If we exercise our conversion right, the Dutch State may opt to require us to redeem the core Tier 1 Securities on the conversion date at the original issue price of EUR 10 per core Tier 1 Security, together with the pro rata coupon, if due, accrued to such date.

Certain holders of ING shares may not be able to participate in future equity offerings with subscription rights.

We may undertake future equity offerings with or without subscription rights. In case of equity offerings with subscription rights, holders of ING shares in certain jurisdictions, however, may not be entitled to exercise such rights unless the rights and the related shares are registered or qualified for sale under the relevant legislation or regulatory framework. Holders of ING shares in these jurisdictions may suffer dilution of their shareholding should they not be permitted to participate in future equity offerings with subscription rights.

Financial glossary

ACTUARIAL AND UNDERWRITING RISK
These risks (mortality, longevity, morbidity, adverse motor or home claims, etc.), result from the pricing and acceptance of insurance contracts. Actuarial risk is the risk that premium levels and provisions in respect of insurance risk may turn out to be (no longer) correct. Underwriting risk is the risk that an issuer will receive a claim under an insurance policy it issues/underwrites. Maximum underwriting exposures are limited through exclusions, cover limits and reinsurance.

ADVANCED MEASUREMENT APPROACH (AMA)
The risk methodology to calculate the regulatory Operational Risk capital.

ALT-A RESIDENTIAL MORTGAGE BACKED SECURITY (ALT-A RMBS)
A type of United States residential mortgage which is considered riskier than 'prime' and less risky than 'sub-prime' mortgages. Parameters generally taken into account are borrower credit scores, residential property values and loan-to-value ratios. Alt-A mortgages are further characterised by a limited degree of income and/or asset verification.

AMORTISED COST
The amount at which the financial asset or liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

ASSET AND LIABILITY COMMITTEE (ALCO)
Manages the balance sheet of ING, especially with regard to strategic non-trading risk. These risks comprise interest rate exposures, equity risk, real estate risk, liquidity, solvency and foreign exchange risk and fluctuations.

ASSET LIABILITY MANAGEMENT (ALM)
The practice of managing a business such that decisions on assets and liabilities are coordinated. It involves the ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities.

ASSET BACKED COMMERCIAL PAPER (ABCP)
Commercial paper that is collateralised by other financial assets.

ASSET BACKED SECURITIES (ABS)
A type of bond or note that is based on pools of assets, or collateralised by the cash flows from a specified pool of underlying assets.

ASSOCIATE
An entity over which the Group has significant influence, generally accompanying a shareholding of between 20% and 50% of the voting rights, and that is not a subsidiary not a joint venture.

AVAILABLE FINANCIAL RESOURCES (AFR)
The available financial resources equal the market value of assets minus market value of liabilities, excluding hybrids issued by ING Group which is counted as capital. ING's policy is that the available financial resources should exceed economic capital for Bank, Insurance and Group.

AVAILABLE-FOR-SALE FINANCIAL ASSETS
Those non-derivative financial assets that are designated as available-for-sale or are not classified as:
- loans and receivables;
- held-to-maturity investments; or
- financial assets at fair value through profit and loss.

BASEL I
Regulatory requirements issued by the Basel Committee on Banking Supervision for the solvency calculation, which are superseded by Basel II, for ING, from 2008 onwards.

BASEL II
Regulatory requirements issued by the Basel Committee on Banking Supervision for the solvency calculation, which, for ING, apply from 2008 onwards. Basel II is an international standard for calculating the required capital based on internal models that take into account the financial and operational risks.

BASEL III
Regulatory requirements issued by the Basel Committee on Banking Supervision for the solvency calculation and liquidity requirements, which will supersede Basel II. From 1 January 2013 these requirements will start to apply, with the full requirements being effective as of 1 January 2018.

BASIS POINT VALUE (BPV)
The change in the Net Present Value of a cash flow or a pool of cash flows due to a one basis point change of the yield curve.

