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2005

ING Insurance

Annual Report

ING INSURANCE

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ING AT A GLANCE

ING INSURANCE IS PART OF ING GROUP

ING GROUP

Profile
ING is a global financial services company with 150 years of experience, providing a wide array of banking, insurance and asset management services in over 50 countries. Our 115,000 employees work daily to satisfy a broad customer base: individuals, families, small businesses, large corporations, institutions and governments. Based on market capitalisation, ING is one of the 15 largest financial institutions worldwide and in the top-10 in Europe.

Business
ING is a major financial services company in the Benelux home market. ING services its retail clients in these markets with a wide range of retail-banking, insurance and asset management products. In our wholesale banking activities we operate worldwide, but with a primary focus on the Benelux countries. In the United States, ING is a top-10 provider of retirement services and life insurance, based on sales and assets under management. In Canada, we are the top property and casualty insurer based on direct written premium. ING Direct is a leading direct bank with 15 million customers in nine countries. In the growth markets of Asia, Central Europe and Latin America we provide life insurance. We are also a large asset manager with assets under management of almost EUR 550 billion. ING Real Estate is the largest property company in the world, based on its total business portfolio.

Mission
We strive to deliver our financial products and services in the way our customers expect: with exemplary service, maximum convenience and at competitive rates. This is reflected in our mission statement: to set the standard in helping our customers manage their financial future.

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

ING INSURANCE

Insurance Europe
Operates the insurance activities in the Netherlands, Belgium, Spain, Greece and Central Europe. In these countries we offer life insurance with a particular focus on pensions. In the Netherlands and Belgium we also offer non-life insurance. Insurance Europe also includes our European asset-management operations.

Insurance Americas
Conducts insurance operations and asset-management activities in the Americas. It is well established in the United States with retirement services, annuities, life insurance and investment management. We have a leading position in non-life insurance in Canada. Furthermore, we are active in Mexico, Chile, Peru and Brazil.

Insurance Asia/Pacific
Conducts the life insurance operations and asset/wealth management activities in Asia/Pacific. It has well-established positions in Australia and New-Zealand, Hong Kong, Japan, Korea, Malaysia and Taiwan. The activities in China, India and Thailand are future growth engines for ING.

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COMPOSITION OF THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD AS AT 31 DECEMBER 2005

ING Insurance has a two-tier board system, consisting of a Supervisory Board and an Executive Board. The Supervisory Board consists of independent non-executives. Its task is to supervise the policy of the Executive Board and the general course of events in the company and to assist the Executive Board by providing advice. The Executive Board is responsible for the daily management of the company. The composition of the Supervisory Board and the Executive Board of ING Verzekeringen N.V. is as follows:

SUPERVISORY BOARD

Cor A.J. Herkströter, *Chairman*
Eric Bourdais de Charbonnière, *Vice-chairman*
Luella Gross Goldberg
Paul F. van der Heijden
Claus Dieter Hoffmann
Jan H.M. Hommen
Aad G. Jacobs
Wim Kok
Godfried J.A. van der Lugt
Paul J.A. Baron de Meester
Karel Vuursteen

EXECUTIVE BOARD

Fred S. Hubbell, *Chairman*
Cees Maas, *Chief Financial Officer*
Eric F. Boyer de la Giroday
Eli P. Leenaars
Alexander H.G. Rinnooy Kan
Michel J. Tilmant
Hans K. Verkoren

REPORT OF THE SUPERVISORY BOARD

TO THE SHAREHOLDER,

The Supervisory Board hereby presents you the 2005 Annual Report of ING Verzekeringen N.V. The Annual Report includes the Report of the Executive Board, the Annual Accounts and Other information.

ANNUAL ACCOUNTS AND DIVIDEND

The Annual Accounts have been prepared by the Executive Board and have been discussed by the Supervisory Board. They are presented to you for approval. Approval of the Annual Accounts will serve to ratify the actions of the Executive Board in respect of their management and the members of the Supervisory Board in respect of their supervision during the past financial year. Adoption of the Annual Accounts also implies that the dividend for 2005 amounts to EUR 1,595 million.

MEETINGS

The Supervisory Board held eight meetings in 2005. Four meetings of the Supervisory Board were mainly dedicated to the annual and quarterly results. Two meetings were held to discuss the medium-term plan and strategy. Other topics through the year were the overall risk profile, the risk organisation, internal control, the business principles, leadership development, corporate governance and compliance. The internal meeting without the Executive Board was devoted to the Supervisory Board's own performance as well as that of the Executive Board and its individual members.

SUPERVISORY BOARD COMMITTEES

The Audit Committee discussed among other things the annual results and the semi-annual results, the development of the results, and twice the annual figures and the semi-annual figures according to the US GAAP accounting principles. The Audit Committee also addressed topics such as accounting principles, risk management, administrative organisation, internal controls and internal and external audits. Furthermore, tax and legal affairs were discussed, including quarterly reporting on complaints received under the Whistleblower procedure.

An important subject in 2005 was the introduction of International Financial Reporting Standards and the impact of these new accounting principles on the balance sheet and profit & loss account. Other topics were risk management, capital management and compliance on the basis of incidents reports. The Audit Committee was updated on the SOX-404 project, which is aimed on bringing ING's internal controls and underlying documentation in line with the requirements of the American Sarbanes-Oxley Act as of year-end 2006. Presentations were given by ING Investment Management Europe, the Corporate Tax Department and Corporate Market Risk Management.

COMPOSITION OF THE SUPERVISORY BOARD

Luella Gross Goldberg and Godfried van der Lugt were reappointed as members of the Supervisory Board. Jan Timmer retired from the Supervisory Board after the Annual General Meeting of Shareholders (AGM) on 26 April 2005. Jan Hommen was appointed as a new member as of 1 June 2005. Christine Lagarde, at that time partner of law firm Baker & Mackenzie, was appointed as a new member as of 27 April 2005. Unfortunately, she had to resign in June after being appointed to the new French government as Minister for Foreign Trade. In the AGM of 25 April 2006, Aad Jacobs and Paul Baron De Meester will retire, while Cor Herkströter and Karel Vuursteen are eligible for reappointment. At the same AGM, Piet Klaver (1945, Dutch) will be nominated for appointment.

COMPOSITION OF THE EXECUTIVE BOARD

In 2005 there were no changes to the Executive Board. At the AGM three Executive Board members will resign, while four new members will be proposed for appointment. Fred Hubbell and Hans Verkoren elected to retire, while Alexander Rinnooy Kan will leave ING to take up a new position as the chairman of the Social and Economic Council of the Netherlands. Dick Harryvan (1953, Dutch), Tom McInerney (1956, American), Hans van der Noordaa (1961, Dutch) and Jacques de Vaucleroy (1961, Belgian) are the new Executive Board members, to be appointed by the AGM.

Amsterdam, 6 March 2006

THE SUPERVISORY BOARD

REPORT OF THE EXECUTIVE BOARD

GENERAL

ING Verzekeringen N.V., together with ING Bank N.V., is part of ING Groep N.V. The business lines for insurance are Insurance Europe, Insurance Americas and Insurance Asia/Pacific.

MAIN DEVELOPMENTS

ING's insurance operations continued to benefit from strong growth in retirement services and life insurance in developing markets, as well as strong investment results and an exceptionally favourable claims environment for non-life insurance. Profit before tax from the insurance operations decreased 7.8% to EUR 4,008 million. The life insurance activities posted an increase in underlying profit before tax, driven by the U.S., Central Europe, South Korea and the Netherlands, supported by higher sales, growth in assets under management, and investment gains. Life premium income rose 12.5% excluding divestments and reclassifications as a result of IFRS-EU. The efficiency ratios for life and investment products both improved. The non-life insurance units continued to benefit from an exceptionally favourable claims environment, particularly in Canada. Continued emphasis on value creation has resulted in a 27.4% increase in the value of new life business, and a 22.9% increase in the embedded value of the life insurance business to EUR 27,586 million, driven by higher sales and improved margins. The internal rate of return on new life business increased to 13.2%.

On an underlying basis, i.e. excluding the impact of divestments and special items, profit before tax increased by 11.9 % to EUR 4,015 million.

Insurance Europe

Underlying profit before tax

Underlying profit before tax from Insurance Europe rose 23.9% to EUR 2,032 million, driven by The Netherlands and Central Europe as well as strong underwriting results at the non-life businesses in Belgium. Profit from life insurance rose 23.0% to EUR 1,608 million, led by a 48.3% increase in life results from Central Europe, particularly in Poland and Hungary. Life results from the Netherlands increased 20.0%, supported by higher investment income, fair value changes on derivatives and releases from disability provisions. Profit from non-life insurance rose 39.0% to EUR 424 million, supported by strong underwriting results and releases of actuarial provisions.

Income

Total premium income declined 5.9% to EUR 10,702 million, due to the reclassification of some products from life insurance to investment contracts under IFRS 4 as well as a decline in non-life premiums in the Netherlands due to legislation changes related to disability insurance. Excluding the reclassification of investment products under IFRS-EU, which had a negative impact of EUR 761 million, life premium income rose 1.8% as double-digit growth in Central Europe and Belgium was offset by lower life premiums in the Netherlands after Nationale-Nederlanden adjusted rates in 2005 to improve profitability. Non-life premium income declined 2.8% to EUR 2,007 million, due to premium refunds resulting from the new long-term disability laws in the Netherlands which took effect in 2006. Investment income increased 9.9% to EUR 4,583 million, supported by pre-payment penalties and capital gains on bonds and private equity investments. Commission and other income increased 52.0% to EUR 760 million due to higher profits from associates, such as minority shareholdings in real estate funds and private equity.

Expenses

Operating expenses rose 6.9% due to an increase in the Netherlands, mainly related to the new collective labour agreement, EUR 23 million in costs for streamlining the IT organisation, as well as severance and reorganisation costs. That was partially offset by a release of EUR 47 million from provisions for employee benefits following legislative changes in the Netherlands relating to healthcare and pensions. Operating expenses in Belgium and Central Europe declined as a result of cost containment programmes. Expenses as a percentage of assets under management improved from 1.06% to 0.93%, while expenses as a percentage of life premiums deteriorated from 20.99% to 23.38%. The average number of staff increased slightly to 16,100.

Insurance Americas

Underlying profit before tax

Underlying profit before tax from Insurance Americas increased 23.6% to EUR 1,979 million. Profit growth was driven by a 27.4% increase in the U.S., led by higher results from retirement services and annuities due to higher asset levels, improved investment performance and higher margins. The Canadian non-life business posted a 35.8% increase in underlying profit before tax, driven by continued strong underwriting results and the acquisition of Allianz Canada. Growth in the region was moderated by losses in the fourth quarter in Latin America, including claims and expenses related to recent hurricanes in Mexico. Currency movements had a positive impact of EUR 46 million due to the strengthening of the Canadian dollar, and the Mexican and Chilean pesos against the euro. Divestments resulted in a loss of EUR 50 million in 2005 compared with a gain of EUR 2 million in 2004. Divested units generated a profit before tax of EUR 12 million in 2005, compared with EUR 89 million in 2004. Including these items, total profit before tax increased 14.7% to EUR 1,941 million.

Income

Premium income was virtually flat at EUR 22,744 million as higher non-life premiums were offset by lower life premiums. Non-life premium income rose 5.1% to EUR 4,552 million, driven by a 16.8% increase in Canada, primarily due to the acquisition of Allianz Canada. That growth was partially offset by lower non-life premium income in Mexico from the non-renewal of certain large property & casualty cases and lower sales. Life premium income declined 1.3% to EUR 18,192 million, due to the reclassification of products from life insurance to investment products under IFRS-EU, which had a negative impact of EUR 241 million. Excluding that impact, life premiums were flat as a slight decline in individual life single premium and lower fixed annuity sales was compensated by higher sales in retirement services. Investment income declined 2.6% to EUR 4,387 million, reflecting the EUR 249 million gain on the ING Canada IPO as well as EUR 157 million higher investment income from divested businesses in 2004. Excluding those items, investment income increased 7.3% driven by higher yields, prepayment penalty income on fixed-income investments, investment gains from sales of fixed-income securities, and higher private equity gains. Investment income declined in the fourth quarter due to lower gains on bonds as interest rates increased. It will be difficult to realise gains on bonds going forward if interest rates continue to rise.

Expenses
Operating expenses increased 8.9% to EUR 2,397 million due to the acquisition of Allianz Canada and expenses in the U.S. related to strategic initiatives and higher incentive-related benefit costs. Expenses as a percentage of assets under management for investment products were unchanged at 0.75%, while expenses as a percentage of premiums for life products improved from 13.99% to 13.76%. The average number of full-time staff increased 7.1% to 27,100, mainly due to the acquisition of Allianz Canada and an increase in the sales forces in Latin America.

Insurance Asia/Pacific
Underlying profit before tax
Underlying profit before tax from Insurance Asia/Pacific declined 5.9% to EUR 447 million as a result of the strengthening of reserves in Taiwan due to the continued low interest rate environment. Excluding Taiwan, underlying profit before tax in the rest of the region increased 15.8% to EUR 447 million from EUR 386 million, driven by a 52.1% increase in South Korea. Results in 2004 were favoured by the release of a EUR 29 million reserve for capital-guaranteed products in Australia and a EUR 30 million release of reserves for a wage-tax assessment. Excluding Taiwan and these one-off items, profit rose 36.7%. Underlying profit before tax declined 6.7% in the fourth quarter from the same period last year, however excluding Taiwan and the release in Australia in the fourth quarter of 2004, profit rose 41.8%.

Divestments had a significant impact on Insurance Asia/Pacific's total profit before tax. In 2004, ING realised a gain of EUR 219 million on the sale of its 50% stake in a non-life insurance joint venture in Australia. Results in 2005 included a gain of EUR 27 million from the IPO of 90% of the shares in Austbrokers Holdings as ING focuses on the funds management and life insurance businesses in Australia. Including those gains and profit from the divested units, total profit before tax from Insurance Asia/Pacific declined 36.8% to EUR 478 million.

Income
Premium income rose 29.7% to EUR 12,286 million, led by a 32.6% increase in life premiums. Growth was driven by sharply higher sales of single-premium variable annuities in Japan, tied agency products in South Korea and short-term savings products in Taiwan. Strong premium growth rates were recorded in local currency terms in Japan (87.8%), South Korea (27.9%), Taiwan (11.3%), Malaysia (13.8%), India (141.8%), Thailand (42.6%), Hong Kong (10.8%) and China (27.2%). A reclassification of products in Australia from life insurance to investment products under IFRS 4 reduced premium income by EUR 1,051 million. Excluding the IFRS-EU change, total life premiums increased 49.7%. Non-life premium income fell 82.7%, reflecting the sale of the Australian non-life business in the second quarter of 2004.

Investment income declined to EUR 925 million from EUR 944 million in 2004. However, excluding the realised gains on divestments in both years, investment income rose 24.2% to EUR 898 million, driven by growth of the investment portfolio in the region. Assets under management increased from EUR 50.9 billion to EUR 71.8 billion, mainly due to strong inflows of EUR 12.0 billion. Following a management restructuring in 2005 at the South Korean fund management joint venture, Kookmin Bank Asset Management, ING's figures have been adjusted to reflect 20% of the total assets under management at the joint venture, in line with ING's stake in the company.

Commission and other income declined to EUR -12 million from EUR 77 million, mainly due to losses under IFRS-EU on derivatives in Japan that are used to hedge minimum-benefit guarantees on single-premium variable annuities, as well as an unrealised loss on non-trading derivatives in South Korea. That was partially offset by higher fee income on wealth management products in Australia as a result of growth in assets under management and the reclassification of most products in Australia from life insurance to investment products under IFRS-EU.

Expenses
Operating expenses increased 19.3% to EUR 867 million, reflecting staff and salary increases to support the continuing growth of the businesses across the region. Expenses in the year-earlier period also benefited from the release of a EUR 30 million provision for a wage-tax assessment. Excluding that release and the impact of divestments and currency effects, operating expenses increased 14.5%, driven mainly by Japan and South Korea. Adjusted for the release of the wage-tax provision, expenses as a percentage of assets under management for investment products improved from 1.13% in 2004 to 0.93% in 2005, while expenses as a percentage of premiums for life products improved from 9.03% to 8.35%. The average number of full-time staff rose 2.4% to 8,400 mainly due to increases in India and South Korea.

LOOKING AHEAD
In 2005, ING Insurance was confronted with low interest rates and a flattening yield curve, but also benefited from some favourable market consolidations. Including strong equity and real-estate markets, historically low credit losses for fixed-income investments, low claims at most non-life insurance units, and low taxes. Looking ahead,

the interest-rate environment will remain challenging, while non-life claims are expected to return gradually to more normal levels. However, ING Insurance has confidence in the growth of the underlying business and in the ability of ING Insurance to continue creating value for shareholders.

INTERNAL CAPITAL REQUIREMENTS

GENERAL

ING assesses internal capital requirements by using its own risk based methodologies. The capital model is developed to measure the amount of capital ING believes is necessary to be considered a AA rated insurance business.

MEASUREMENT

ING believes that its new internal insurance capital model is considered an improvement over current EU capital requirements as more risk factors are considered. ING continues to refine economic capital models and allocation of capital to business units.

Amsterdam, 6 March 2006

THE EXECUTIVE BOARD

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CONSOLIDATED BALANCE SHEET OF ING INSURANCE AS AT 31 DECEMBER

BEFORE PROFIT APPROPRIATION

amounts in millions of euros	2005	2004
ASSETS		
Cash 1	2,745	1,967
Financial assets at fair value through profit or loss 2		
– trading assets	247	69
– investments for risk of policyholders	100,961	77,662
– non-trading derivatives	2,346	
– designated as at fair value through profit and loss	758	
Investments available-for-sale 3	144,508	112,116
Loans and advances to customers 4	38,467	36,306
Reinsurance contracts 14	8,285	6,744
Investments in associates 5	2,463	1,744
Investment property 6	3,254	5,140
Property and equipment 7	1,109	1,136
Intangible assets 8	3,470	423
Deferred acquisition costs 9	9,604	10,428
Other assets 10	10,593	9,514
Total assets	328,810	263,249
EQUITY		
Equity attributable to equity holders of the Company	20,627	13,279
Third-party interests	1,227	1,708
Group equity 11	21,854	14,987
LIABILITIES		
Subordinated loans 12	4,376	2,616
Debt securities in issue	4,226	4,303
Other borrowed funds 13	17,313	11,763
Insurance and investment contracts 14	263,487	216,851
Financial liabilities at fair value through profit or loss 15		
– non-trading derivatives	896	
Other liabilities 16	16,658	12,729
Total liabilities	306,956	248,262
Total equity and liabilities	328,810	263,249

References relate to the notes starting on page 30 which form an integral part of the consolidated annual accounts.

CONSOLIDATED PROFIT AND LOSS ACCOUNT OF ING INSURANCE FOR THE YEARS ENDED AT 31 DECEMBER

amounts in millions of euros	2005	2004
INCOME		
Premium income 17	**45,758**	43,617
Income from investments 18	**9,232**	9,582
Gains and losses from investments 19	**744**	603
Commission income 20	**1,346**	1,200
Valuation results from non-trading derivatives 21	**-191**	
Net trading income 22	**6**	263
Other income 23	**532**	316
Total income	**57,427**	55,581
EXPENSES		
Underwriting expenditure 24	**47,120**	45,384
Additions to the provision for loan losses	**21**	-12
Other impairments 25	**22**	22
Staff costs 26	**2,804**	2,579
Interest expenses 27	**1,100**	1,138
Other operating expenses 28	**2,352**	2,124
Total expenditure	**53,419**	51,235
Profit before tax	**4,008**	4,346
Taxation 29	**455**	857
Profit for the period (before third-party interests)	**3,553**	3,489
Attribution:		
Net profit attributable to equity holders of the Company	**3,291**	3,361
Third party interests	**262**	128
Profit for the period	**3,553**	3,489

References relate to the notes starting on page 55 which form an integral part of the consolidated annual accounts.

CONSOLIDATED STATEMENT OF CASH FLOWS OF ING INSURANCE FOR THE YEARS ENDED 31 DECEMBER

amounts in millions of euros		2005	2004
Profit before tax		**4,008**	4,346
Adjusted for	– depreciation	**235**	205
	– amortisation of deferred acquisition costs and VOBA	**-1,141**	-858
	– increase in provisions for insurance and investment contracts	**21,250**	13,244
	– additions to the provision for loan losses	**21**	
	– other	**-3,718**	-549
Taxation paid		**-761**	-496
Movements in	– trading assets	**-210**	
	– non-trading derivatives	**46**	
	– other financial assets at fair value through profit or loss	**24**	-14
	– loans and advances to customers	**-3,205**	1,116
	– other assets	**-1,879**	137
	– other financial liabilities at fair value through profit or loss	**582**	
	– other liabilities	**2,806**	505
Net cash flow from operating activities		**18,058**	17,636
Investment and advances	– associates and group companies	**-662**	-747
	– available-for-sale investments	**-165,894**	-157,289
	– investment property	**-1,039**	-969
	– property and equipment	**-166**	-114
	– investments for the risk of policyholders	**-41,781**	-34,467
	– other investments	**-1**	-11
Disposals and redemptions	– associates and group companies	**695**	653
	– available-for-sale investments	**153,128**	143,071
	– investment property	**534**	878
	– property and equipment	**164**	59
	– investments for the risk of policyholders	**34,464**	29,382
	– other investments	**4**	24
Net cash flow from investing activities **30**		**-20,554**	-19,530
Proceeds from issuance of subordinated loans		**1,400**	
Borrowed funds and debt securities		**2,884**	1,828
Deposits by reinsurers		**93**	309
Issuance of ordinary shares		**105**	554
Dividends paid		**-1,595**	-630
Net cash flow from financing activities		**2,887**	2,061
Net cash flow **31**		**391**	167
Cash and cash equivalents at beginning of year		**1,967**	1,848
Implementation IAS 32/39		**692**	
Effect of exchange-rate changes on cash and cash equivalents		**-305**	-48
Cash and cash equivalents at end of year		**2,745**	1,967

References relate to the notes starting on page 69 which form an integral part of the consolidated annual accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF ING INSURANCE FOR THE YEARS ENDED AT 31 DECEMBER

amounts in millions of euros	Total	Share capital	Share premium	Revaluation reserve	Currency translation reserve	other reserves
Balance as at 1 January 2004	11,104	174	4,374	1,181		5,375
Unrealised revaluations after taxation						
– revaluations	624			708		-84
– transferred to profit and loss (realised)	-825			-724		-101
Exchange differences	-356				-435	79
Total amount recognised directly in equity	-557			-16	-435	-106
Net profit for the period	3,361					3,361
	2,804			-16	-435	3,255
Dividend	-629					-629
Balance as at 31 December 2004	13,279	174	4,374	1,165	-435	8,001
Implementation IAS 32/39 and IFRS 4	**2,223**			**3,773**	**2**	**-1,552**
Unrealised revaluations after taxation						
– revaluations	**1,989**			**1,870**		**119**
– transferred to profit and loss (realised)	**-501**			**-501**		
– unrealised revaluations transferred to deferred profit sharing liabilities and DAC	**-89**			**-89**		
Unrealised revaluations from cash flow hedges	**526**			**526**		
Unrealised revaluations from net investment hedges	**1,294**				**1,294**	
Exchange differences	**177**			**250**	**-117**	**44**
Employee stock option and share plans	**33**					**33**
Total amount recognised directly in equity	**3,429**			**2,056**	**1,177**	**196**
Net profit for the period	**3,291**					**3,291**
	6,720			**2,056**	**1,177**	**3,487**
Dividend	**-1,595**					**-1,595**
Balance as at 31 December 2005	**20,627**	**174**	**4,374**	**6,994**	**744**	**8,341**

In 2005, deferred taxes with regard to unrealised revaluations amounted to EUR -347 million (2004: EUR 103 million).

ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT OF ING INSURANCE

BASIS OF PRESENTATION

ING Insurance applies International Financial Reporting Standards as adopted by the European Union ('EU').

ING has not early adopted any new International Financial Reporting Standards. Recently issued standards that become effective after 2005 are not expected to have a material effect on equity or profit for the period.

International Financial Reporting Standards as adopted by the EU provide several options in accounting principles. ING Insurance's accounting principles under International Financial Reporting Standards as adopted by the EU and its decision on the options available are set out in the section 'Principles of valuation and determination of results' below.

In this document the term 'IFRS-EU' is used to refer to International Financial Reporting Standards as adopted by the EU including the decisions ING Insurance made with regard to the options available under International Financial Reporting Standards as adopted by the EU.

CHANGES IN ACCOUNTING PRINCIPLES

ING Insurance applies IFRS-EU as adopted by the EU as of 2005. The 2004 comparatives have been restated to comply with IFRS-EU. However, as permitted by IFRS 1, ING Insurance has not restated the 2004 comparatives for the impact of IAS 32, IAS 39 and IFRS 4. Accordingly, comparative information with respect to financial instruments and insurance contracts is prepared under ING Insurance's previous accounting policies (ING GAAP). As a result, certain comparative information relating to financial instruments and insurance contracts is not presented. The effects of implementing IFRS-EU are set out below under 'Impact of changes in accounting principles on net profit and equity'.
ING Insurance has implemented IFRS-EU retrospectively, using the following transitional provisions:

- Goodwill is only capitalised on acquisitions after 1 January 2004. Accounting for acquisitions before that date has not been restated; goodwill on those acquisitions was charged directly to shareholders' equity.
- Hedge accounting is applied to all hedge relationships that were accounted for as a hedge under ING GAAP and meet the IAS 39 criteria for hedge accounting as of 1 January 2005.
- Unrecognised actuarial results on employee benefit plans were recognised directly in equity at 1 January 2004.
- The cumulative translation differences reserve in equity was reset to nil at 1 January 2004.
- IFRS 2 (share based payments) is applied for awards issued after 7 November 2002, that had not vested by 1 January 2005.

IMPACT OF CHANGES IN ACCOUNTING PRINCIPLES ON NET PROFIT AND EQUITY

The impact of implementing IFRS-EU on equity and net profit is summarised as follows:

IMPACT OF CHANGES IN ACCOUNTING PRINCIPLES

amounts in millions of euros	Net profit 2004	Group equity 1 January 2004(1)	Group equity 31 December 2004(1)	Impact IAS 32/39 and IFRS 4	Group equity 1 January 2005(2)
Amounts in accordance with ING GAAP	3,580	13,198	15,656		**15,656**
Goodwill			197		**197**
Property	-310	-7		**-8**	**-8**
Employee benefits	77	-1,521	-1,360		**-1,360**
Available-for-sale debt securities				**5,999**	**5,999**
Insurance provisions		59	59	**-3,126**	**-3,067**
Derivatives/hedge accounting/fair value option				**-58**	**-58**
Loans and advances to customers				**167**	**167**
Loan loss provisions				**147**	**147**
Venture capital investments				**90**	**90**
Foreign currency translation	-20				
Other	-29	85	42	**71**	**113**
Taxation	63	477	407	**-1,059**	**-652**
IFRS-EU impact on net profit and shareholders' equity	-219	-907	-655	**2,223**	**1,568**
Third-party interests in equity			-14	**69**	**55**
IFRS-EU impact on net profit and group equity	-219	-907	-669	**2,292**	**1,623**
Amounts in accordance with IFRS-EU	3,361	12,291	14,987	**2,292**	**17,279**

(1) IFRS as adopted by the EU excluding IAS 32, IAS 39 and IFRS 4.
(2) IFRS as adopted by the EU including IAS 32, IAS 39 and IFRS 4.

EXPLANATION OF DIFFERENCES BETWEEN IFRS-EU AND ING GAAP

The explanation of differences in accounting principles between IFRS-EU (applied as of 2005) and the accounting principles applied by ING Insurance in the 2004 annual accounts (ING GAAP) is presented below in two sections:
– differences between ING GAAP and IFRS-EU excluding IAS 32/39 and IFRS 4, which were implemented in the restated 2004 comparatives as of 1 January 2004.
– differences due to the impact of IAS 32/39 and IFRS 4 which were implemented as of 1 January 2005.

DIFFERENCES BETWEEN ING GAAP AND IFRS-EU EXCLUDING IAS 32/39 AND IFRS 4

Goodwill
Under ING GAAP, goodwill was charged to equity. Under IFRS-EU, all goodwill arising after 1 January 2004 is capitalised and subject to an annual impairment review. Goodwill charged to equity prior to 1 January 2004 was not restated.

Investment property
Under IFRS-EU, investment property is reported at fair value, with changes in fair value reported in the profit and loss account. Under ING GAAP, investment property was reported at fair value, with changes in fair value reported in a revaluation reserve in equity; at disposal, the accumulated revaluation was recognised in the profit and loss account under ING GAAP.

Property in own use
Both under IFRS-EU and ING GAAP, property in own use is reported at fair value, with changes in fair value reported in a revaluation reserve in equity. However, under IFRS-EU a depreciation charge is recognised in the profit and loss account. At disposal, the accumulated revaluation was recognised in the profit and loss account under ING GAAP. Under IFRS-EU, no result is recognised on disposal. Furthermore, under IFRS-EU individually negative revaluation reserves on a property-by-property basis are charged to the profit and loss account; under ING GAAP negative revaluation reserves were offset against positive revaluation reserves.

Property under development for third parties
Both under IFRS-EU and ING GAAP, property in the course of construction is reported at cost and profit is recognised on completion date. However, IFRS-EU is more restrictive on the overhead expenses that may be capitalised and the definition of the completion date is different under IFRS-EU.

Employee benefits
Accounting for pension liabilities under ING GAAP was similar to IFRS-EU; however, at transition to IFRS-EU all unrecognised actuarial gains and losses were charged to shareholders' equity. Under IFRS-EU additional provisions for certain employee benefits are required.

Employee benefits – share-based payments
Under IFRS-EU, the fair value of shares and options granted to employees is recognised in the profit and loss account over the vesting period of the award. The majority of the share-based payments are equity-settled. Under ING GAAP the intrinsic value was recognised in the profit and loss account.

Insurance provisions
Where deferred acquisition costs are amortised over the lives of policies in relation to the emergence of estimated gross profits, the amortisation is adjusted for the effect of the differences between ING GAAP and IFRS-EU.

Leases
Under ING GAAP, operating leases where ING is the lessor were presented as Loans and advances to customers. Under IFRS-EU, these are presented as property and equipment, with depreciation recognised in the profit and loss account on a straight-line basis. All bonuses/discounts are amortised over the lease term under IFRS-EU whilst under ING GAAP they were reported in income immediately.

Foreign currency translation
Under ING GAAP, translation differences on insurance liabilities and related investments were recorded in equity. Under IFRS-EU, both are recognised in the profit and loss account. Both under IFRS-EU and ING GAAP translation differences on foreign operations are reported in a translation reserve in equity; however, at transition to IFRS-EU the translation differences reserve was reset to nil.

Taxation
Deferred taxation was adjusted for the (deferred) tax effect of the above differences between ING GAAP and IFRS.

ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT OF ING INSURANCE (CONTINUED)

DIFFERENCES FROM IMPLEMENTING IAS 32/39 AND IFRS 4 AS OF 1 JANUARY 2005

Available-for-sale debt securities
Under IFRS-EU, quoted debt securities (non-trading) are reported at fair value, with changes in fair value recognised in a revaluation reserve in equity; realised results are recognised directly in the profit and loss account. Under ING GAAP, debt securities were reported at amortised cost; realised results were deferred and amortised over the remaining term.

Insurance provisions
Under IFRS-EU certain contracts that do not contain significant insurance risk are presented as investment contracts and measured either at amortised cost or at fair value.

For insurance contracts with discretionary participation features, a deferred profit sharing liability is recorded under IFRS-EU for the full amount of unrealised results on allocated investments. In addition, a deferred profit sharing liability is recorded for the policyholders' share in other differences between ING GAAP and IFRS-EU as at 1 January 2005.

Where deferred acquisition costs are amortised over the lives of policies in relation to the emergence of estimated gross profits, under IFRS-EU the amortisation is adjusted through equity to reflect changes that would have been necessary if unrealised investment gains and losses had been realised.

Derivatives
Under IFRS-EU, all derivatives (including embedded derivatives that are not closely related to the host contract) are reported at fair value. Under ING GAAP, non-trading derivatives were valued similarly to the item being hedged (mainly at cost); realised results were deferred and amortised over the remaining term.

Hedge accounting
Under IFRS-EU, for derivatives qualifying as cash flow hedges and net investment hedges, the fair value movements are initially deferred in equity and subsequently released to the profit and loss account in the same period in which the hedged item affects profit and loss. For fair value hedges, the valuation of the hedged item is adjusted to reflect the hedged risk; this fair value adjustment on the hedged item is reported in the profit and loss account and (partly) offsets the fair value impact of the derivative that is also reported in the profit and loss account. Under ING GAAP, non-trading derivatives used for risk management purposes were valued similar to the item being hedged (mainly at cost).

Fair value option
As an alternative to hedge accounting under IFRS-EU, financial assets may be designated at fair value through profit or loss, which implies that these are presented at fair value, with all changes in fair value recognised directly in the profit and loss account.

Loans and advances to customers
Under both ING GAAP and IFRS-EU loans are measured at amortised cost. Under IFRS-EU, certain fees/costs are capitalised and amortised whilst under ING GAAP they were expensed immediately (e.g. mortgage broker fees). The amortisation of premiums, discounts and fees under IFRS-EU is based on effective yield whereas under ING GAAP these were amortised on a straight-line basis. Under IFRS-EU, realised results are reported in net income. Under ING GAAP these were amortised over the remaining term (e.g. prepayment penalties on mortgages).

Loan loss provisions
Under IFRS-EU loan loss provisions are determined under a revised methodology based on a narrow interpretation of an incurred loss model. The application of the IFRS-EU methodology has reduced the amount of the unallocated provision for loan losses that ING Group provided in prior years to adequately capture various subjective and judgemental aspects of credit risk assessment which were not considered on an individual basis.

Venture capital investments
Under ING GAAP, venture capital investments were reported at the lower of cost or fair value. Under IFRS-EU, venture capital investments are reported at fair value.

Equity securities
Under ING GAAP, negative revaluations on equity securities were only charged to the profit and loss account as impairment when triggered by the financial condition of the issuer. Under IFRS-EU, impairment is also triggered by a significant or prolonged decline of the market value below cost. This does not affect group equity as at 1 January 2005.

Classification of equity instruments
Under ING GAAP, preference shares were - in accordance with the legal form - classified as equity. Under IFRS-EU, the terms and conditions of ING Insurance's preference shares require their classification as liabilities.

Taxation
Deferred taxation was adjusted for the (deferred) tax effect of the above differences between ING GAAP and IFRS-EU.

IMPACT OF CHANGES IN ACCOUNTING PRINCIPLES ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

IFRS-EU TRANSACTION EFFECTS ON THE STATEMENT OF CASH FLOWS

amounts in millions of euros	**1 January 2005**	1 January 2004
Cash and cash equivalents – ING GAAP	**1,967**	1,848
Implementation IAS 32/39	**692**	
Cash and cash equivalents – IFRS-EU	**2,659**	1,848

ACQUISITIONS AND DISPOSALS OF GROUP COMPANIES

IMPACT OF MOST SIGNIFICANT CHANGES IN COMPOSITION OF ING INSURANCE

amounts in millions of euros	**Before acquisition/ disposal**	**After acquisition/ disposal**	**Impact 2005**	Before acquisition/ disposal	After acquisition/ disposal	Impact 2004
Assets	**330,213**	**328,810**	**-1,403**	262,374	263,249	875
Liabilities and third-party interests	**309,638**	**308,183**	**-1,455**	249,301	249,970	669
Shareholders’ equity	**20,575**	**20,627**	**52**	13,073	13,279	206
Total income	**57,595**	**57,427**	**-168**	55,360	55,581	221
Net profit for the period	**3,427**	**3,291**	**-136**	3,164	3,361	197

The impact of a change in the composition of ING Insurance is defined as the change in assets, liabilities, shareholders’ equity or net profit resulting from the acquisition or disposal of a group company, compared to the situation where no acquisition or disposal took place. The impact is included in the financial year in which the acquisition or disposal took place.

In May 2005, ING Insurance sold Life Insurance Company of Georgia to Prudential PLC’s subsidiary, Jackson National Life Insurance Company. The loss from this transaction amounts to EUR 32 million after tax.

In November 2005, ING Insurance sold its stake in Austbrokers Holdings in an initial public offering. Austbrokers is one of the leading insurance brokers in Australia. The decision to sell the business follows ING’s sale of its 50% stake in general insurer QBE Mercantile Mutual to QBE in 2004.