BASIS RISK
This risk arises from an imperfect correlation in the adjustment of the rates earned and paid on different financial instruments. Examples of products in which these risks are inherent are demand deposits, saving accounts and mortgages with prepayment options.

BIS
An international organisation which fosters international monetary and financial co-operation and serves as a bank for central banks. BIS has set a minimum for the solvency ratio reflecting the relationship between capital and risk weighted assets. The ratio should be at least 8%.

BUSINESS RISK
The exposure to value loss due to fluctuations in volumes, margins and costs. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency.

CERTIFICATES OF DEPOSIT
Short-term negotiable bearer debt instruments issued by banks.

CLAIM
A demand for payment of a policy benefit because of the occurrence of an insured event, such as the death or disability of the insured or the maturity of an endowment, the incurrence of hospital or medical bills, the destruction or damage of property and related deaths or injuries, defects in, liens on, or challenges to the title to real estate, or the occurrence of a surety loss.

CLAIMS RATIO
Claims, including claims handling expenses, expressed as a percentage of net earned premiums.

COLLATERALISED DEBT OBLIGATION (CDO)
A type of asset-backed security which provides investors exposure to the credit risk of a pool of fixed income assets.

COLLATERALISED LOAN OBLIGATION (CLO)
A type of CDO which is backed primarily by leveraged bank loans.

COMBINED RATIO
The sum of the claims ratio and the cost ratio for a non-life insurance company or a reinsurance company. A combined ratio of more than 100% does not necessarily mean that there is a loss on non-life insurance policies, because the result also includes the allocated investment income.

COMMERCIAL PAPER
Promissory note (issued by financial institutions or large firms) with very-short to short maturity period (usually 2 to 30 days, and not more than 270 days), and unsecured.

COMPLIANCE RISK
Compliance risk is defined as the risk of damage to ING's reputation as a result of failure or perceived failure to comply with relevant laws, regulations, internal policies and procedures or ethical standards.

CONCENTRATIONS OF CREDIT RISK
Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect groups of counterparties whose aggregate exposure is material in relation to ING Group's total exposure.

CONTINGENT LIABILITIES
Possible obligations that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

CONTROL
The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

CONVERTIBLE DEBENTURES
Debentures with embedded options issued by corporations. The holder has the right to exchange a convertible debenture for equity in the issuing company at certain times in the future according to a certain exchange ratio. Very often, the conversion is callable. This means that it can be repurchased by the issuer at a certain price at certain times in the future. Once the debentures have been called, the holder can always choose to convert prior to repurchase.

CONVEXITY
The non-linear relationship between changes in the interest rates and changes in bond prices and their Net Present Value. It is a very important market risk measure for portfolios containing (embedded) options.

CORE DEBT
Investments in ING Group subsidiaries minus the equity of the holding company including hybrids.

COST OF CAPITAL
The costs related to owning capital. These can be split into the cost of equity, hybrids and debt, taking a target leverage into account.

COST RATIO
Underwriting costs expressed as a percentage of premiums written.

COUNTRY RISK
The risk that a government will not fulfil its obligations or obstructs the remittance of funds by debtors, either for financial reasons (transfer risk) or for other reasons (e.g. political risk).

CREDIT INSTITUTIONS
All institutions that are subject to banking supervision by public authorities, including mortgage banks, capital market institutions, multilateral development banks and the International Monetary Fund (IMF).

CREDIT RISK
The risk of loss from default by borrowers (including bond issuers) or counterparties. Credit risks arise in ING's lending, presettlement and investment activities, as well as in its trading activities. Credit risk management is supported by dedicated credit risk information systems and internal rating methodologies for debtors and counterparties.

DEFERRED TAX LIABILITIES
The amounts of income tax payable in future periods in respect of taxable temporary differences between carrying amounts of assets or liabilities in the balance sheet and tax base, based on tax rates that are expected to apply in the period when the assets are realised or the liabilities are settled.

DEFINED BENEFIT PLAN
Post-employment benefit plans other than defined contribution plans.