In 2004, ING Insurance acquired Allianz’s property and casualty insurance operations in Canada. The goodwill amounted to EUR 48 million.

In 2004, ING Insurance reduced its shareholding in ING Canada Inc from 100% to 72.9% by an initial public offering of 34,880,000 common shares of ING Canada Inc. The gross proceeds amounted to EUR 552 million. In 2005, the underwriting syndicate exercised its option to buy an additional 5,232,000 common shares, reducing the shareholding of ING Insurance to 70%.

In 2004, ING Insurance signed a co-insurance agreement with Scottish Re regarding its individual life reinsurance business in the United States. Under this agreement, all assets of the business have been transferred to Scottish Re while the liabilities related to the business have been reinsured through Scottish Re. Under the agreement ING Insurance paid a ceding commission amounting to EUR 450 million.

In 2004, ING Insurance sold its non-life insurance business in Australia to QBE Insurance Group. The value of the transaction amounted to EUR 431 million.

CRITICAL ACCOUNTING POLICIES

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

ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT OF ING INSURANCE (CONTINUED)

INSURANCE PROVISIONS AND DEFERRED ACQUISITION COSTS AND VALUE OF BUSINESS ACQUIRED
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.

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.

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

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

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES
Fair values of financial assets and liabilities are determined using quoted market prices. Market prices are obtained from traders, brokers and independent market vendors. In general, positions are valued taking the bid price for a long position and the offer price for a short position. In some case where positions are marked at mid-market prices, a fair value adjustment is calculated. Furthermore, additional fair value adjustments may be necessary for liquidity or outdated data because transactions in a particular financial instrument do not take place on a regular basis.

For certain financial assets and liabilities, including OTC derivative instruments, no quoted market prices are available. For these financial assets and liabilities fair value is determined using valuation techniques. These valuation techniques consider, among other factors, contractual and market prices, correlations, time value of money, credit, yield curve volatility factors and/or prepayment rates of the underlying positions. All valuation techniques used are approved by the applicable internal authorities. In addition, market data used in these valuation techniques are validated on a daily basis.

Models are subjective in nature and significant judgement is involved in establishing fair values for financial assets and liabilities. Models involve various assumptions regarding the underlying price, yield curve, correlations and many other factors. The use of different valuation techniques and assumptions could produce materially different estimates of fair value.

Price testing is done to assess whether the process of valuation has led to an appropriate fair value of the position and to an appropriate reflection of these valuations in the profit and loss account. Price testing is performed to minimise the potential risks for economic losses due to materially incorrect or misused models, which applies to both exchange traded positions as well as OTC positions.

EMPLOYEE BENEFITS
Group companies operate various defined benefit retirement plans covering a significant number of its domestic and international employees.

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

The determination of the defined benefit plan liability is based on internal and external actuarial models and calculations. The defined benefit obligation is calculated using the projected unit credit method. Inherent in these actuarial models are assumptions including discount rates, rate of increase in future salary and benefit levels, mortality rates, health care costs trend rates, 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 and then the excess is amortised over the employees' expected average remaining working lives.

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULTS

CONSOLIDATION

ING Insurance comprises ING Verzekeringen N.V. ('the Company'), and its subsidiaries. The consolidated financial statements of ING Insurance comprise all entities (including special purpose entities) where ING Insurance, and/or it subsidiaries, has, either directly or indirectly, the power to exercise control over the financial and operating policies. Control is presumed to exist when ING Insurance has, directly or indirectly through subsidiaries, more than one half of the voting power or otherwise exercises effective control.

All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with ING Insurance policies. In general, the reporting dates of subsidiaries are the same as the reporting date of ING Verzekeringen N.V. There are no material restrictions on subsidiaries to transfer funds to the parent company.

ING Insurance's interests in jointly controlled entities are accounted for by proportionate consolidation. ING Insurance proportionately consolidates its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in ING Insurance's financial statements. ING Insurance recognises the portion of gains or losses on the sale of assets to the joint venture that it is attributable to the other ventures. ING Insurance does not recognise its share of profits or losses from the joint venture that result from the purchase of assets by ING Insurance from the joint venture until it resells the assets to an independent 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.

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

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 as at 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.

SEGMENTAL REPORTING

A business segment is a distinguishable component of ING Insurance engaged in providing products or services that is subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are 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. The business lines of ING Insurance are the business segments and the primary segment reporting format, the geographical segments the secondary.

ANALYSIS OF INSURANCE BUSINESS

Where amounts in respect of insurance business are analysed into 'life' and 'non-life', health and disability insurance business is included in 'non-life'.

FOREIGN CURRENCY TRANSLATION

Functional and presentational currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses 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 and qualifying net investment hedges.

ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT OF ING INSURANCE (CONTINUED)

Translation differences on non-monetary items, measured at fair value through profit or loss are reported as part of the fair value gain or loss. Non-monetary items are retranslated at the date fair value is determined. Translation differences on non-monetary items measured at fair value through the revaluation reserve are included in the revaluation reserve in equity.

Group companies
The results and financial position of all the 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 differences are recognised in a separate component of equity.

On consolidation, exchange 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, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES
The fair values of financial instruments traded in active markets (such as publicly traded derivatives and trading and available-for-sale securities) are based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by ING Insurance is the current bid price; the quoted market price used for financial liabilities is the current ask price.

The fair values of financial instruments that are not traded in an active market (for example over-the-counter derivatives) are determined by 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.

DERIVATIVES AND HEDGE ACCOUNTING
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. ING Insurance designates certain derivatives as either (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); (2) hedges of highly probable future cash flows attributable to a recognised asset or liability or a forecasted transaction (cash flow hedge) or (3) hedges of a net investment in a foreign operation. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

ING Insurance documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. ING Insurance also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items including the method for assessing the hedging instruments' effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

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 or 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.

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 in the profit and loss account over the remaining term of the original

hedge or recognised directly when the hedged items 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 instrument 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 will affect profit or loss. 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 immediately transferred to the profit and loss account.

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

Non-trading derivatives that do not qualify for hedge accounting
Certain non-trading derivative instruments that are used by ING Insurance as part of its risk management strategies do not qualify for hedge accounting under ING Insurance's accounting policies. Changes in the fair value of non-trading derivatives that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

FINANCIAL ASSETS

Recognition of financial assets
All purchases and sales of financial assets classified as held-to-maturity, available-for-sale and trading 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 that ING Insurance commits to purchase or sell the asset. Loans and deposits are recognised at settlement date.

Derecognition of financial assets
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where ING Insurance has transferred substantially all risks and rewards of ownership. If ING Insurance neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it has no longer control over the asset. In transfers where control over the asset is retained, ING Insurance continues to recognise the asset to the extent of its continuing involvement. The extent of continuing involvement is determined by the extent to which ING Insurance is exposed to changes in the value of the asset.

Loans and advances to customers
Loans and advances to customers are initially recognised at fair value, net of transaction costs. Subsequently, they are carried at amortised cost using the effective interest rate method less any impairment losses.

Investments
Investment securities (including loans quoted in active markets) are classified either as held-to-maturity or available-for-sale assets and are initially recognised at fair value, net of transaction costs. Investment securities and loans quoted in active markets with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities and actively traded loans intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

Available-for-sale financial assets
For available-for-sale debt securities, the difference between cost and redemption value is amortised. Interest income is recognised using the effective yield method. Available-for-sale financial assets are measured at fair value. 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 gains and losses from investments. For impairments on available-for-sale financial assets reference is made to the section Impairments of other financial assets.

ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT OF ING INSURANCE (CONTINUED)

Held-to-maturity investments
Investments for which the ING Insurance has the positive intention and ability to hold to maturity and which are designated as held-to-maturity assets are subsequently carried at amortised cost using the effective yield method, less any provision for impairment.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss comprise two sub-categories: financial assets held for trading and other financial assets designated at fair value through profit or loss by management, including investments for the risk of policyholders. A financial asset is classified as at fair value through profit or loss if acquired principally for the purpose of selling in the short term or if so designated by management. Designated by management will only take place if this eliminates a measurement inconsistency or if the related assets and liabilities are managed on a fair value basis. Investments for the 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.

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 by using a weighted average per portfolio. For debt securities the cost is determined by specific identification.

OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when ING Insurance has a 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.

PROVISIONS FOR LOAN LOSSES
ING Insurance assesses 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 (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.

Objective evidence that a financial asset or group of assets is impaired includes, but is not limited to:
– The borrower has sought or has been placed in bankruptcy or similar protection and this avoids or delays repayment of the financial asset.
– The borrower has failed in the repayment of principle, interest or fees and the payment failure has remained unsolved for a certain period.
– The borrower has evidenced significant financial difficulty, to the extent that it will have a negative impact on the future cash flows of the financial asset.
– The credit obligation has been restructured for non-commercial reasons. ING 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.

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

If there is objective evidence that an impairment loss on assets 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 and the amount of the loss is recognised in the profit and loss account. 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.

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.

When a loan is uncollectible, it is written off against the related provision for loan impairment. 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 decrease the amount of the provision for loan impairment and are recognised in the profit and loss account.

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 allowance account. The amount of the reversal is recognised in the profit and loss account.

IMPAIRMENT OTHER FINANCIAL ASSETS
ING Insurance assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, 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 profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. 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 profit or loss, the impairment loss is reversed through the profit and loss account.

INVESTMENTS IN ASSOCIATES
Associates are all entities over which ING Insurance has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are initially recognised at cost and subsequently accounted for by the equity method of accounting.

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

Unrealised gains on transactions between ING Insurance and its associates are eliminated to the extent of ING Insurance's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by ING Insurance.

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

INVESTMENT PROPERTY
Investment property is stated at fair value as at the balance sheet date. Changes in the carrying amount resulting from revaluations are recorded in the profit and loss account. On disposal the difference between the sale proceeds and book value is recognised in the profit and loss account.

Fair value of investment property is based on regular appraisals by independent qualified valuers.

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

ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT OF ING INSURANCE (CONTINUED)

The fair values of land and buildings are based on regular appraisals by independent qualified valuers. Subsequent expenditure is included in the assets carrying amount when it is probable that future economic benefits associated with the item will flow to ING Insurance and the cost of the item can be measured reliably.

Property under construction
Land and buildings under construction (including investment property) are stated at the directly attributable purchase and construction costs incurred up to the balance sheet date plus borrowing costs incurred during construction and ING Insurance's own development and supervision expenses, where necessary less impairment losses.

Property held for sale
Property held for sale comprises properties obtained from foreclosures and property developed for sale which there is no specifically negotiated contract. These properties are stated at the lower of cost and net realised value. Cost includes borrowing costs. Net realised value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Where the net realisable value is lower than the carrying amount, the impairment is recorded in the profit and loss account.

Property under development for third parties
Property under development for third parties is measured at direct construction cost incurred up to the balance sheet date, including borrowing costs incurred during construction and ING Insurance's own directly attributable development and supervision expenses less any required provision for impairment. Profit is recognised on completion date of the property (completed contract method).

Property under development where there is a specifically negotiated contract is valued using the percentage of completion method (pro rata profit recognition).

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 2 to 5 years and 4 to 10 years for fixtures and fittings. Expenditures for maintenance and repairs are charged to the profit and loss account as incurred. Expenditure incurred on major improvements is capitalised and depreciated.

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

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.

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

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

PURCHASE ACCOUNTING, GOODWILL AND OTHER INTANGIBLE ASSETS
Goodwill
ING Insurance's acquisitions are accounted for under the purchase method of accounting, whereby the cost of the acquisitions is allocated to the fair value of the assets, liabilities and contingent liabilities acquired. Goodwill, being the difference between the cost of the acquisition (including assumed debt) and ING Insurance's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. The results of the operations of the acquired companies are included in the profit and loss account from the date control is obtained.

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

Adjustments to the fair values as of the date of acquisition of acquired assets and liabilities that are identified within one year after acquisition are recorded as an adjustment to goodwill; any subsequent adjustment is recognised as income or expense. However, recognition of deferred tax assets after the acquisition date is recorded as an adjustment to goodwill even after the first year. On disposal of group companies, the difference between the sale proceeds and book value (including goodwill) and the amount included in 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 internal 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 expenses.

Value of business acquired (VOBA)

VOBA is an asset that represents the present value of estimated net cash flows embedded in the insurance contracts of an acquired company, which existed at the time the company was acquired. VOBA is amortised similar to 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 lives. 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. DAC is amortised over the life of the underlying contracts.

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

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 retrospectively when estimates of current or future gross profits to be realised from a group of products are revised. The estimates and the assumptions are reassessed at the end of each reporting period. For DAC on flexible insurance contracts the approach is that in determining the estimate of future gross profits ING assumes the short-term and long-term separate account growth rate assumption to be the same. Higher/lower expected profits – e.g. reflecting stock market performance or a changed level of assets under management – may cause a lower/higher amortisation 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 recorded in the profit and loss account of the period in which the unlocking occurs.

DAC is evaluated for recoverability at issue and subsequently to this 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.

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

TAXATION

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised 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 are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by ING Insurance and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT OF ING INSURANCE (CONTINUED)

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

FINANCIAL LIABILITIES

Preference shares, which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities. The dividends on these preference shares are recognised in the profit and loss account as interest expense using the effective interest method.

Borrowings are recognised initially at their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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

INSURANCE, INVESTMENT AND REINSURANCE CONTRACTS

Insurance contracts

Insurance policies which bear significant insurance risk under ING Insurance accounting policies are presented as insurance contracts. Provisions for liabilities under insurance contracts represent estimates of future payouts that will be required in respect of life and non-life insurance claims, including expenses relating to such claims.

Provision for life policy liabilities

The Provision for life policy liabilities is calculated on the basis of a prudent prospective actuarial method, taking into account the conditions for current insurance contracts.

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

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

The as yet unamortised interest-rate rebates on periodic and single premium contracts are deducted from the Provision for life policy liabilities. 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 in determining the provision. Further provisions are made to cover claims under unexpired insurance contracts, which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provision

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

Deferred profit sharing liability

For insurance contracts with discretionary participation features a deferred profit sharing liability is recorded for the full amount of the unrealised revaluation on allocated investments. Furthermore, a deferred profit sharing liability is recorded for the share in realised results on allocated investments that is expected to be shared with policyholders. The deferred profit sharing liability is reduced with the actual allocation of profit sharing to individual policyholders.

Insurance provisions for policies for which the policyholders bear the investment risk
The Insurance provisions for policies for which the policyholders bear the investment risk are calculated on the same basis as the provision for life policy liabilities. For insurance contracts for which policyholders bear the investment risk the insurance provisions are generally shown at the balance sheet value of the associated investments.

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

Investment contracts
Insurance policies without discretionary participation features which do not bear significant insurance risk under ING Insurance's accounting policies 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.

Adequacy test
The adequacy of the Provision for life policy liabilities net of DAC and VOBA is evaluated regularly by each business unit. The test considers current estimates of all contractual and related cash flows. It takes into account future developments. It allows for remaining unamortised interest-rate rebates, DAC and VOBA. It includes investment income on the same basis as it is included in the profit and loss.

If it is determined using a best estimate (50%) confidence level that a shortfall exists, it is immediately recorded in the profit and loss account.

If the provisions 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 provisions 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 then any shortfall at the 90% confidence level is immediately recorded in the profit and loss account.

If the reserves are determined to be adequate at above the 90% confidence level, no reduction in the provision is recorded.

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

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or 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 defined benefit obligation is calculated using the expected rate of return on plan assets. Differences between this expected return and the actual return on these plan assets and actuarial changes 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 amortised and charged or credited to the profit and loss account over employees' remaining working lives. The corridor was reset to nil at the date of transition to IFRS-EU (1 January 2004).

For defined contribution plans, ING Insurance pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. ING Insurance has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense 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-retirement obligations
Some ING Insurance companies provide post-retirement healthcare and other benefits to their retirees. 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.

ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT OF ING INSURANCE (CONTINUED)

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, whereas the timing or the amount is uncertain. Unless stated otherwise below, provisions are discounted using a pre-tax discount rate to reflect the time value of money. 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

Premium income
Premiums from life insurance policies are recognised as revenue when due from the policyholder. For non-life insurance policies, 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 premium income.

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

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

EXPENSE RECOGNITION

Expenses are recognised in the profit and loss account 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 reliable.

FIDUCIARY ACTIVITIES

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

ACCOUNTING POLICIES APPLIED IN RESPECT OF FINANCIAL INSTRUMENTS AND INSURANCE CONTRACTS FOR THE YEAR ENDED 31 DECEMBER 2004

As explained under ‘Changes in accounting principles’, the 2004 comparatives for financial instruments and insurance contracts are presented under the accounting principles applied in the 2004 financial statements (i.e. not restated for IAS 32, IAS 39 and IFRS 4). The main items involved are:
– Non trading derivatives
– Investments
– Loans and advances to customers
– Insurance, reinsurance and investment contracts

Key differences between the former ING GAAP accounting principles and IFRS-EU for these items are described in the section ‘Changes in accounting principles’.

ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED STATEMENT OF CASH FLOWS OF ING INSURANCE

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

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

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

The net cash flow shown in respect of Loans and advances to customers only relates to transactions involving actual payments or receipts. The Additions to the provision for loan losses which is deducted from the item Loans and advances to customers in the balance sheet has been adjusted accordingly for the profit before tax and is shown separately in the cash flow statement.

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

NOTES TO THE CONSOLIDATED BALANCE SHEET OF ING INSURANCE

AMOUNTS IN MILLIONS OF EUROS, UNLESS STATED OTHERWISE

ASSETS

1 CASH

CASH

	2005	2004
Cash and bank balances	**2,531**	1,773
Short term deposits insurance operations	**214**	194
	2,745	1,967

2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2005	2004
Trading assets	**247**	69
Investments for risk of policyholders	**100,961**	77,662
Non-trading derivatives	**2,346**	
Designated as at fair value through profit and loss	**758**	
	104,312	77,731

The majority of Financial assets designated as at fair value through profit or loss are equity and debt securities.

TRADING ASSETS BY TYPE

	2005	2004
Equity securities	**242**	69
Debt securities	**5**	
	247	69

Trading derivatives as at 31 December 2004 are included in trading liabilities.