DEFINED CONTRIBUTION PLAN
Post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

DELTA HEDGE
The delta hedge minimises the exposure of the employee option scheme by holding an appropriate number of (depositary receipts for) ordinary shares. The exposure is reassessed every quarter and, if necessary, ordinary shares are bought from the market. In December 2010 ING Groep N.V. announced that it will no longer rebalance its hedge portfolio. This decision is an effort to simplify the management and administration of ING's various employee share and option programmes. The remaining shares in the hedge portfolio will be used to fund the obligations arising out of exercise and vesting. Once all shares in the hedge portfolio are used ING will fund these obligations by issuing new shares.

DEPOSITARY RECEIPT
Depositary receipt for ordinary and preference shares, issued by the ING Trust Office, in exchange for ordinary and preference shares issued by ING Group.

DERIVATIVES
Financial instruments, which include forwards, futures, options and swaps, whose value is based on an underlying asset, index or reference rate.

DISCOUNTED BILLS
Bills that are sold under deduction of interest giving the owner the right to receive an amount of money on a given date.

DISCONTINUED OPERATIONS
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 discontinued operations.

DISCRETIONARY PARTICIPATION FEATURE
A contractual right to receive, as a supplement to guaranteed benefits, additional benefits that: are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the insurer, that are contractually based on the performance of a specified pool or type of contract, (un)realised investment returns on a specified pool of assets held by the insurer, or the profit of the company, fund, or other entity that issues the contract.

DISPOSAL GROUP HELD FOR SALE
When groups of assets are to be sold together in a single transaction, and the sale is considered to be highly probable, the disposal group is classified separately in the balance sheet as Assets held for sale. A sale is highly probable when management is demonstrably committed to the sale, which is expected to occur within one year from the date of classification as held for sale. Liabilities directly associated with those assets, and that are included in the transaction are to be included in the balance sheet as 'liabilities held for sale'.

EARNINGS SENSITIVITY (ES)
Measures the impact on earnings resulting from changes in economic and financial conditions over a one-year horizon.

ECONOMIC CAPITAL
The minimum amount of capital that is required to absorb unexpected losses in times of severe stress. Given ING Group's A target rating, ING calculates economic capital requirements for ING Bank at a 99.95% level of confidence. This confidence level is derived from the historical default frequency of AA-rated companies (probability of default of 1 in 2000 years or 0.05%). For ING Insurance the economic capital is calculated based on a confidence level of 99.5%, which is aligned with the Solvency II.

EFFECTIVE INTEREST METHOD
A method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period.

ELIMINATION
A process by which intercompany transactions are matched with each other and deducted, so that the assets, liabilities, income and expenses are not inflated.

EMPLOYEE BENEFITS
All forms of consideration given by a company in exchange for service rendered by (current and former) employees.

FAIR VALUE
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FINANCE LEASE
A lease that transfers substantially all the risks and rewards associated with ownership of an asset to the lessee. Title may or may not eventually be transferred.

FINANCIAL ASSET
Any asset that is:
- cash;
- an equity instrument of another company;
- a contractual right to;
  - receive cash or another financial asset from another company; or
  - exchange financial instruments with another company under conditions that are potentially favourable; or
  - certain contract that will or may be settled in ING's own equity instruments.

FINANCIAL INSTRUMENTS
Contracts that give rise to both a financial asset for one company and a financial liability or equity instrument for another company.

FINANCIAL LIABILITY
Any liability that is a contractual obligation:
- to deliver cash or another financial asset to another company; or
- to exchange financial instruments with another company under conditions that are potentially unfavourable; or
- certain contracts that will or may be settled in ING's own equity instruments.

FOREIGN EXCHANGE RATE RISK
Probability of loss occurring from an adverse movement in foreign exchange rates.

FORWARD CONTRACTS
Commitments to exchange currencies or to buy or sell other financial instruments at specified future dates.

FUTURE CONTRACTS
Commitments to exchange currencies or to buy or sell other financial instruments at specified future dates. Exchanges act as intermediaries and require daily cash settlement and collateral deposits.

GROSS PREMIUMS WRITTEN
Total premiums (whether or not earned) for insurance contracts written or assumed (including deposits for investment contracts with limited or no life contingencies written) during a specific period, without deduction for premiums ceded.

HELD-TO-MATURITY INVESTMENTS
Non-derivative financial assets with fixed or determinable payments and fixed maturity that ING Group has the positive intention and ability to hold to maturity other than:

a. those that ING Group upon initial recognition designates as at fair value through profit and loss;
b. those that ING Group designates as available-for-sale; and
c. those that meet the definition of loans and receivables.

HISTORICAL SIMULATION
A model to calculate Value at Risk, assuming that future changes in risk factors will have the same distribution as they had in the past taking into account the non-linear behaviour of financial products.

IMPAIRMENT LOSS
The amount by which the carrying amount of an asset exceeds its recoverable amount.

INTEREST BEARING INSTRUMENT
A financial asset or a liability for which a time-proportionate compensation is paid or received in relation to a notional amount.

INTERNAL RATE OF RETURN (IRR)
Internal rate of return is the discount rate at which the present value of distributable earnings from new business equals the investment in new business (i.e. the projected return on the investment in new business) is calculated.

INTEREST-RATE REBATES
Profit sharing for group life insurance business. A rebate granted to policyholders based on the discounted value of the difference between the interest rate used to calculate the premiums and the expected yield on investment. The profit sharing is granted by means of a premium discount related to the yield on government bonds.

INTEREST RATE RISK
Probability that the market interest rates will rise significantly higher than the interest rate earned on investments such as bonds, resulting in their lower market value.

IN THE MONEY
A call option is said to be in the money if the exercise price is lower than the price of the underlying value; a put option is said to be in the money if the exercise price is higher than the price of the underlying value.

INVESTMENT RISK
Investment risk is the credit default and risk rating migration risk that is associated with ING Group's investments in bonds, commercial paper, securitisations, and other similar publicly traded securities. Investment risk arises when ING purchases a (synthetic) bond with the intent to hold the bond for a longer period of time (generally through maturity).

INVESTMENT PORTFOLIO
Comprises those assets which are intended for use on a continuing basis, and have been identified as such. These investments are held in order to cover the insurance provisions and to manage interest rate, capital and liquidity risks.

IRREVOCABLE FACILITIES
Mainly constitute unused portions of irrevocable credit facilities granted to corporate clients and commitments made to purchase securities to be issued by governments and private issuers.

IRREVOCABLE LETTERS OF CREDIT
Concerns an obligation on behalf of a client to pay an amount of money under submission of a specific document or to accept a bill of exchange, subject to certain conditions. An irrevocable letter of credit cannot be cancelled or adjusted by the bank that has granted it during the duration of the agreement unless all those concerned agree.

JOINT VENTURE
A contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.

LEGAL RISK
Legal risk is the risk related to:

- a failure (or perceived failure) to adhere to applicable laws, regulations and standards;
- contractual liabilities or contractual obligations that are defaulted or cannot be enforced as intended, or are enforced in an unexpected or adverse way; and
- liability (tort) towards third parties due to an act or omission contributable to ING; (potentially) resulting in impairment of ING's integrity, leading to damage to ING's reputation, legal or regulatory sanctions, or financial loss.

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

LIQUIDITY RISK
The risk that ING Group or one of its subsidiaries cannot meet its financial liabilities when they fall due, at reasonable costs and in a timely manner.

MARKET RISK
Market risk is the risk that movements in market variables, such as interest rates, equity prices, implied volatilities, foreign exchange rates, real estate prices negatively impact the earnings or market value.

MINORITY INTERESTS
The part of the profit and loss and net assets of a subsidiary attributable to an interest which is not owned, directly or indirectly, by the parent company.

MONETARY ASSETS AND LIABILITIES
Assets and liabilities which are fixed in terms of units of currency by contract or otherwise. Examples are cash, short or long-term accounts, notes receivable in cash and notes payable in cash.