INVESTMENTS FOR THE RISK OF POLICYHOLDERS BY TYPE

	2005	2004
Equity securities	**79,290**	74,015
Debt securities	**7,140**	2,673
Other investments	**14,531**	974
	100,961	77,662

The cost of investments for risk of policyholders as at 31 December 2005 was EUR 88,748 million (2004: EUR 77,338 million).

NON-TRADING DERIVATIVES

	2005
Derivatives used in cash flow hedging	**98**
Derivatives used in fair value hedging	**44**
Derivatives used in hedges of net investments in foreign operations	**2**
Other non-trading derivatives	**2,202**
	2,346

3 INVESTMENTS

AVAILABLE-FOR-SALE INVESTMENTS BY TYPE

	2005	2004
Equity securities	**14,319**	10,283
Debt securities	**130,189**	101,833
	144,508	112,116

MOVEMENTS IN AVAILABLE-FOR-SALE INVESTMENTS

	Equity securities		Debt securities		Total	
	2005	2004	2005	2004	2005	2004
Opening balance	**10,283**	10,236	**101,833**	92,231	**112,116**	102,467
Implementation IAS 32/39	**959**		**7,330**		**8,289**	
Additions	**8,478**	4,982	**157,499**	152,451	**165,977**	157,433
Transfers	**-89**		**-345**		**-434**	
Changes in the composition of the group	**49**	26	**-1,405**	-7	**-1,356**	19
Gains/(losses) from change in fair value	**2,139**	625	**-518**	-860	**1,621**	-235
Provision for impairments	**-46**	-20	**34**	-46	**-12**	-66
Disposals and redemptions	**-7,940**	-5,492	**-145,316**	-137,483	**-153,256**	-142,975
Exchange differences	**486**	-74	**11,077**	-4,453	**11,563**	-4,527
Closing balance	**14,319**	10,283	**130,189**	101,833	**144,508**	112,116

AVAILABLE-FOR-SALE EQUITY SECURITIES

	2005	2004
Listed	**12,311**	9,333
Unlisted	**2,008**	950
	14,319	10,283

REVALUATION OF AVAILABLE-FOR-SALE EQUITY SECURITIES

		2005	2004
Cost		**10,008**	9,374
Revaluation:	- gross unrealised gains	**4,377**	1,966
	- gross unrealised losses	**66**	1,057
		14,319	10,283

REVALUATION OF AVAILABLE-FOR-SALE DEBT SECURITIES

		2005
Cost		**124,792**
Revaluation:	- gross unrealised gains	**6,670**
	- gross unrealised losses	**1,273**
		130,189

As at 31 December 2005 no investments were classified as held to maturity.

Investments with a combined carrying value of EUR 3 million (2004: EUR 153 million) were non-income-producing for the year ended 31 December 2005.

NOTES TO THE CONSOLIDATED BALANCE SHEET OF ING INSURANCE
(CONTINUED)

4 LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS BY TYPE

	2005	2004
Policy loans	**3,536**	2,890
Loans secured by mortgages	**28,076**	27,012
Personal loans	**5,961**	5,220
Other	**941**	1,296
	38,514	36,418
Provisions for loan losses	**-47**	-112
	38,467	36,306

5 INVESTMENTS IN ASSOCIATES

INVESTMENTS IN ASSOCIATES

2005	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expense
Vesteda	**25**	**731**	**4,333**	**1,409**	**390**	**121**
Lionbrook Property Partnership	**33**	**308**	**988**	**62**	**42**	**14**
ING Winkels Basisfonds	**25**	**275**	**1,177**	**75**	**134**	**12**
ING Woningen Basisfonds	**25**	**205**	**925**	**54**	**144**	**45**
Property Fund Iberica	**30**	**165**	**1,472**	**911**	**241**	**152**
ING PF Brittanica	**33**	**135**	**768**	**361**	**48**	**28**
Q-Park N.V.	**19**	**105**	**1,277**	**721**	**32**	**29**
ING Vastgoed Winkels C.V.	**10**	**72**	**727**	**8**	**107**	**15**
ING Logistic Property C.V.	**25**	**62**	**477**	**230**	**48**	**23**
ING Convent Garden	**44**	**53**	**247**	**125**	**12**	**4**
Retail Property Fund France Belgium (RPFFB)	**15**	**52**	**863**	**520**	**101**	**48**
ING Vastgoed Woningen C.V.	**10**	**51**	**515**		**95**	**35**
Other investments in associates[1]		**193**				
		2,407				
Receivables from associates		**56**				
		2,463				

[1] Includes SulAmérica

INVESTMENTS IN ASSOCIATES

2004	Interest held (%)	Balance sheet value	Total assets	Total liabilities	Total income	Total expense
Vesteda	25	724	4,323	1,427	335	265
Property Fund Iberica	30	134	1,345	898	144	71
Q-Park N.V.	19	97	1,133	621	174	156
Lionbrook Property Partnership	26	79	413	109	27	7
ING UK Property Income Limited Partnership	45	63	369	229	6	3
ING Logistic Property C.V.	25	60	465	225	27	19
Other investments in associates[2]		576				
		1,733				
Receivables from associates		11				
		1,744				

[2] Includes NRG and SulAmérica

MOVEMENTS IN ASSOCIATES

	Investments in associates		Receivables from associates	
	2005	2004	**2005**	2004
Opening balance	**1,733**	1,551	**11**	14
Implementation IAS 32/39 and IFRS 4	**-267**			
Additions and advances	**354**	168	**56**	13
Changes in the composition of the group	**-92**	169		-13
Transfer to and from investments	**918**	-11		
Revaluations	**41**	74		
Share of results	**368**	108		
Dividends received	**-132**	-110		
Disposals and redemptions	**-513**	-214	**-12**	-2
Exchange differences	**-3**	-2	**1**	-1
Closing balance	**2,407**	1,733	**56**	11

6 INVESTMENT PROPERTY

MOVEMENTS IN INVESTMENT PROPERTY

	2005	2004
Opening balance	**5,140**	4,942
Additions	**1,039**	924
Changes in the composition of the group	**-97**	-358
Transfer to and from other assets	**-2,639**	276
Transfer to and from property in own use	**-2**	-8
Fair value gains/(losses)	**143**	137
Disposals	**-383**	-808
Exchange differences	**53**	-13
Other movements		48
Closing balance	**3,254**	5,140

The total amount of rental income recognised in the profit and loss account for the years ended 31 December 2005, and 2004 was EUR 292 million and EUR 382 million respectively. The total amount of contingent rent recognised in the profit and loss account for the years ended 31 December 2005, and 2004 was EUR 6 million and EUR 27 million respectively.

The total amount of direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income for the years ended 31 December 2005, and 2004 was EUR 60 million and EUR 100 million respectively. The total amount of direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income for the years ended 31 December 2005, and 2004 was EUR 32 million and EUR 30 million respectively.

APPRAISAL OF INVESTMENT PROPERTY DURING THE LAST FIVE YEARS BY PROFESSIONALLY QUALIFIED VALUERS (IN PERCENTAGES)

Years of appraisal	
2005	**95**
2004	**1**
2003	
2002	
2001	**4**
	100

NOTES TO THE CONSOLIDATED BALANCE SHEET OF ING INSURANCE (CONTINUED)

7 PROPERTY AND EQUIPMENT

PROPERTY AND EQUIPMENT BY TYPE

	2005	2004
Property in own use	**788**	843
Equipment	**321**	293
	1,109	1,136

MOVEMENTS IN PROPERTY IN OWN USE

	2005	2004
Opening balance	**843**	1,006
Additions	**35**	21
Changes in the composition of the group	**-7**	-28
Transfer to and from investment property	**2**	8
Transfers to/from other assets	**-25**	
Depreciation	**-14**	-15
Revaluations	**16**	3
Impairments	**-1**	-22
Disposals	**-110**	-15
Exchange differences	**49**	-17
Other movements		-98
Closing balance	**788**	843
Gross carrying amount as at 31 December	**840**	880
Accumulated depreciation as at 31 December	**-29**	-15
Accumulated impairments as at 31 December	**-23**	-22
Net book value	**788**	843
Revaluation surplus		
Opening balance	**48**	31
Changes in the revaluation reserve for the year	**42**	17
Closing balance	**90**	48

The cost or purchase price amounted to EUR 752 million (2004: EUR 834 million). Cost less accumulated depreciation would have been EUR 723 million (2004: EUR 819 million).

APPRAISAL OF PROPERTY IN OWN USE DURING THE LAST FIVE YEARS BY PROFESSIONALLY QUALIFIED VALUERS (IN PERCENTAGES)

Years of appraisal	
2005	**55**
2004	**18**
2003	**10**
2002	
2001	**17**
	100

MOVEMENTS IN EQUIPMENT

	Data processing equipment 2005	Data processing equipment 2004	Fixtures and fittings and other equipment 2005	Fixtures and fittings and other equipment 2004	Total 2005	Total 2004
Opening balance	**59**	78	**234**	237	**293**	315
Additions	**30**	27	**80**	71	**110**	98
Changes in the composition of the group		1	**1**	8	**1**	9
Disposals	**-1**	-6	**-17**	-14	**-18**	-20
Depreciation	**-38**	-40	**-61**	-59	**-99**	-99
Exchange differences	**7**	-1	**27**	-9	**34**	-10
Closing balance	**57**	59	**264**	234	**321**	293
Gross carrying amount as at 31 December	**219**	191	**478**	423	**697**	614
Accumulated depreciation as at 31 December	**-162**	-131	**-214**	-189	**-376**	-320
Accumulated impairments as at 31 December		-1				-1
Net book value	**57**	59	**264**	234	**321**	293

8 INTANGIBLE ASSETS

MOVEMENTS IN INTANGIBLE ASSETS

	Value of business acquired 2005	Value of business acquired 2004	Goodwill 2005	Goodwill 2004	Software 2005	Software 2004	Other 2005	Other 2004	Total 2005	Total 2004
Opening balance			**171**		**202**	156	**50**		**423**	156
Capitalised				180	**36**	54			**36**	234
Transfer from deferred acquisition costs	**2,693**								**2,693**	
Additions	**101**		**16**		**73**	84	**5**		**195**	84
Amortisation	**-241**				**-103**	-93	**-5**	50	**-349**	-43
Impairments					**-20**		**-1**		**-21**	
Effect of unrealised revaluations in equity	**157**								**157**	
Changes in the composition of the group	**63**		**-30**			2	**51**		**84**	2
Exchange differences	**213**		**23**	-9	**8**	-1	**8**		**252**	-10
Closing balance	**2,986**		**180**	171	**196**	202	**108**	50	**3,470**	423

Amortisation of software and other intangible assets is included in the profit and loss account in other operating expenses. Amortisation of VOBA is included in Underwriting expenditure.

As at 31 December 2005 the gross amount of goodwill amounted to EUR 180 million (2004: EUR 171 million).

As at 31 December 2004 value of business acquired was included in Deferred acquisition costs.

NOTES TO THE CONSOLIDATED BALANCE SHEET OF ING INSURANCE
(CONTINUED)

9 DEFERRED ACQUISITION COSTS

MOVEMENTS IN DEFERRED ACQUISITION COSTS

	Investment contracts		Life insurance		Non-life insurance		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
Opening balance			**9,999**	9,485	**429**	361	**10,428**	9,846
Implementation IFRS 4	**110**		**-742**				**-632**	
Capitalised	**23**		**2,422**	2,854	**311**	262	**2,756**	3,116
Amortisation	**-10**		**-1,150**	-1,812	**-315**	-219	**-1,475**	-2,031
Unlocking			**4**				**4**	
Effect of unrealised revaluations in equity			**239**				**239**	
Transfer to VOBA	**-119**		**-2,574**				**-2,693**	
Changes in the composition of the group			**-138**		**-2**	37	**-140**	37
Exchange differences	**10**		**1,062**	-527	**67**	-12	**1,139**	-539
Disposal of portfolios	**57**		**-79**	-1			**-22**	-1
Closing balance	**71**		**9,043**	9,999	**490**	429	**9,604**	10,428

For flexible life insurance contracts the growth rate assumption used for calculating the amortisation of the deferred acquisition costs is currently 7.9% gross (6.9% net of investment management fees).

10 OTHER ASSETS

OTHER ASSETS BY TYPE

	2005	2004
Reinsurance and insurance receivables	**3,144**	3,013
Deferred tax assets	**158**	172
Property held for sale	**15**	
Property under development for third parties	**51**	47
Income tax receivable	**37**	37
Accrued interest and rents	**3,024**	2,486
Other accrued assets	**352**	1,118
Other receivables	**3,812**	2,641
	10,593	9,514

Property held for sale consists of property obtained from foreclosures.

REINSURANCE AND INSURANCE RECEIVABLES

	2005	2004
Receivables on account of direct insurance from		
- policyholders	**2,212**	2,298
- intermediaries	**213**	327
Reinsurance receivables	**719**	388
	3,144	3,013

DEFERRED TAX ASSETS BY ORIGIN

	2005	2004
Deferred tax assets relating to		
- insurance provisions	**160**	83
- other provisions	**96**	26
- unused tax losses carried forward	**110**	39
- other	**364**	277
	730	425
Deferred tax liabilities (offset by deferred tax assets) relating to		
- insurance provisions	**57**	
- investments	**263**	78
- deferred acquisition costs and VOBA	**76**	51
- other provisions	**15**	15
- other	**161**	109
	572	253
	158	172

DEFERRED TAX ASSETS IN CONNECTION WITH UNUSED TAX LOSSES CARRIED FORWARD

	2005	2004
Total unused tax losses carried forward	**426**	187
Unused tax losses carried forward not recognised as a deferred tax asset	**50**	57
Unused tax losses carried forward recognised as a deferred tax asset	**376**	130
Average tax rate	**29.3%**	30.0%
Deferred tax asset	**110**	39

Deferred income tax assets are recognised for tax loss carry forwards and unused tax credits only to the extent that realisation of the related tax benefit is probable. The uncertainty of the recoverability of the tax losses and tax credits is taken into account in establishing the deferred tax assets. The following tax loss carry forwards and tax credits will expire as follows at 31 December:

TOTAL UNUSED TAX LOSSES CARRIED FORWARD ANALYSED BY EXPIRY TERMS

	No deferred tax asset recognised	**Deferred tax asset recognised**	No deferred tax asset recognised	Deferred tax asset recognised
		2005		2004
- up to five years	**1**	**40**	14	43
- five to ten years		**336**	6	60
- ten to twenty years			4	27
- unlimited	**49**		33	
	50	**376**	57	130

NOTES TO THE CONSOLIDATED BALANCE SHEET OF ING INSURANCE
(CONTINUED)

EQUITY

11 GROUP EQUITY

EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

	2005	2004
Share capital	**174**	174
Share premium	**4,374**	4,374
Revaluation reserve	**6,994**	1,165
Share of associates reserve	**-2**	2
Currency translation reserve	**744**	-435
Other reserves	**8,343**	7,999
Equity attributable to equity holders of the Company	**20,627**	13,279

The revaluation reserve includes revaluations related to securities and property in own use and the reserve for cash flow hedging and hedges of net investments of foreign operations. The reserve for cash flow hedging amounts to EUR 969 million as at 31 December 2005. The revaluation reserve, share of associates reserve and currency translation reserve cannot be freely distributed. The other reserves include retained earnings.

SHARE CAPITAL

	Ordinary shares (par value EUR 1.13)		Ordinary shares (par value EUR 1.13)	
	Number X1,000	Amount	Number X1,000	Amount
		2005		2004
Authorised share capital	**680,000**	**768**	680,000	768
Unissued share capital	**526,116**	**594**	526,116	594
Issued share capital	**153,884**	**174**	153,884	174

Ordinary shares
All shares are in registered form. No share certificates will be issued. Shares may be transferred by means of a deed of transfer, subject to the approval of the Executive Board of ING Insurance. The par value of ordinary shares is currently EUR 1.13. The authorised ordinary share capital of ING Insurance consists of 680 million shares, of which as at 31 December 2005 154 million have been issued. The were no movements in issued share capital during 2004 or 2005.

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

MOVEMENTS IN THIRD-PARTY INTERESTS

	2005	2004
Opening balance	**1,708**	1,187
Implementation IAS 32/39 and IFRS 4	**69**	
Unrealised revaluations after tax	**-16**	77
Unrealised revaluations transferred to deferred profit sharing and DAC	**17**	
Exchange differences	**100**	-103
Net profit for the period	**262**	128
Changes in the composition of the group	**-913**	419
Closing balance	**1,227**	1,708

LIABILITIES

12 SUBORDINATED LOANS

Subordinated loans consists of subordinated bonds issued by ING Verzekeringen N.V. These bonds have been issued to raise hybrid capital.

13 OTHER BORROWED FUNDS

OTHER BORROWED FUNDS BY REMAINING TERM

2005	2006	2007	2008	2009	2010	There after	Total
Loans contracted	**6,099**	**508**	**533**	**404**	**518**	**372**	**8,434**
Loans from credit institutions	**5,314**	**657**	**996**	**83**	**276**	**1,553**	**8,879**
	11,413	**1,165**	**1,529**	**487**	**794**	**1,925**	**17,313**

OTHER BORROWED FUNDS BY REMAINING TERM

2004	2005	2006	2007	2008	2009	There after	Total
Loans contracted	3,492	406	46	214	221	161	4,540
Loans from credit institutions	6,312	138	308	76	31	358	7,223
	9,804	544	354	290	252	519	11,763

14 INSURANCE, REINSURANCE AND INVESTMENT CONTRACTS

INSURANCE, REINSURANCE AND INVESTMENT CONTRACTS

	Gross		Reinsured element		Own account	
	2005	2004	**2005**	2004	**2005**	2004
Provision for life policy liabilities	**137,066**	125,804	**5,441**	4,105	**131,625**	121,699
Provision for (deferred) profit sharing and rebates	**4,195**	803			**4,195**	803
Insurance provisions for policies for which the policyholders bear the investment risk	**90,728**	78,807	**1,197**	1,151	**89,531**	77,656
Life insurance provisions	**231,989**	205,414	**6,638**	5,256	**225,351**	200,158
Provisions for unearned premiums and unexpired risks	**3,093**	2,863	**258**	354	**2,835**	2,509
Claims provisions	**9,591**	8,512	**1,389**	1,134	**8,202**	7,378
Other insurance provisions	**181**	62			**181**	62
Total provisions for insurance contracts	**244,854**	216,851	**8,285**	6,744	**236,569**	210,107
Investment contracts	**7,223**				**7,223**	
Investment contracts for which the policyholders bear the investment risk	**11,410**				**11,410**	
Investment contracts liabilities	**18,633**				**18,633**	
Insurance and investment contracts	**263,487**	216,851	**8,285**	6,744	**255,202**	210,107

As at 31 December 2005 the provision for life policy liabilities includes EUR 51,866 million for participating life policy liabilities.