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

MONOLINER
A financial company that deals specifically with one particular branch of the financial industry.

MONTE CARLO SIMULATION
A model to calculate Value at Risk, assuming that changes in risk factors are (jointly) normally distributed taking into account nonlinear behaviour of financial products.

MORTGAGE BACKED SECURITIES (MBS)
A security whose cash flows are backed by typically the principal and/ or interest payments of a pool of mortgages.

NEW SALES
New sales of life insurance, measured as Annual Premium Equivalent (APE), have been defined as the total of annual premiums and 10% of single premiums received on production in a given period.

NET ASSET VALUE
Used in the equity method of accounting. The initial net asset value of the investment is determined by the fair value of the assets and liabilities of the investee. After the initial valuation of assets and liabilities of the investee at fair value, the assets and liabilities of the investee are valued in accordance with the accounting policies of the investor. The profit and loss account reflects the investor's share in the results of operations of the investee.

NET PREMIUMS WRITTEN
Gross premiums written for a given period less premiums ceded to retrocessionaires during the given period.

NET PRESENT VALUE AT RISK (NPV-AT-RISK)
Establishes what the value of future cash flows is in terms of today's monetary value. NPV-at-Risk establishes the change in value of future cash flows as a result of interest rate changes in terms of today's monetary value.

NON-VOTING EQUITY SECURITIES
Core Tier 1 securities issued to the Dutch State in November 2008 for a total consideration of EUR 10 billion. In December 2009 EUR 5 billion and in May 2011 EUR 2 billion was paid back to the Dutch State. This capital injection qualifies as core Tier 1 capital for regulatory purposes.

NOTIONAL AMOUNTS
Represent units of account which, in respect of derivatives, reflect the relationship with the underlying assets. They do not reflect, however, the credit risks assumed by entering into derivative transactions.

OPERATING LEASE
A lease other than a finance lease.

OPERATIONAL RISK
The risk of a direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

OPTION CONTRACTS
Give the purchaser, for a premium, the right, but not the obligation, to buy or sell within a limited period of time a financial instrument or currency at a contracted price that may also be settled in cash. Written options are subject to market risk, but not to credit risk since the counterparties have already performed in accordance with the terms of the contract by paying a cash premium up front.

ORDINARY SHARE
An equity instrument that is subordinate to all other classes of equity instruments. Ordinary shares participate in the net profit for the financial year after other types of shares such as preference shares.

OUT OF THE MONEY
A call option is said to be out of the money if the exercise price is higher than the price of the underlying value; a put option is said to be out of the money if the exercise price is lower than the price of the underlying value.

OVER-THE-COUNTER INSTRUMENT
A non-standardised financial instrument not traded on a stock exchange but directly between market participants.

PLAN ASSETS
Comprise assets held by a long-term employee benefit fund and qualifying insurance policies. Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting enterprise) that:
- are held by an entity (a fund) that is legally separate from the reporting enterprise and exists solely to pay or fund employee benefits; and
- are available to be used only to pay or fund employee benefits, are not available to the reporting enterprise's own creditors (even in bankruptcy), and cannot be returned to the reporting enterprise, unless either the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting enterprise or the assets are returned to the reporting enterprise to reimburse it for employee benefits already paid.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party of the reporting enterprise, if the proceeds of the policy:
- can be used only to pay or fund employee benefits under a defined benefit plan; and
- are not available to the reporting enterprise's own creditors (even in bankruptcy) and cannot be paid to the reporting enterprise, unless either the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations or the proceeds are returned to the reporting enterprise to reimburse it for employee benefits already paid.

POST-EMPLOYMENT BENEFIT PLANS
Formal or informal arrangements under which a company provides post-employment benefits for one or more employees. Post-employment benefits are employee benefits other than termination benefits and equity compensation benefits, which are payable after the completion of employment.

PREFERENCE SHARE
Similar to an ordinary share but carries certain preferential rights. These rights usually concern the guarantee of a fixed (cumulative) return to the shareholder or a guaranteed return on the investment.

PREMIUMS EARNED
The portion of net premiums written in current and past periods which applies to the expired portion of the policy period, calculated by subtracting movements in unearned premium reserves from net premiums.

PRE-SETTLEMENT RISK
Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING Group has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk (potential or expected risk) is the cost of ING Group replacing a trade in the market. This credit risk category is associated with dealing room products such as options, swaps, and securities financing transactions. Where there is a mutual exchange of value, the amount of outstanding is generally based on the replacement value (mark-to-market) plus potential future volatility concept, using an historical 7 year time horizon and a 99% confidence level.

PRIVATE LOAN
Loans to governments, other public bodies, public utilities, corporations, other institutions or individuals with a loan agreement as the only instrument of title.

PRIVATE PLACEMENT
A placement in which newly issued shares or debentures come into possession of a limited group of subscribers who are prepared to buy the new securities.

PROJECTED UNIT CREDIT METHOD
An actuarial valuation method that considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

QUALIFYING ASSET (WITHIN THE MEANING OF BORROWING COSTS)
An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

RECOGNITION
The process of incorporating in the balance sheet or profit and loss account an item that meets the definition of an element and satisfies the following criteria for recognition:
- it is probable that any future economic benefit associated with the item will flow to or from the enterprise; and
- the item has a cost or value that can be measured reliably.

RECOVERABLE AMOUNT
The higher of an asset's net selling price and its value in use.

REDEMPTION VALUE
With respect to investments in fixed-interest securities, the amount payable on the maturity date.

REINSURANCE
The practice whereby one party, called the reinsurer, in consideration for a premium paid to him, agrees to indemnify another party, called the reinsured or ceding company, for part or all of the liability assumed by the reinsured under a contract or contracts of insurance which the reinsured has issued. The reinsured may also be referred to as the original or primary insurer, the direct writing company, or the ceding company.

RETURN ON EQUITY (ROE)
The return on equity is the net result as percentage of the average equity.

RISK ADJUSTED RETURN ON CAPITAL (RAROC)
A performance indicator that measures revenues in the perspective of the risks that had to be taken to obtain that revenue. RAROC is calculated by dividing the risk-adjusted-return by economic capital. In the RAROC calculation, the actual credit-risk provisioning is replaced by statistically expected losses reflecting the average credit losses over the entire economic cycle.

RISK-WEIGHTED ASSETS ('RWA' UNDER BASEL I)
Assets which are weighted for credit risk according to a formula used by the Dutch central bank (De Nederlandsche Bank), which conforms to the capital adequacy guidelines of the BIS (Bank of International Settlements). On and off-balance-sheet items are weighted for risk, with off-balance-sheet items converted to balance-sheet equivalents (using credit-conversion factors) before being allocated a risk weight.

RISK-WEIGHTED ASSETS ('RWA' UNDER BASEL II)
Assets which are weighted for credit and market risk in accordance with the Basel II methodology. The risk-weighted assets are calculated using internal models approved by The Dutch central bank (De Nederlandsche Bank). Regulatory capital requirements for operational risk are calculated without use of risk-weighted assets.

SETTLEMENT RISK
Settlement risk arises when there is an exchange of value (funds, instruments or commodities) for the same or different value dates and receipt is not verified or expected until ING Group has paid or delivered its side of the trade. The risk is that ING Group delivers, but does not receive delivery from the counterparty.

SIGNIFICANT INFLUENCE
The power to participate in the financial and operating policy decisions of an entity, but not to have control over these policies. Significant influence may be gained by share ownership, statute or agreement.

SOLVENCY II
The fundamental reform of European insurance solvency and risk governance legislation, which is expected to be effective as of 1 January 2014.

SUB-PRIME MORTGAGES
Mortgage loans made to borrowers who cannot get a regular mortgage because they have a bad credit history or limited income.