As at 31 December 2005 claims incurred but not reported (IBNR) included in the claims provisions amounted to EUR 1,831 million.

NOTES TO THE CONSOLIDATED BALANCE SHEET OF ING INSURANCE
(CONTINUED)

MOVEMENTS IN LIFE INSURANCE PROVISIONS

	Gross		Reinsured element		Own account	
	2005	2004	**2005**	2004	**2005**	2004
Opening balance	**205,414**	192,293	**5,256**	4,083	**200,158**	188,210
Implementation IFRS 4	**-14,315**		**-7**		**-14,308**	
Changes in the composition of the group			**-44**		**44**	
	191,099	192,293	**5,205**	4,083	**185,894**	188,210
Current year provisions	**19,449**	16,181	**806**	1,805	**18,643**	14,376
Prior year provisions:						
- benefit payments to policyholders	**-10,929**		**-431**		**-10,498**	
- interest accrual	**4,057**		**-32**		**4,089**	
- valuation changes for risk of policyholders	**5,074**				**5,074**	
- effect of changes in discount rate assumptions	**2**				**2**	
- effect of changes in other assumptions	**1,167**		**306**		**861**	
	-629	1,963	**-157**		**-472**	1,963
Exchange differences	**17,691**	-9,136	**616**	-338	**17,075**	-8,798
Other movements	**4,379**	4,113	**168**	-294	**4,211**	4,407
Closing balance	**231,989**	205,414	**6,638**	5,256	**225,351**	200,158

Where discounting is used in the calculation of life insurance provisions, the rate is within the range of 3% to 6% (based on weighted averages).

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

As at 31 December 2005, the receivables from reinsurers amounted to EUR 719 million (2004: EUR 388 million), against which EUR 6 million (2004: nil) was provided for as uncollectible reinsurance.

MOVEMENTS IN PROVISIONS FOR UNEARNED PREMIUMS AND UNEXPIRED RISKS

	Gross		Reinsured element		Own account	
	2005	2004	**2005**	2004	**2005**	2004
Opening balance	**2,863**	3,174	**354**	687	**2,509**	2,487
Changes in the composition of the group	**-41**	-333	**-26**	-350	**-15**	17
	2,822	2,841	**328**	337	**2,494**	2,504
Premiums written	**6,613**	6,642	**526**	756	**6,087**	5,886
Premiums earned during the year	**-6,769**	-6,542	**-636**	-729	**-6,133**	-5,813
Exchange differences	**424**	-76	**44**	-18	**380**	-58
Other movements	**3**	-2	**-4**	8	**7**	-10
Closing balance	**3,093**	2,863	**258**	354	**2,835**	2,509

MOVEMENTS IN CLAIMS PROVISIONS

		Gross		Reinsured element		Own account
	2005	2004	**2005**	2004	**2005**	2004
Opening balance	**8,512**	7,911	**1,134**	614	**7,378**	7,297
Implementation IFRS 4	**39**		**20**		**19**	
Changes in the composition of the group		853	**-27**	638	**27**	215
	8,551	8,764	**1,127**	1,252	**7,424**	7,512
Additions						
- for the current year	**4,688**	3,893	**891**	284	**3,797**	3,609
- for prior years	**-614**	-359	**-22**	-48	**-592**	-311
- interest accrual of provision	**92**	133	**20**	10	**72**	123
	4,166	3,667	**889**	246	**3,277**	3,421
Claim settlements and claim settlement costs						
- for the current year	**2,042**	1,749	**295**	64	**1,747**	1,685
- for prior years	**2,209**	1,938	**536**	227	**1,673**	1,711
	4,251	3,687	**831**	291	**3,420**	3,396
Exchange differences	**911**	-177	**164**	-58	**747**	-119
Other movements	**214**	-55	**40**	-15	**174**	-40
Closing balance	**9,591**	8,512	**1,389**	1,134	**8,202**	7,378

ING Insurance had an outstanding balance of EUR 68 million at 31 December 2005 (2004: EUR 96 million) relating to environmental and asbestos claims. In establishing the liability for unpaid claims and claims adjustment expenses related to asbestos related illness and toxic waste clean up, the management of ING Insurance considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognised for IBNR claims and for known claims (including the costs of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, liabilities are reviewed and updated regularly.

The release of the provision from prior years in 2005 and 2004 are a result of favourable underwriting results in several business units, in particular, the Netherlands business units benefited from changes in legal requirements for health and disability benefits and Canada experienced unexpectedly mild winters.

Where discounting is used in the calculation of the claims provisions, the rate is within the range of 3% to 4% (based on weighted averages).

MOVEMENTS IN INVESTMENT CONTRACTS LIABILITIES

	2005
Opening balance	**0**
Implementation IFRS 4	**16,860**
	16,860
Current year liabilities	**5,553**
Prior year provisions	
- payments to contract holders	**-7,051**
- interest accrual	**276**
- valuation changes investments	**1,060**
	-5,715
Exchange differences	**1,659**
Other movements	**276**
Closing balance	**18,633**

NOTES TO THE CONSOLIDATED BALANCE SHEET OF ING INSURANCE
(CONTINUED)

GROSS CLAIMS DEVELOPMENT TABLE

	Underwriting year 2004	Underwriting year 2005	Total
Estimate of cumulative claims:			
At the end of underwriting year	3,893	4,688	
One year later	3,990		
Estimate of cumulative claims	3,990	4,688	8,678
Cumulative payments	-2,583	-1,729	-4,312
Liability recognised	1,407	2,959	4,366
Liability recognised relating to prior underwriting years			5,225
Total amount recognised in the balance sheet			9,591

15 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

NON-TRADING DERIVATIVES

	2005
Derivatives used in cash flow hedges	76
Derivatives used in fair value hedges	21
Other non-trading derivatives	799
	896

16 OTHER LIABILITIES

OTHER LIABILITIES BY TYPE

	2005	2004
Deferred tax liabilities	2,731	970
Income tax payable		579
Pension liabilities and other staff related liabilities	744	746
Other taxation and social security contribution	257	254
Deposits from reinsurers	642	549
Accrued interest	860	803
Costs payable	975	770
Other provisions	468	415
Other	9,981	7,643
	16,658	12,729

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

DEFERRED TAX LIABILITIES BY ORIGIN

	2005	2004
Deferred tax assets (offset by deferred tax liabilities) relating to		
- insurance provisions	**2,119**	1,949
- other provisions	**933**	452
- unused tax losses carried forward	**450**	336
- fiscal equalisation reserve	**13**	33
- other	**1,863**	2,082
	5,378	4,852
Deferred tax liabilities relating to		
- investments	**1,613**	1,085
- deferred acquisition costs	**3,999**	2,965
- fiscal equalisation reserve	**7**	
- depreciation		2
- other provisions	**508**	624
- receivables	**101**	43
- other	**1,881**	1,103
	8,109	5,822
	2,731	970

DEFERRED TAX ASSET (OFFSET BY DEFERRED TAX LIABILITIES IN CONNECTION WITH UNUSED TAX LOSSES CARRIED FORWARD

	2005	2004
Total unused tax losses carried forward	**1,689**	1,047
Unused tax losses carried forward not recognised as a deferred tax asset	**398**	64
Unused tax losses carried forward recognised as a deferred tax asset	**1,291**	983
Average tax rate	**34.9%**	34.2%
Deferred tax asset	**450**	336

TOTAL UNUSED TAX LOSSES CARRIED FORWARD ANALYSED BY EXPIRY TERMS

	No deferred tax asset recognised	**Deferred tax asset recognised**	No deferred tax asset recognised	Deferred tax asset recognised
		2005		2004
- up to five years	**72**	**48**	20	247
- five to ten years		**96**	5	39
- ten to twenty years	**263**	**726**		657
- unlimited	**63**	**421**	39	40
	398	**1,291**	64	983

NOTES TO THE CONSOLIDATED BALANCE SHEET OF ING INSURANCE (CONTINUED)

MOVEMENTS IN OTHER PROVISIONS

	Reorganisations and relocations		Other		Total	
	2005	2004	2005	2004	2005	2004
Opening balance	49	42	366	391	415	433
Changes in the composition of the group	2		4		6	
Additions	41	33	71	94	112	127
Releases	-3	-4	-14	-20	-17	-24
Charges	-21	-22	-61	-86	-82	-108
Exchange differences	1		29	-1	30	-1
Other movements			4	-12	4	-12
Closing balance	69	49	399	366	468	415

The additions to the provision for reorganisations and relocations in 2005 and 2004 relate mainly to reorganisations in the Dutch insurance operations.

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. In general the reorganisations and relocations provisions are a short-term nature.

Pension liabilities and other staff-related liabilities
ING Insurance maintains defined benefit retirement plans in the major countries in which it operates. These plans generally cover all employees and provide benefits that are related to the remuneration and service of employees upon retirement. Provided that the plan assets are sufficient, the benefits from many of these plans are subject to some form of indexation.

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 concerning investments and funding levels.

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

Certain group companies sponsor defined contribution pension plans. The assets of all ING Group's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in current liabilities. The amount incurred in 2005 was EUR 76 million (2004: EUR 109 million).

SUMMARY OF PENSION LIABILITIES AND OTHER STAFF-RELATED LIABILITIES

	Pension liabilities		Post-retirement benefits other than pensions		Other		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Defined benefit obligation	5,910	4,851	247	349	70	74	6,227	5,274
Fair value of plan assets	4,684	4,182					4,684	4,182
	1,226	669	247	349	70	74	1,543	1,092
Unrecognised past service costs		-1	-5	-2			-5	-3
Unrecognised gains/(losses)	-780	-315	-14	-28			-794	-343
Amount included in other liabilities	446	353	228	319	70	74	744	746

Pension liabilities

MOVEMENTS IN DEFINED BENEFIT OBLIGATIONS	2005	2004
Opening balance	**4,851**	4,406
Current service cost	**177**	163
Interest costs	**250**	226
Participant contributions	**3**	2
Benefits paid	**-193**	-221
Actuarial gains and losses	**498**	360
Past service cost	**56**	
Changes in the composition of the group	**53**	
Effect of curtailment or settlement	**-1**	-3
Exchange differences	**216**	-82
Closing balance	**5,910**	4,851

As at 31 December 2005, the defined benefit obligation consisted of funded plans amounting to EUR 5,861 million (2004: EUR 4,564 million) and unfunded plans amounting to EUR 49 million (2004: EUR 287 million).

MOVEMENTS IN FAIR VALUE OF PLAN ASSETS	2005	2004
Opening balance	**4,182**	3,942
Expected return on plan assets	**267**	282
Employer's contribution	**196**	224
Participant contributions	**3**	
Benefits paid	**-193**	-221
Actuarial gains and losses	**-32**	13
Changes in the composition of the group	**96**	
Exchange differences	**165**	-58
Closing balance	**4,684**	4,182

Pension investment strategy
The primary financial objective of the ING Employee Benefit Plans (the Plan) is to secure participant retirement benefits. As such, the key objective in the Plan's financial management is to promote stability and, to the extent appropriate, growth in funded status (i.e. the ratio of market value of assets to liabilities).The investment strategy for the Plan's portfolio of assets (the Fund) 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 Fund in an effort to accomplish the Plan's funding objectives. Desirable target allocations amongst identified asset classes are set and within each asset class, careful consideration is given to balancing the portfolio 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. Among managers, consideration is given, among others, to balancing security concentration, investment style, and reliance on particular active investment strategies. ING will review its asset mix of the fund on a regular basis. Generally, ING will rebalance the fund's asset mix to the target mix as individual portfolios approach their minimum or maximum levels.

CATEGORIES OF PLAN ASSETS	Target allocation in percentage	Percentage of plan assets		Weighted average expected long term rate of return
	2006	2005	2004	2005
Equity securities	**36**	**39**	38	**8.2**
Debt securities	**53**	**50**	52	**5.0**
Other	**11**	**11**	10	**6.8**
	100	**100**	100	**6.4**

NOTES TO THE CONSOLIDATED BALANCE SHEET OF ING INSURANCE (CONTINUED)

Equity securities include ING Group ordinary shares of EUR 5 million (0.1% of total plan assets) at 31 December 2005 (2004: EUR 6 million, 0.1% of total plan assets).

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

WEIGHTED AVERAGES OF BASIC ACTUARIAL ASSUMPTIONS IN ANNUAL % AS AT 31 DECEMBER

	2005	2004
Discount rates	**4.00**	4.75
Expected rates of salary increases (excluding promotion increases)	**2.50**	2.50
Medical cost trend rates	**4.00**	4.00
Consumer price inflation	**1.75**	2.00

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

Expected cash flows
It is not expected that there will be any minimum funding requirement during 2006.

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

	Pension benefits
2006	**190**
2007	**210**
2008	**210**
2009	**209**
2010	**215**
Years 2011 - 2015	**1,236**

In 2005 the employer's contributions amounted EUR 196 million (2004: EUR 224 million).

Post-retirement benefits other than pensions

MOVEMENTS IN DEFINED BENEFIT OBLIGATIONS

	2005	2004
Opening balance	**349**	330
Current service cost	**15**	13
Interest costs	**18**	17
Participant contributions	**6**	
Benefits paid	**-22**	-14
Actuarial gains and losses	**50**	27
Changes in the composition of the group	**-1**	
Effect of curtailment or settlement	**-179**	
Exchange differences	**11**	-24
Closing balance	**247**	349

The defined benefit obligations of post-retirement benefits other than pensions are entirely unfunded.

WEIGHTED AVERAGES OF BASIC ACTUARIAL ASSUMPTIONS IN ANNUAL % AS AT 31 DECEMBER

	2005	2004
Discount rates	**4.00**	4.75
Expected rates of salary increases (excluding promotional increase)	**2.50**	2.50
Medical cost trend rates	**4.00**	4.00
Consumer price inflation	**1.75**	2.00

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

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 34 million at 31 December 2005 (2004: EUR 49 million) and an increase in the charge for the year of EUR 3 million (2004: EUR 4 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 76 million at 31 December 2005 (2004: EUR 108 million) and a decrease in the charge for the year of EUR 2 million (2004: EUR 3 million).

Expected cash flows
There are not expected to be any minimum funding requirements during 2006.

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

	Post retirement benefits other than pensions
2006	**15**
2007	**16**
2008	**17**
2009	**17**
2010	**18**
Years 2011 - 2015	**87**

ADDITIONAL INFORMATION RELATING TO THE CONSOLIDATED BALANCE SHEET OF ING INSURANCE

AMOUNTS IN MILLIONS OF EUROS, UNLESS STATED OTHERWISE

ASSETS AND LIABILITIES BY MATURITY

2005	Less than one month	1-3 months	3-12 months	1-5 years	Over five years	Maturity not applicable	Total
ASSETS							
Cash	**2,745**						**2,745**
Financial assets at fair value through profit or loss							
- trading assets					**7**	**240**	**247**
- non-trading derivatives	**50**	**39**	**77**	**272**	**1,895**	**13**	**2,346**
- designated at fair value through profit or loss						**758**	**758**
Investments available-for-sale	**1,247**	**1,575**	**3,645**	**25,366**	**74,698**	**37,977**	**144,508**
Loans and advances to customers	**408**	**371**	**2,912**	**9,712**	**23,325**	**1,739**	**38,467**
Reinsurance contracts	**39**	**57**	**895**	**437**	**1,206**	**5,651**	**8,285**
Intangible assets						**3,470**	**3,470**
Deferred acquisition costs						**9,604**	**9,604**
Other assets	**4,009**			**2,926**		**3,658**	**10,593**
Remaining assets (where maturities are not applicable)(1)						**107,787**	**107,787**
Total assets	**8,498**	**2,042**	**7,529**	**38,713**	**101,131**	**170,897**	**328,810**
LIABILITIES							
Subordinated loans					**4,376**		**4,376**
Debt securities in issue			**963**	**1,758**	**1,505**		**4,226**
Other borrowed funds	**6,221**	**3,032**	**2,160**	**3,976**	**889**	**1,035**	**17,313**
Insurance and investment contracts	**1,896**	**2,709**	**8,962**	**20,120**	**94,974**	**134,826**	**263,487**
Financial liabilities at fair value through profit or loss							
- non-trading derivatives	**55**	**49**	**140**	**157**	**495**		**896**
Other liabilities	**1,443**	**860**	**8,276**	**958**	**1,712**	**3,409**	**16,658**
Total liabilities	**9,615**	**6,650**	**20,501**	**26,969**	**103,951**	**139,270**	**306,956**

(1) included in remaining assets where maturities are not applicable are:
- property and equipment
- investment property
- investments for risk of policyholders
- investments in associates
- other financial assets at fair value through profit or loss

ASSETS AND LIABILITIES BY MATURITY							
2004	Less than one month	1-3 months	3-12 months	1-5 years	Over five years	Maturity not applicable	Total
ASSETS							
Cash	1,967						1,967
Financial assets at fair value through profit or loss							
- trading assets						69	69
Investments available-for-sale						112,116	112,116
Loans and advances to customers	775		2,436	6,871	6,187	20,037	36,306
Reinsurance contracts	69	107	660	489	3,623	1,796	6,744
Intangible assets						423	423
Deferred acquisition costs						10,428	10,428
Other assets						9,514	9,514
Remaining assets (where maturities are not applicable)[1]						85,682	85,682
Total assets	2,811	107	3,096	7,360	9,810	240,065	263,249
LIABILITIES							
Subordinated loans						2,616	2,616
Debt securities in issue			1,176	2,262	865		4,303
Other borrowed funds			9,804	1,440	519		11,763
Insurance and investment contracts	9,957	3,234	7,570	18,838	76,791	100,461	216,851
Other liabilities			8,957	997	1,241	1,534	12,729
Total liabilities	9,957	3,234	27,507	23,537	79,416	104,611	248,262

(1) included in remaining assets where maturities are not applicable are:
- property and equipment
- investment property
- investments for risk of policyholders
- investments in associates
- other financial assets at fair value through profit or loss

DERIVATIVES AND HEDGE ACCOUNTING

ING Insurance manages the various risks it is exposed to as described in the Risk Management section. In managing these risks ING Insurance uses economic hedges, i.e. positions with opposite risk profiles to reduce the total risk exposure. 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. Both at inception and during the hedge relationship it can be concluded that the hedge does not (longer) qualify for hedge accounting. As a result, the volatility from these hedges in the profit and loss account may be higher than would be expected from an economic point of view.