SUBSIDIARY
An entity that is controlled by another entity.

SURRENDER
The termination of a life or retirement contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, on the contract.

SWAP CONTRACTS
Commitments to settle in cash at a specified future date, based on differentials between specified financial indices as applied to a notional principal amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party.

TIER 1 CAPITAL
Also referred to as the core capital of ING Bank. It comprises paid up share capital, reserves excluding revaluation reserves, retained earnings, minority interests and hybrid Tier 1.

TIER 1 RATIO
Reflecting the Tier 1 capital of ING Bank as a percentage of its total risk weighted assets. The minimum set by the Dutch central bank is 4%.

TOTAL AND UNDERLYING NET RESULT
The variance between Total and Underlying net result is caused by divestments and special items.

TRADING PORTFOLIO
Comprises those financial instruments which are held to obtain short-term transaction results, to facilitate transactions on behalf of clients or to hedge other positions in the trading portfolio.

TRANSFER RISK
Probability of loss due to currency conversion (exchange) restrictions imposed by a foreign government that make it impossible to move money out of the country.

TREASURY BILLS
Generally short-term debt certificates issued by a central government. Dutch Treasury Certificates are regarded as Dutch Treasury bills.

TREASURY SHARES
An entity's own equity instruments, held by the entity or other members of the consolidated group.

VALUE AT RISK (VAR)
Quantifies, with a one-sided confidence level of at least 99%, the maximum overnight loss in Net Present Value that could occur due to changes in risk factors (e.g. interest rates, foreign exchange rates, equity prices, credit spreads, implied volatilities) if positions remain unchanged for a time interval of one day.

VALUE IN USE
The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

VARIANCE-COVARIANCE
A model to calculate Value at Risk, assuming that changes in risk factors are (jointly) normally distributed and that the change in portfolio value is linearly dependent on all risk factor changes.

WARRANT
A financial instrument that gives the holder the right to purchase ordinary shares.

WEIGHTED AVERAGE COST OF CAPITAL (WACC)
The weighted average cost of capital is used as the discount rate for calculating the present value of future cash flows.

General information

Disclaimer

Certain of the statements contained in this Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (1) changes in general economic conditions, in particular economic conditions in ING's core markets, (2) changes in performance of financial markets, including developing markets, (3) consequences of a potential (partial) break-up of the euro, (4) the implementation of ING's restructuring plan to separate banking and insurance operations, (5) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness, (6) the frequency and severity of insured loss events, (7) changes affecting mortality and morbidity levels and trends, (8) changes affecting persistency levels, (9) changes affecting interest rate levels, (10) changes affecting currency exchange rates, (11) changes in investor, customer and policyholder behaviour, (12) changes in general competitive factors, (13) changes in laws and regulations, (14) changes in the policies of governments and/or regulatory authorities, (15) conclusions with regard to purchase accounting assumptions and methodologies, (16) changes in ownership that could affect the future availability to us of net operating loss, net capital and built-in loss carry forwards, (17) changes in credit-ratings, (18) ING's ability to achieve projected operational synergies and (19) the other risk factors and uncertainties detailed in the Risk Factors section contained in this Annual Report.

Any forward-looking statements made by or on behalf of ING speak only as of the date they are made, and, ING assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason.

General information continued

ING PUBLICATIONS

- Annual Report, in Dutch and English
- Annual Report on Form 20-F, in English (in accordance with SEC guidelines)

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The publications can be ordered on the internet:
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by fax: +31 411 652 121, or
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This Annual Report contains the Reports of the Executive Board and Supervisory Board as well as the Annual Accounts and Other information for the financial year 2011 in their original language (English).

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Commercial Register of Amsterdam, no. 33231073

WRITTEN AND PRODUCED BY
ING Groep N.V.
Corporate Communications, Amsterdam

DESIGNED BY
Addison Corporate Marketing, London

PRINTED BY
Drukkerij Tesink, Zutphen

ING

232442

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Commercial Register of Amsterdam, no. 33231073

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