Interest rate risk

ING Insurance uses various derivative instruments to manage its exposure to interest rate risk. The main products used to manage interest rate risk are interest rate swaps and cross-currency interest rate swaps. Hedge accounting is applied using fair value hedge accounting or cash flow hedge accounting for positions that meet the criteria under IFRS-EU.

Foreign exchange risk

The most significant foreign exchange risk relates to foreign currency exposures on foreign subsidiaries and locally required capital levels invested in local currencies. ING Insurance reduces these exposures by entering into derivatives (including currency forwards and swaps) and non-derivative financial instruments such as funding denominated in foreign currencies. Hedge accounting is applied using net investment hedge accounting or fair value hedge accounting for those positions that meet the criteria under IFRS-EU.

MAXIMUM CREDIT EXPOSURE

Credit risk mainly relates to investments, loans to customers and reinsurance contracts. For loans to customers and reinsurance contracts the balance sheet value approximates the maximum credit exposure for these items. For investments the maximum credit exposure approximates the cost as disclosed in Note 3 Investments.

ASSETS NOT FREELY DISPOSABLE

The assets not freely disposable primarily relate to investments provided as guarantees for certain contingent liabilities.

ADDITIONAL INFORMATION RELATING TO THE CONSOLIDATED BALANCE SHEET OF ING INSURANCE (CONTINUED)

OFF-BALANCE SHEET ARRANGEMENTS

CONTINGENT LIABILITIES AND COMMITMENTS

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

CONTINGENT LIABILITIES AND COMMITMENTS

	2005	2004
Commitments	**4,049**	2,477
Guarantees	**237**	1,082
	4,286	3,559

Guarantees relate both to credit and non-credit substitute guarantees. Credit-substitute guarantees are guarantees given by ING Insurance in respect of credit granted to customers by a third party. Many of them are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows. The guarantees are generally of a short-term nature. In addition to the items included in contingent liabilities, ING Insurance has issued guarantees as a participant in collective arrangements of national industry bodies and as 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 Insurance'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 mainly relate to acceptances of bills and are of a short-term nature.

SPECIAL PURPOSE ENTITIES (SPEs) AND SECURITISATION

ING Insurance has established a number of SPEs and engages in activities with SPEs, for example as investor, administrator or provider of other financial services. All SPEs which are controlled by ING Insurance are included in the consolidated financial statements.

FUTURE RENTAL COMMITMENTS

FUTURE RENTAL COMMITMENTS FOR OPERATING LEASE CONTRACTS AS AT 31 DECEMBER 2005

2006	**49**
2007	**43**
2008	**36**
2009	**29**
2010	**27**
Years after 2010	**73**

LEGAL PROCEEDINGS

ING Insurance companies are involved in litigation and arbitration proceedings in the Netherlands and in a number of foreign jurisdictions, including the United States, involving claims by and against them which arise in the ordinary course of their businesses, including in connection with their activities as insurers, lenders, employers, investors and taxpayers. In certain of such proceedings, very large or indeterminate amounts are sought, including punitive and other damages. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, management does not believe that their outcome will have a material adverse effect on ING Insurance's financial position or results of operations.

These legal proceedings include a dispute over certain hurricane damages claimed by a Mexican fertilizer producer Grupo Fertinal ('Fertinal') against ING Comercial América, a wholly owned subsidiary of ING Insurance. Fertinal claims EUR 254 million (USD 300 million) from ING Comercial América, the maximum coverage under the insurance policy of their mining operations. A judge in Mexico ruled in favor of Fertinal. This decision was appealed to a Mexican Court of Appeal, which reduced the judgment to EUR 80 million (USD 94 million), plus interest. This decision has been appealed. ING Comercial América continues to pursue this matter vigorously; however, at this time we cannot assess the final outcome. Fertinal has also made criminal complaints alleging fraud against certain ING Comercial América employees, but, currently, there are no criminal actions pending.

ING Comercial América also has been the subject of certain complaints and suits concerning the performance of certain interest sensitive life insurance products. ING Comercial América is defending these matters vigorously; however, at this time, we are unable to assess the final outcome of these matters.

In 2005, ING Comercial América management learned of an earthquake reinsurance arrangement that was inconsistent with local requirements. This arrangement was restructured and the matter was reported to the SEC and to Mexican authorities. Mexican regulators required that ING Comercial América restate certain financials and to correct a statutory margin shortfall, which required approximately EUR 74 million (USD 87 million) in additional capital. In addition, Mexican authorities fined ING Comercial América EUR 3.2 million.

Like many other companies in the mutual funds, suppliers of brokerage and investment products and insurance industries, several of our companies have received informal and formal requests for information from various governmental and self-regulatory agencies or have otherwise identified issues arising in connection with fund trading, compensation, conflicts of interest, anti-competitive practices, insurance risk transfer and sales practices. ING is responding to the requests and working to resolve issues with regulators. We believe that any issues that have been identified thus far do not represent a systemic problem in the ING businesses involved and in addition that the outcome of the investigations will not have a material effect on ING Insurance.

DIVIDEND RESTRICTIONS

In addition to the restrictions in respect of minimum capital and solvency requirements that are imposed by industry regulators in the countries in which the subsidiaries operate, other limitations exist in certain countries. The most significant restrictions for ING Insurance are related to the operations located in the United States, which are subject to limitations on the payment of dividends to the parent company imposed by the Insurance Commissioner of the state of domicile. For life, accident and health subsidiaries, dividends are generally limited to the greater of 10% of statutory surplus or the statutory net gain from operations. For the property and casualty subsidiaries, dividends are limited to a specified percentage of the previous year's shareholders' equity or previous year's net investment gains, which varies by state. Dividends paid in excess of these limitations require prior approval of the Insurance Commissioner of the state of domicile.

The management of ING Insurance does not believe that these limitations will affect the ability of ING Insurance to pay dividends to its shareholders in the future.

JOINT VENTURES

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

MOST SIGNIFICANT JOINT VENTURES

	Interest held (%)	Assets	Liabilities	Income	Expense
2005					
ING Australia Ltd	**51**	**7,932**	**7,527**	**357**	**257**
KB Life	**49**	**160**	**148**	**97**	**96**
JV New Zealand Business	**51**	**151**	**48**	**10**	**6**
Pacific – Aetna Life Insurance/Shanghai Branch	**50**	**114**	**96**	**38**	**39**
Total		**8,357**	**7,819**	**502**	**398**
2004					
ING Australia Ltd	51	6,697	6,357	1,318	1,196
Pacific – Aetna Life Insurance/Shanghai Branch	50	77	62	32	34
Total		6,774	6,419	1,350	1,230

ING and ANZ, one of Australia's major banks, formed a funds management and life insurance joint venture in Australia. The joint venture, ING Australia Ltd, is owned for 51% by ING and 49% by ANZ.

RELATED PARTIES

In the normal course of business, ING Insurance enters into various transactions with related companies. Related companies comprise non-consolidated entities and the non-consolidated part of joint ventures. These transactions are not considered material to ING Insurance, either individually or in the aggregate. 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 at arm's length basis.

ADDITIONAL INFORMATION RELATING TO THE CONSOLIDATED BALANCE SHEET OF ING INSURANCE (CONTINUED)

RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH JOINT VENTURES AND ASSOCIATES

	Joint ventures	Associates	Joint ventures	Associates
		2005		2004
Receivables	**151**	**73**		11
Liabilities			183	

Income received from and expenses paid to joint-ventures were EUR 18 million and nil respectively (2004: EUR 1 million and nil respectively) and income received from and expenses paid to associates were EUR 1 million and nil respectively (2004: EUR 1 million and nil respectively).

TRANSACTIONS WITH ING GROEP N.V. AND ING BANK N.V.

	ING Groep N.V.	**ING Bank N.V.**	ING Groep N.V.	ING Bank N.V.
		2005		2004
Receivables		**435**	183	1,313
Liabilities	**224**	**3,861**	11	4,297
Guarantees issued in favour of		**2,205**		2,577
Expenses paid		**219**	1	172
Income received	**19**	**37**		165

Transactions with key management personnel (Executive Board and Supervisory Board) and post-employment benefit plans are transactions with related parties. These transactions are disclosed in Note 16 Other liabilities and Note 26 Staff costs.

KEY MANAGEMENT PERSONNEL COMPENSATION

	Executive Board		Supervisory Board		Total	
amounts in thousands of euros	**2005**	2004	**2005**	2004	**2005**	2004
Base salary and short-term bonus	**12,514**	9,506	**549**	508	**13,063**	10,014
Pension costs	**3,088**	2,978			**3,088**	2,978
Retirement benefit		132				132
Fair market value of long-term incentives	**5,274**	2,998			**5,274**	2,998
	20,876	15,614	**549**	508	**21,425**	16,122

LOANS AND ADVANCES TO KEY MANAGEMENT PERSONNEL

	Amount outstanding 31 December	**Average interest rate**	**Repay-ments**	Amount outstanding 31 December	Average interest rate	Repay-ments
amounts in thousands of euros			**2005**			2004
Executive Board members	**699**	**4.2%**	**74**	773	4.3%	19
Supervisory Board members	**1,588**	**4.7%**		1,588	4.7%	200
	2,287		**74**	2,361		219

The remuneration of the members and former members of the Executive Board and Supervisory Board, who are also members and former members of the Executive Board and Supervisory Board of ING Group, including pension contributions, is paid by ING Group. These and other expenses of ING Group are charged in full by ING Group to its subsidiaries, on the basis of a general allocation formula.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

	Estimated fair value	Balance sheet value	Estimated fair value	Balance sheet value
		2005		2004
FINANCIAL ASSETS				
Cash	**2,745**	**2,745**	1,967	1,967
Financial assets at fair value through profit or loss				
- trading	**247**	**247**	69	69
- investments for risk of policyholders	**100,961**	**100,961**	77,662	77,662
- non-trading derivatives	**2,346**	**2,346**		
- designated as at fair value through profit and loss	**758**	**758**		
Investments available-for-sale	**144,508**	**144,508**	116,987	112,116
Loans and advances to customers	**38,916**	**38,467**	39,104	36,306
Other assets(1)	**10,435**	**10,435**	9,361	9,343
	300,916	**300,467**	245,150	237,463
FINANCIAL LIABILITIES				
Subordinated loans	**4,376**	**4,376**	3,142	2,616
Debt securities in issue	**4,329**	**4,226**	4,303	4,303
Other borrowed funds	**17,320**	**17,313**	11,961	11,763
Investment contracts	**18,633**	**18,633**		
Financial liabilities at fair value through profit or loss				
- non-trading derivatives	**896**	**896**		
Other liabilities(2)	**13,013**	**13,013**	10,078	10,078
	58,567	**58,457**	29,484	28,760

(1) Other assets does not include (deferred) tax assets.
(2) Other liabilities does not include (deferred) tax liabilities, pension liabilities, insurance provisions and other provisions.

The estimated fair values correspond with the amounts at which the financial instruments could have been traded on a fair basis 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. Because substantial trading markets do not exist for all of these financial instruments various techniques have been developed to estimate their approximate fair values. These techniques are subjective in nature and involve various assumptions about the discount rate and the estimates of the amount and timing of the anticipated future cash flows. 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.

If the estimated fair value is lower than the balance sheet value a review has been performed to determine that the carrying amount is recoverable.

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

FINANCIAL ASSETS

Cash
The carrying amount of cash approximates its fair value.

Financial assets at fair value through profit or loss
The fair values of securities in the trading portfolio and other assets at fair value through profit or 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 pricing models taking into account current cash flow assumptions and the counterparties' credit standings.

Investments
The fair values of equity securities are based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities. Fair values for fixed-interest securities are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated using values obtained from private pricing services or by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment.

ADDITIONAL INFORMATION RELATING TO THE CONSOLIDATED BALANCE SHEET OF ING INSURANCE (CONTINUED)

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

The fair values of mortgage loans are estimated by 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 purposes of the calculations. The fair values of variable-rate policy loans approximate their carrying values.

Other assets
The carrying amount of other assets is not materially different than the fair value.

FINANCIAL LIABILITIES

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

Investment contracts
For guaranteed investment contracts 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 other investment-type contracts, fair values are estimated based on the cash surrender values.

Financial liabilities at fair value through profit or loss
The fair values of securities in the trading portfolio and other liabilities at fair value through profit or 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 pricing models taking into account current cash flow assumptions and the counterparties' credit standings.

Other borrowed funds
The fair value of debt securities in issue and other borrowed funds is estimated using discounted cash flows based on current market interest rates for these instruments.

Other liabilities
The carrying amount of other liabilities are stated at their book value which is not materially different than fair value.

REGULATORY REQUIREMENTS

European Union directives require insurance companies established in member states of the European Union to maintain minimum capital positions. The capital position of ING Insurance has been measured on the basis of this EU requirement.

CAPITAL POSITION

	Total ING Verzeke-ringen N.V.	**Non-Insurance companies, core debt & other eliminations**	**Insurance companies**	Total ING Verzeke-ringen N.V.	Non-Insurance companies, core debt & other eliminations	Insurance companies
			2005			2004
Available capital	**22,541**	**-1,349**	**21,192**	17,710	-948	16,762
Required capital	**8,851**		**8,851**	8,697		8,697
Surplus capital	**13,690**		**12,341**	9,013		8,065
Ratio of available versus required capital	**255%**		**239%**	204%		193%

NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT OF ING INSURANCE

AMOUNTS IN MILLIONS OF EUROS, UNLESS STATED OTHERWISE

INCOME

17 PREMIUM INCOME

PREMIUM INCOME

	2005	2004
Premium income from life insurance policies	**39,145**	36,975
Premium income from non-life insurance policies	**6,613**	6,642
	45,758	43,617

Premium income has been included before deduction of reinsurance and retrocession premiums granted. Premium income excludes premium received for investment contracts, for which deposit accounting is applied.

EFFECT OF REINSURANCE ON PREMIUMS WRITTEN

	Non-life	**Life**	**Total 2005**	Non-life	Life	Total 2004
Direct premiums written, gross	**6,556**	**37,644**	**44,200**	6,592	35,532	42,124
Reinsurance assumed premiums written, gross	**57**	**1,501**	**1,558**	50	1,443	1,493
Total gross premiums written	**6,613**	**39,145**	**45,758**	6,642	36,975	43,617
Reinsurance ceded	**526**	**2,031**	**2,557**	756	1,619	2,375
	6,087	**37,114**	**43,201**	5,886	35,356	41,242

EFFECT OF REINSURANCE ON NON-LIFE PREMIUMS EARNED

	2005	2004
Direct premiums earned, gross	**6,712**	6,492
Reinsurance assumed premiums earned, gross	**57**	50
Total gross premiums earned	**6,769**	6,542
Reinsurance ceded	**636**	729
	6,133	5,813

PREMIUM INCOME FROM LIFE INSURANCE POLICIES

	Gross	**Rein-surers' share**	**Own account 2005**	Gross	Rein-surers' share	Own account 2004
Policies for which the insurer bears the investment risk	**19,894**	**808**	**19,086**	19,119	783	18,336
Policies for which the policyholder bears the investment risk	**17,750**	**59**	**17,691**	16,413	53	16,360
Total direct business	**37,644**	**867**	**36,777**	35,532	836	34,696
Indirect business	**2,353**	**2,016**	**337**	2,090	1,430	660
	39,997	**2,883**	**37,114**	37,622	2,266	35,356
Eliminations	**852**	**852**		647	647	
	39,145	**2,031**	**37,114**	36,975	1,619	35,356

NOTES TO THE CONSOLIDATED PROFIT AND LOSS OF ING INSURANCE (CONTINUED)

PREMIUMS WRITTEN FROM DIRECT LIFE BUSINESS

2005	Policies for which the insurer bears the investment risk			Policies for which the policyholder bears the investment risk		
	Gross	Reinsurers' share	Own account	Gross	Reinsurers' share	Own account
PERIODIC PREMIUMS						
Individual policies						
- without profit sharing	9,368	679	8,689	3,843	2	3,841
- with profit sharing	2,438	49	2,389			
	11,806	728	11,078	3,843	2	3,841
Group policies						
- without profit sharing	2,430	66	2,364	6,258	24	6,234
- with profit sharing	690	10	680			
	3,120	76	3,044	6,258	24	6,234
Total periodic premiums	14,926	804	14,122	10,101	26	10,075
SINGLE PREMIUMS						
Individual policies						
- without profit sharing	904	1	903	5,685	22	5,663
- with profit sharing	2,965		2,965			
	3,869	1	3,868	5,685	22	5,663
Group policies						
- without profit sharing	563		563	1,964	11	1,953
- with profit sharing	536	3	533			
	1,099	3	1,096	1,964	11	1,953
Total single premiums	4,968	4	4,964	7,649	33	7,616
Total life business premiums	19,894	808	19,086	17,750	59	17,691

Total single premiums includes EUR 520 million in 2005 from profit sharing.

PREMIUMS WRITTEN FROM DIRECT LIFE BUSINESS

2004	Policies for which the insurer bears the investment risk			Policies for which the policyholder bears the investment risk		
	Gross	Reinsurers' share	Own account	Gross	Reinsurers' share	Own account
PERIODIC PREMIUMS						
Individual policies						
- without profit sharing	6,605	632	5,973	3,566	1	3,565
- with profit sharing	4,213	74	4,139			
	10,818	706	10,112	3,566	1	3,565
Group policies						
- without profit sharing	2,223	58	2,165	6,653	37	6,616
- with profit sharing	802	14	788			
	3,025	72	2,953	6,653	37	6,616
Total periodic premiums	13,843	778	13,065	10,219	38	10,181
SINGLE PREMIUMS						
Individual policies						
- without profit sharing	1,476	1	1,475	4,011	1	4,010
- with profit sharing	2,716		2,716			
	4,192	1	4,191	4,011	1	4,010
Group policies:						
- without profit sharing	677		677	2,183	14	2,169
- with profit sharing	407	4	403			
Total	1,084	4	1,080	2,183	14	2,169
Total single premiums	5,276	5	5,271	6,194	15	6,179
Total life business premiums	19,119	783	18,336	16,413	53	16,360

Total single premiums includes EUR 457 million in 2004 from profit sharing.

NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT OF ING INSURANCE (CONTINUED)

NON-LIFE INSURANCE POLICIES BY CLASS OF BUSINESS

2005	Gross premiums written	Gross premiums earned[2]	Gross claims expenses	Operating expenses	Acquisition costs and other underwriting expenditure[3]	Net reinsurance income/ (expenses)	Operational result
Health	1,154	1,118	915	144	122	32	92
Accident[1]	780	803	470	128	98	-7	268
Third-party liability motor	927	946	544	132	118	-10	272
Other motor	1,442	1,467	723	170	240	12	379
Marine and aviation	109	127	56	17	17	-26	11
Fire and other property losses	1,503	1,551	1,287	242	324	365	101
General liability	406	408	156	88	85	-16	137
Credit and suretyship	61	64	24	13	10	-11	10
Legal assistance	40	40	22	13	6		
Miscellaneous financial losses	134	188	158	25	24	1	17
Indirect business	57	57	44	6	15	12	22
	6,613	6,769	4,399	978	1,059	352	1,309

(1) including disability insurance products.
(2) excluding reinsurance.
(3) including other underwriting income.

NON-LIFE INSURANCE POLICIES BY CLASS OF BUSINESS

2004	Gross premiums written	Gross premiums earned[2]	Gross claims expenses	Operating expenses	Acquisition costs and other underwriting expenditure[3]	Net reinsurance income/ (expenses)	Operational result
Health	1,097	1,078	785	127	169	-50	77
Accident[1]	872	857	507	125	111	5	271
Third-party liability motor	840	839	556	106	94	-10	94
Other motor	1,335	1,344	663	161	204	-5	362
Marine and aviation	141	142	55	18	22	-38	9
Fire and other property losses	1,489	1,495	681	228	306	-135	156
General liability	438	430	228	69	89	-46	20
Credit and suretyship	57	54	3	10	10	-14	20
Legal assistance	35	35	25	13	6		-8
Miscellaneous financial losses	288	217	109	22	28	-49	509
Indirect business	50	51	24	4	-49	-5	99
	6,642	6,542	3,636	883	990	-347	1,609

(1) including disability insurance products.
(2) excluding reinsurance.
(3) including other underwriting income.

18 INCOME FROM INVESTMENTS

INVESTMENT INCOME

	2005	2004
Income from disposal of group companies	**-36**	480
Income from investment property	**206**	287
Movement in fair value of investment property	**143**	137
Income from investments		
- equity securities	**479**	425
- debt securities	**5,759**	5,463
Income from loans		
- personal loans	**260**	322
- mortgage loans	**1,736**	1,664
- policy loans	**223**	171
- other	**462**	633
	9,232	9,582

19 GAINS AND LOSSES FROM INVESTMENTS

GAINS AND LOSSES FROM INVESTMENTS

	2005	2004
Realised result on disposal of equity securities	**511**	603
Realised result on disposal of debt securities	**245**	
Impairments of available-for-sale equity securities	**-46**	
Impairments of available-for-sale debt securities	**34**	
	744	603

20 COMMISSION INCOME

FEE AND COMMISSION INCOME

	2005	2004
Insurance broking	**890**	136
Management fees	**1,420**	1,156
Brokerage and advisory fees	**167**	
Other	**119**	1,032
	2,596	2,324

FEE AND COMMISSION EXPENSES

	2005	2004
Insurance broking	**500**	19
Management fees	**686**	686
Brokerage and advisory fees	**10**	
Other	**54**	419
	1,250	1,124

NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT OF ING INSURANCE (CONTINUED)

21 VALUATION RESULTS FROM NON-TRADING DERIVATIVES

VALUATION RESULTS FROM NON-TRADING DERIVATIVES

	2005
Change in fair value of derivatives – fair value hedges	**87**
Change in fair value of derivatives – hedges of net investment in foreign entities (ineffective portion)	**-16**
Change in fair value of other non-trading derivatives	**-164**
Net result on non-trading derivatives	**-93**
Change in fair value of assets and liabilities (hedged items)	**-98**
Net valuation results	**-191**

22 NET TRADING INCOME

NET TRADING INCOME

	2005	2004
Results from securities trading	**84**	323
Results from foreign exchange transactions	**-87**	-72
Other	**9**	12
	6	263

Results from foreign currency exchange transactions include gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities. Results from securities trading includes the results of making markets in instruments such as government securities, equity securities, corporate debt securities, money-market instruments, interest rate derivatives such as swaps, options, futures and forward contracts.

23 OTHER INCOME

OTHER INCOME

	2005	2004
Share of profit from associates	**401**	195
Other	**131**	121
	532	316

EXPENDITURE

24 UNDERWRITING EXPENDITURE

UNDERWRITING EXPENDITURE

	2005	2004
EXPENDITURE FROM LIFE UNDERWRITING		
Reinsurance and retrocession premiums	**2,031**	1,619
Gross benefits	**22,129**	25,774
Reinsurance recoveries	**-1,625**	-929
Movements in other insurance provisions for own account	**15,824**	11,098
Costs of acquiring insurance business	**1,060**	1,324
Other underwriting expenditure	**364**	713
Profit sharing and rebates	**2,214**	684
	41,997	40,283
EXPENDITURE FROM NON-LIFE UNDERWRITING		
Reinsurance and retrocession premiums	**526**	756
Gross claims	**4,343**	3,598
Reinsurance recoveries	**-775**	-303
Movements in the provision for unearned premiums	**-46**	73
Movements in the claims provision	**-49**	58
Costs of acquiring insurance business	**1,012**	951
Other underwriting expenditure	**-52**	-32
	4,959	5,101
EXPENDITURE FROM INVESTMENT CONTRACTS		
Costs of acquiring investment contracts	**53**	
Profit sharing and rebates	**17**	
Other movements in investment contract liabilities	**94**	
	164	
	47,120	45,384

PROFIT SHARING AND REBATES

	2005	2004
Distributions on account of interest or underwriting results	**1,824**	313
Bonuses added to policies	**379**	371
Deferred profit sharing expense	**11**	
	2,214	684

Underwriting expenditure includes an amount of EUR 3,956 million in 2005 (2004: EUR 4,258 million) in respect of commission paid and payable with regard to the insurance operations. Amortisation of deferred costs of acquiring new business amounted to EUR 1,475 million in 2005 (2004: EUR 2,031 million).

Expenditure from Life underwriting includes an amount of EUR 220 million in 2005 (EUR 100 million in 2004) in relation to reserve strengthening for Insurance Asia/Pacific as further described under Segment Reporting.

ING transferred part of their life insurance business to Scottish Re in 2004 by means of a co-insurance contract. ING recorded a loss amounting to EUR 160 million in Underwriting expenditure in 2004 on the transaction. This loss represented the reduction of the related deferred acquisition costs. In addition, an amount of EUR 240 million will be amortised over the life of the underlying business, starting in 2005 and gradually decreasing in subsequent years as the business runs off. The amount amortised in 2005 amounts to EUR 34 million. The cumulative amortisation recognised amounts to EUR 34 million.

NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT OF ING INSURANCE (CONTINUED)

The underwriting expenditure regarding investment income for risk of policyholders of EUR 5,074 million (2004: EUR 2,309 million) has not been recognised as an expense in Underwriting expenditure. Accordingly, the equal amount of related income has also not been recognised in Income from investments and Gains and losses from investments.

25 OTHER IMPAIRMENTS

OTHER IMPAIRMENT LOSSES RECOGNISED IN THE PROFIT AND LOSS ACCOUNT

	2005	2004
Property and equipment	1	22
Other intangible assets	21	
	22	22

Impairments on loans and advances to customers are present under Additions to the provision for loan losses. Impairments on investments are presented under Gains and losses from investments.

26 STAFF COSTS

STAFF COSTS

	2005	2004
Salaries	1,982	1,824
Pension and other staff related liability costs	134	144
Social security costs	208	185
Share-based compensation arrangements	36	14
Other staff costs	444	412
	2,804	2,579

PENSION AND OTHER STAFF RELATED LIABILITY COSTS

	Pension		Post-retirement benefits other than pensions		Other		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Current service cost	177	163	15	13	2	2	194	178
Past service cost	56						56	
Interest cost	250	226	18	17			268	243
Expected return on assets	-267	-282					-267	-282
Amortisation of unrecognised actuarial (gains)/losses	2						2	
Effect of curtailment or settlement	-1	-3	-126				-127	-3
Defined benefit post-employment plans	217	104	-93	30	2	2	126	136
Defined contribution plans							8	5
							134	141

Contributions to defined contribution plans are generally determined as a percentage of pay.

The actual return on the plan assets amounted to EUR 235 million (2004: EUR 295 million).

Remuneration of Senior Management, Executive Board and Supervisory Board
The remuneration of the members and former members of the Executive Board and Supervisory Board, who are also members and former members of the Executive Board and Supervisory Board of ING Group, including pension contributions, is paid by ING Group. These and other expenses of ING Group are charged in full by ING Group to its subsidiaries, on the basis of a general allocation formula.

The remuneration costs of ING Group amounted to EUR 14.9 million (2004: EUR 12.6 million) for members and former members of the Executive Board and EUR 0.5 million (2004: EUR 0.5 million) for members and former members of the Supervisory Board. These remuneration costs are charged in full by ING Group to its subsidiaries on the basis of a general allocation formula. The remuneration costs allocated to ING Insurance amount to EUR 7.5 million (2004: EUR 6.3 million) for members and former members of the Executive Board and EUR 0.3 million (2004 EUR 0.2 million) for members and former members of the Supervisory Board.

Stock option and share plans

ING Insurance's parent, ING Group, has granted option rights on ING Group shares and conditional rights on depositary receipts for ING Group shares to a number of senior executives (members of the Executive Board, general managers and other officers nominated by the Executive Board), to all ING Insurance staff in the Netherlands and to a considerable number of employees outside the Netherlands. The purpose of the option and share schemes, apart from promoting a lasting growth of ING Insurance, is to attract, retain and motivate senior executives and staff.

ING Group holds directly or indirectly its own shares in order to fulfil the obligations with regard to the existing stock option plan and to hedge the position risk of the options concerned (so-called delta hedge). As at 31 December 2005 38,722,934 (2004: 29,427,538) own shares were held in connection to the option plan compared to 85,128,950 options outstanding. 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 is rebalanced regularly at predetermined points in time.

Exposure arising out of the share plan is not hedged. The obligations with regard to these plans will be funded by issuing own shares.

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 expiry date, even if the option scheme is discontinued. The option rights are subject to certain conditions, including a certain continuous period of service. The exercise prices of the options are the same as the quoted prices of ING Group shares at the date on which the options are granted.

The entitlement to the depositary receipts for ING Group shares is granted conditionally. If the participant remains in employment for an uninterrupted period of three years from the grant date, the entitlement becomes unconditional. In 2005, 73,500 shares have been granted to the members of the Executive Board and 2,907,101 shares have been granted to senior management and other employees remaining in the service of ING Group.

Each year, the ING Group Executive Board will take a decision as to whether the option and share schemes are to be continued and, if so, to what extent.

MOVEMENTS IN OPTION RIGHTS

	Options outstanding		Weighted average exercise price	
	2005	2004	**2005**	2004
Opening balance	**31,743,611**	30,660,982	**24.33**	25.74
Granted	**7,882,022**	5,859,265	**23.32**	18.71
Exercised	**2,351,541**	877,661	**20.93**	16.84
Forfeited	**182,825**	330,283	**22.60**	19.94
Expired	**1,347,618**	3,568,692	**30.80**	29.44
Closing balance	**35,743,649**	31,743,611	**24.10**	24.33

The weighted average fair value of options granted in 2005 was EUR 3.56 (2004: EUR 4.72).

SUMMARY OF STOCK OPTIONS OUTSTANDING AND EXERCISABLE AS AT 31 DECEMBER 2005

Range of exercise price in euros	**Options outstanding as at 31 December 2005**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**options exercisable as at 31 December 2005**	**Weighted average exercise price**
0.00 – 15.00	**6,661,478**	**7.18**	**12.78**	**2,197,958**	**12.90**
15.00 – 20.00	**5,418,670**	**8.19**	**18.71**	**236,514**	**18.66**
20.00 – 25.00	**7,654,103**	**9.23**	**23.28**	**117,966**	**23.23**
25.00 – 30.00	**10,393,888**	**5.38**	**28.62**	**10,159,675**	**28.63**
30.00 – 35.00	**166,868**	**4.86**	**33.15**	**166,868**	**33.15**
35.00 – 40.00	**5,448,642**	**4.01**	**35.54**	**5,448,642**	**35.54**

The fair value of options granted is recorded as an expense under staff costs and is allocated over the vesting period of the options. The fair values of the option awards have been determined by using an option-pricing model. This model takes the risk free interest rate into account, as well as the expected life of the options granted, the exercise price, the current share price, the expected volatility of the certificates of ING Group shares and the expected dividends.

NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT OF ING INSURANCE (CONTINUED)

27 INTEREST EXPENSES

Interest expenses mainly consists of interest on the subordinated loans.

28 OTHER OPERATING EXPENSES

OTHER OPERATING EXPENSES

	2005	2004
Depreciation of property and equipment	**113**	114
Computer costs	**319**	211
Office expenses	**595**	633
Travel and accommodation expenses	**104**	91
Advertising and public relations	**150**	128
External advisory fees	**505**	435
Other	**528**	483
	2,314	2,095
Addition of provision for reorganisation and relocation	**38**	29
	2,352	2,124

Other operating expenses include lease and sublease payments for the amount of nil in respect to operating leases in which ING Insurance is the lessee.

29 TAXATION

TAXATION BY TYPE

	Nether-lands	Inter-national	Total 2005	Nether-lands	Inter-national	Total 2004
Current taxation	**344**	**-25**	**319**	149	315	464
Deferred taxation	**-2**	**138**	**136**	236	157	393
	342	**113**	**455**	385	472	857

RECONCILIATION OF THE STATUTORY INCOME TAX RATE TO ING INSURANCE'S EFFECTIVE INCOME TAX RATE

	2005	2004
Result before taxation	**4,008**	4,346
Statutory tax rate	**31.5%**	34.5%
Statutory tax amount	**1,263**	1,499
Associates exemption	**-142**	-288
Other income not subject to tax	**-77**	-30
Expenses not deductible for tax purposes	**37**	1
Differences caused by different foreign tax rates	**11**	-49
Adjustment to prior periods	**-11**	
Change in tax rates	**-2**	
Deferred tax benefit from previously unrecognised amounts	**-172**	
Current tax benefit from previously unrecognised amounts	**-273**	
Write down and reversal of deferred tax assets	**2**	
Other	**-181**	-276
Effective tax amount	**455**	857
Effective tax rate	**11.4%**	19.7%

SEGMENT REPORTING

AMOUNTS IN MILLIONS OF EUROS, UNLESS STATED OTHERWISE

PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS

ING Insurance's business segments relate to the internal segmentation by business lines. These include the business lines: Insurance Americas, Insurance Europe and Insurance Asia-Pacific. Other mainly includes items not directly attributable to the business lines.

Each business line is headed by a member of the Executive Board. The Executive Board sets the performance targets and approves and monitors the budgets prepared by the business lines. Business lines formulate strategic, commercial and financial policy in conformity with the strategy and performance targets set by the Executive Board.

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

ING Insurance evaluates the results of its business segments using a financial performance measure called underlying profit before taxation. Underlying profit before taxation is defined as profit before taxation excluding the impact of divestments and special items.

SECONDARY REPORTING FORMAT – GEOGRAPHIC SEGMENTS

ING Insurance's three business lines operate in seven main geographical areas: Netherlands, Belgium, Rest of Europe, North America, Latin America, Asia and Australia. Geographical distribution of income is based on the origin of revenue.

BUSINESS SEGMENTS

2005	Insurance Europe	Insurance Americas	Insurance Asia/Pacific	Other	Total segments	Eliminations	Total
Total income							
Income – external	15,816	28,032	13,168	411	57,427		57,427
Income – inter-segment	201	4	31	641	877	-877	
	16,017	28,036	13,199	1,052	58,304	-877	57,427
Segment profit before taxation	2,032	1,941	478	-443	4,008		4,008
Divestments		38	-31		7		7
Underlying profit before taxation	2,032	1,979	447	-443	4,015		4,015
Segment assets	113,966	165,719	48,326	43,804	371,815	-43,005	328,810
Segment liabilities	101,065	158,330	44,697	22,878	326,970	-20,014	306,956
Depreciation and amortisation	372	934	613		1,919		1,919
Impairments	29	15	19	1	64		64
Reversal of impairments		41	1		42		42
Share in profit or loss of associates	346	12	34	9	401		401
Book value of associates	2,421	15	1	26	2,463		2,463

At 31 December 2005 the segment Insurance Asia/Pacific had a net reserve inadequacy using a prudent (90%) confidence level, and, in line with Group Policy, is taking measures to improve adequacy in that region. This inadequacy was offset by reserve adequacies in other segments, such that at the Group level there is a net adequacy at the prudent (90%) confidence level.

SEGMENT REPORTING (CONTINUED)

BUSINESS SEGMENTS

2004	Insurance Europe	Insurance Americas	Insurance Asia/Pacific	Other	Total segments	Eliminations	Total
Total income							
Income – external	15,990	28,080	10,469	1,042	55,581		55,581
Income – inter-segment	30	4	21	82	137	-137	
	16,020	28,084	10,490	1,124	55,718	-137	55,581
Segment profit before taxation	1,651	1,692	756	247	4,346		4,346
Divestments		-91	-281		-372		-372
Special items	-11			-375	-386		-386
Underlying profit before taxation	1,640	1,601	475	-128	3,588		3,588
Segment assets	101,162	132,101	31,622	29,280	294,165	-30,916	263,249
Segment liabilities	91,851	126,156	28,998	14,995	262,000	-13,738	248,262
Depreciation and amortisation	361	1,427	440	6	2,234		2,234
Impairments	2	52	3		57		57
Share in profit or loss of associates	147	35	10	3	195		195
Book value of associates	1,311	14	33	386	1,744		1,744

Special items in 2004 comprise results from foreign currency hedges, restructuring provisions for Wholesale Banking and a gain on old insurance business.

GEOGRAPHICAL SEGMENTS

GEOGRAPHICAL SEGMENTS OF ING INSURANCE

	Netherlands	**Belgium**	**Rest of Europe**	**North America**	**Latin America**	**Asia**	**Australia**	**other**	**Total**
2005									
Total income									
Income – external	**11,192**	**2,473**	**2,151**	**25,356**	**2,676**	**12,651**	**517**	**411**	**57,427**
Income – inter-segment	**173**	**27**	**1**	**4**			**31**	**641**	**877**
	11,365	**2,500**	**2,152**	**25,360**	**2,676**	**12,651**	**548**	**1,052**	**58,304**
Segment profit before taxation	**1,600**	**174**	**258**	**1,782**	**159**	**278**	**200**	**-443**	**4,008**
Segment assets	**90,485**	**14,301**	**9,180**	**158,019**	**7,719**	**39,421**	**8,905**	**780**	**328,810**
2004									
Total income									
Income – external	11,284	2,893	1,813	25,434	2,646	8,668	1,802	1,041	55,581
Income – inter-segment	30			4			20	-54	
	11,314	2,893	1,813	25,438	2,646	8,668	1,822	987	55,581
Segment profit before taxation	1,326	144	180	1,487	205	312	444	248	4,346
Segment assets	81,900	11,924	7,493	126,525	5,567	24,153	7,470	-1,783	263,249

INCOME BY GEOGRAPHICAL AREA

	Life premiums written		Non-life premiums written		Investment income(1)			Total
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
Netherlands	**5,449**	5,822	**1,642**	1,693	**4,390**	3,697	**11,481**	11,212
Belgium	**1,630**	2,115	**318**	324	**570**	438	**2,518**	2,877
Rest of Europe	**1,617**	1,367	**46**	48	**494**	398	**2,157**	1,813
North America	**17,624**	17,923	**3,099**	2,741	**4,685**	4,733	**25,408**	25,397
Latin America	**567**	506	**1,454**	1,591	**654**	546	**2,675**	2,643
Asia	**12,064**	8,009	**41**	37	**543**	598	**12,648**	8,644
Australia	**181**	1,223		200	**362**	391	**543**	1,814
Other	**15**	13	**133**	142	**726**	1,523	**874**	1,678
	39,147	36,978	**6,733**	6,776	**12,424**	12,324	**58,304**	56,078
Income between geographical areas(2)	**-2**	-3	**-120**	-134	**-755**	-360	**-877**	-497
	39,145	36,975	**6,613**	6,642	**11,669**	11,964	**57,427**	55,581

(1) including commission and other income.
(2) mainly related to reinsurance premiums ceded between group companies in different geographical areas.

PROFIT BEFORE TAXATION BY GEOGRAPHICAL AREA

		Life		Non-life		Total
	2005	2004	**2005**	2004	**2005**	2004
Netherlands	**1,325**	958	**390**	267	**1,715**	1,225
Belgium	**139**	111	**53**	17	**192**	128
Rest of Europe	**256**	168	**7**	11	**263**	179
North America	**623**	362	**820**	780	**1,443**	1,142
Latin America	**98**	99	**54**	98	**152**	197
Asia	**269**	284	**6**	3	**275**	287
Australia	**195**	162		274	**195**	436
Other	**-209**	527	**-18**	225	**-227**	752
	2,696	2,671	**1,312**	1,675	**4,008**	4,346

GEOGRAPHICAL ANALYSIS OF CLAIMS, COST RATIO AND COMBINED RATIO FOR NON-LIFE INSURANCE POLICIES

		Claims ratio		Cost ratio		Combined ratio
	2005	2004	**2005**	2004	**2005**	2004
Netherlands	**56.0**	60.6	**39.0**	36.8	**95.0**	97.4
Belgium	**66.8**	71.1	**34.1**	36.7	**100.9**	107.8
Rest of Europe	**51.5**	46.1	**41.8**	35.8	**93.3**	81.9
North America	**59.7**	61.0	**29.4**	27.6	**89.1**	88.6
Latin America	**75.8**	71.8	**28.4**	27.6	**104.2**	99.4
Asia	**52.5**	56.6	**40.3**	40.9	**92.8**	97.5
Australia		46.3		28.0		74.3
Other	**119.7**	62.8	**14.6**	16.4	**134.3**	79.2
Total	**62.7**	63.0	**31.9**	30.6	**94.6**	93.6

The claims ratio is the claims, including claims handling expenses, expressed as a percentage of net earned premiums. The cost ratio is the costs expressed as a percentage of net premiums written. The claims ratio and the cost ratio together form the combined ratio. 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.

SEGMENT REPORTING (CONTINUED)

DEFERRED ACQUISITION COSTS BY GEOGRAPHICAL AREA

	Investment contracts		Life insurance		Non-life insurance		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
Netherlands			**460**	442	**61**	61	**521**	503
Belgium			**43**	47	**16**	18	**59**	65
Rest of Europe			**221**	209	**4**	4	**225**	213
North America			**4,863**	6,001	**292**	246	**5,155**	6,247
Latin America			**97**	74	**115**	99	**212**	173
Asia			**3,359**	3,226	**2**	1	**3,361**	3,227
Australia	**71**						**71**	
	71		**9,043**	9,999	**490**	429	**9,604**	10,428

INSURANCE PROVISIONS OWN ACCOUNT BY GEOGRAPHICAL AREA

	Provision for life policy liabilities		Insurance provisions for policies for which the policyholders bear the investment risk		Claims provision		Other		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Netherlands	**39,564**	39,264	**17,065**	15,472	**3,224**	3,364	**2,778**	874	**62,631**	58,974
Belgium	**7,731**	6,732	**175**	3,248	**540**	510	**893**	181	**9,339**	10,671
Rest of Europe	**5,272**	4,479	**1,808**	1,708	**28**	26	**484**	70	**7,592**	6,283
North America	**53,411**	52,395	**59,956**	46,912	**3,538**	2,994	**1,763**	1,404	**118,668**	103,705
Latin America	**3,021**	2,168	**54**	66	**301**	232	**692**	572	**4,068**	3,038
Asia	**22,534**	16,586	**10,473**	4,251	**26**	21	**495**	272	**33,528**	21,130
Australia	**96**	75		5,999					**96**	6,074
Other	**-4**				**545**	231	**106**	1	**647**	232
	131,625	121,699	**89,531**	77,656	**8,202**	7,378	**7,211**	3,374	**236,569**	210,107

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS OF ING INSURANCE

30 NET CASH FLOW FROM INVESTING ACTIVITIES

COMPANIES ACQUIRED AND DISPOSED OF IN 2005

amounts in billions of euros	Acquisition of New Zealand	Total acquisitions	Disposal of Life of Georgia	Total disposals
GENERAL				
Primary line of business	**Life insurance**		**Life insurance**	
PURCHASE PRICE				
Purchase price	**-0.1**	**-0.1**	**0.2**	**0.2**
Cash in company acquired / disposed			**0.1**	**0.1**
Cash outflow / inflow on acquisition / disposal	**-0.1**	**-0.1**	**0.3**	**0.3**
ASSETS				
Investments			**-1.8**	**-1.8**
Miscellaneous other assets	**0.1**	**0.1**		
LIABILITIES				
Insurance and investment contracts			**-1.5**	**-1.5**
Net assets	**0.1**	**0.1**	**-0.3**	**-0.3**
Third-party interest				
Net assets acquired / disposed	**0.1**	**0.1**	**-0.3**	**-0.3**

COMPANIES ACQUIRED AND DISPOSED OF IN 2004

amounts in billions of euros	Acquisition of Allianz Canada	Total acquisitions	Other disposals	Total disposals
GENERAL				
Primary line of business	Non-life insurance		Insurance	
PURCHASE PRICE				
Purchase price	-0.3	-0.3	0.5	0.5
Cash in company acquired / disposed	0.5	0.5		
Cash outflow / inflow on acquisition / disposal	0.2	0.2	0.5	0.5
ASSETS				
Miscellaneous other assets	0.9	0.9	-0.8	-0.8
LIABILITIES				
Miscellaneous other liabilities	1.0	1.0	-0.3	-0.3
Net assets	-0.1	-0.1	-0.5	-0.5
Third-party interest				
Net assets acquired / disposed	-0.1	-0.1	-0.5	-0.5

Acquisitions and disposals of group companies have been included in the cash flow from investing activities at cost or sales price, insofar as payment was made in cash. The cash in the company acquired/disposed has been eliminated from the cost of sales price.

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS OF ING INSURANCE (CONTINUED)

31 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

INTEREST AND DIVIDEND RECEIVED AND PAID

In millions of euros	**2005**	2004
Interest received	**8,899**	8,489
Interest paid	**1,096**	1,138
	7,803	7,351
Dividend received	**479**	425
Dividend paid	**1,595**	630

INTRODUCTION

RISK FUNCTION

The Executive Board determines the risk appetite of ING Insurance, aiming for a balance between risk, return and capital and sets risk policy and limits. The ING Group Chief Financial Officer (ING Group CFO) bears primary overall responsibility for the Risk Function. ING Insurance has a Dual Signatory Approval structure whereby ING Group Executive Board members and the Corporate Risk Managers will take direct responsibility for specified matters (such as transactional approval) within the delegated authorities granted by the Executive Board.

The Risk Function is structured independently from the business lines and is organised through three departments:
- corporate Credit Risk Management (CCRM) is responsible for the credit risk management of ING Insurance;
- corporate Market Risk Management (CMRM) is responsible for the operational risk management of ING Insurance;
- corporate Insurance Risk Management (CIRM) is responsible for the insurance and market risk management of ING Insurance.

The heads of these departments (Corporate Risk Managers) report to the ING Group CFO and bear direct responsibility for risk (mitigating) decisions. The Corporate Risk Managers advise the ING Group CFO and are responsible for the harmonisation and standardisation of risk-management practises. They are also responsible for risk definitions, policies, procedures, models and methodologies, measurement, monitoring and consolidated reporting.

The regional and local risk managers in the business lines have a functional reporting line to the Corporate Risk Managers; they ensure day-to-day risk analysis, proper measurement and controls, registration of risks and policy development within the overall risk governance framework.

RISK COMMITTEES

The risk committees described below act within the overall risk policy and delegated authorities granted by the ING Group Executive Board. The risk committees have an advisory role to the ING Group CFO and ensure a close link between the business lines and the risk management function through representation of the business heads and the Corporate Risk Managers on each committee.

ING Group Credit Committee – Policy (GCCP)
GCCP advises on policies, methodologies and procedures related to credit, insurance, market and operational risks within ING Insurance. The GCCP meets on a monthly basis. This committee was created in 2005 as a result of the streamlining of risk management governance at an ING Group level.

ING Group Credit Committee – Transaction Approval (GCCTA)
GCCTA advises on transactions involving the taking of credit risk (including issuer investment risk). The GCCTA meets twice weekly. This committee was formerly known as the Central Credit Committee (CKC).

ING Provisioning Committee (IPC)
IPC advises on specific and collective loan loss provisions figures for ING Insurance. The IPC meets on a quarterly basis.

Asset & Liability Committee ING Insurance (ALCO Insurance)
ALCO Insurance advises on all risks for ING Insurance activities. This includes volatility (affecting earnings and value), exposure (required capital and market risk) and insurance risks. ALCO Insurance meets six times a year.

RISK MEASUREMENT

Risk management is described by risk category for ING Insurance below. For ING Insurance the relevant risks are: actuarial and underwriting risk, market risk, credit risk and operational risk.

In the sections below, the risk categories are sub-divided by types of risk and for each type of risk the applicable risk measurement method that ING Insurance practices is described, including a quantification of the risks.

GENERAL

ING Insurance is engaged in the business of selling life and non-life insurance products. Life products include a broad range of traditional life, unit-linked, annuities, universal life, group life, pension, and (guaranteed) investment contracts. Non-life insurance products include all lines of insurance products that do not fall under the life insurance business – fire, automobile, accident and health, third-party liability and disability contracts.

Risks from these products arise with respect to the adequacy of insurance premium rate levels and provisions for insurance liabilities and capital position as well as uncertainty of the future returns on investments of the insurance premiums. Risks are classified as actuarial and underwriting, market risk, credit risk and operational risk. ING considers that the principal components of insurance risk are actuarial and underwriting risk.

ING regularly monitors the solvency level for the total insurance business at a prudent level. ING believes its solvency level is adequate.

Reserve adequacy – Taiwan
The adequacy of the provision for life policy liabilities (net of DAC and VOBA) is evaluated regularly. ING's policy for reserve adequacy testing is disclosed under 'Principles of valuation and determination of results'.

As at 31 December 2005, ING's life insurance businesses as a whole are sufficiently adequate at a 90% confidence level. All business lines are, on a stand-alone basis, adequate at a 90% confidence interval, except for the business line Insurance Asia/Pacific. The inadequacy in Insurance Asia/Pacific is fully attributable to Taiwan.

At 31 December 2005, the inadequacy range for Taiwan is EUR 2.8 billion to EUR 3.3 billion based on a 90% confidence interval on a Taiwan reserve level (net of DAC and VOBA) of EUR 9 billion. The inadequacy results from a material exposure in Taiwan to a sustained low interest rate environment. This is due to long term interest rate guarantees of 6-8% embedded in the life and health contracts sold by the business until 2001. These long term guarantees and the future premiums (which have a present value of approximately EUR 20 billion) create a liability with an effective duration over 30, compared to an asset duration of approximately 9. ING stopped selling these high guarantees in its Taiwan life insurance products in 2001. The post 2001 business is adequate at a 90% confidence interval, which partially compensates inadequacy related to the pre-2001 business. Furthermore, ING has over time strengthened reserves by EUR 420 million for this exposure and increased the internal capital allocation for this business.

The outcome of the reserve adequacy test for Taiwan is inherently uncertain given the use of various assumptions and the long term nature of the liability. The outcome can only be reliably estimated within broad ranges which are bound to vary significantly from period to period. The outcome of the test for Taiwan is especially sensitive to (changes in) interest rate assumptions. The reserve adequacy test at 31 December 2005 is based on the current 10-year swap rate in Taiwan at 31 December 2005 of 2.35%, with the assumption that, in the long term, this swap rate will move to 5.75%.

Management's best estimate, based on a 50% confidence interval, is that Taiwan has a marginal adequacy of EUR 165 million (which represents a 53% confidence interval) as at 31 December 2005. Under the Group's accounting policy, any inadequacy below the 50% interval would be charged to the profit and loss account immediately.

The sensitivity to interest rates changes is explained below under ING Insurance – Interest rate sensitivity.

If the interest rates as at 31 December 2005 would have been 1% lower, Taiwan would have been inadequate at the 50% confidence interval and, consequently, an amount of approximately EUR 1.7 billion (after tax) would have been included as a charge in the profit and loss account, reflecting the amount necessary to bring reserves to a best estimate level. If the interest rates as at 31 December 2005 would have been 1% higher, Taiwan would be sufficiently adequate at the 50% confidence interval, but would still have been inadequate at the 90% confidence interval. Consequently, the charge currently included in the profit and loss would likely have been reduced.

Furthermore, the reserve adequacy test includes our expectation that the legal entity will be formally domesticated as a subsidiary of a US entity rather than a branch during 2006 and that mortality dividends will continue to be allowed to be offset versus negative interest rate experience.

ACTUARIAL AND UNDERWRITING RISK
General
Actuarial and underwriting risks are the risks resulting from the pricing and acceptance of insurance contracts. These risks are managed through product design requirements, risk limitations, and management of concentrations. Actuarial risks are managed through pricing procedures and included in the overall adequacy of provisions for insurance contract and investment contract liabilities. Underwriting risks are managed in the process whereby applications submitted for insurance coverage are reviewed. The maximum underwriting exposure is limited through exclusions, cover limits, and reinsurance.

Measurement
ING Group has established actuarial and underwriting risk tolerance levels in specific areas of its insurance operations.

For the main non-life units (in The Netherlands, Belgium, Canada, Mexico) the risk tolerance is generally set at 2.5% of the Group's after-tax earnings. For 2005, this translated into a (pre-tax) risk tolerance level of EUR 170 million. The risk tolerance refers to the maximum allowable loss for catastrophe events. The assessment of potential losses in this business is done on the basis of 1 in 250 events. With respect to the Fire line of business this assessment is based on risk assessment models that are widely accepted in the industry. For the smaller non-life units, the (pre-tax) risk tolerance level for 2005 was set at EUR 5.0 million per event per business unit.

With respect to life business ING Group's (pre-tax) risk tolerance level is set at EUR 22 million per insured life. While life insurance risks are considered to be naturally diversifiable by virtue of each life being a separate risk, group contracts may result in significant exposures. For life insurance contracts involving multiple lives ING made its own assessment and believes that the potential loss from a significant mortality event occurring in the normal course of business will not exceed an amount higher than approximately 12% of the Groups after-tax earnings. For 2005, this translated into a (pre-tax) risk-tolerance level of EUR 750 million. Such an amount could result from a pandemic as observed during the Spanish Flue pandemic in 1918, without taking into account medical improvements since that time. ING continues to model the possible impact of pandemics based on studies published by internationally credible organisations.

In case of the existence of exposures higher than the risk tolerance levels as defined above, appropriate procedures are in place, including third-party reinsurance covers. Particularly for the property and casualty portfolio, ING purchases protection through which the exposure due to natural catastrophes is substantially mitigated. ING believes that the credit risks to which it is exposed under reinsurance contracts are minor.

Regarding catastrophic losses arising from events such as terrorism, ING believes that it is not possible to develop a business model that takes into account the possibility of very high losses resulting from these events. For the non-life business, losses that result from these events are generally not covered unless required by law. In various countries industry pools have been established to mitigate the terrorism risk to which the individual insurers are nevertheless still exposed. ING participates in such pools.

Through scenario analyses, ING Insurance measured the potential changes in the realised after-tax earnings of the insurance operations from an increase/decrease of the insurance risk factors over the year 2005. These changes to income can relate to realised claims or any other net-income item that would be affected by the change of these factors. In addition, ING has estimated the impact to the 31 December 2005 shareholders equity of ING Insurance from the same change in insurance risk factors. The differentiation of sensitivities before and after risk mitigation typically refers to mitigation of the risks by re-insurance.

INSURANCE RISK SENSITIVITY

		Effect on ING Insurance 2005 net profit		Effect on ING Insurance 2005 shareholders' equity	
		Before risk mitigation	After risk mitigation	Before risk mitigation	After risk mitigation
Mortality	+10%	-82	-61	-85	-63
	-10%	80	61	83	64
Morbidity	+10%	-70	-66	-70	-67
	-10%	70	66	71	67
P&C	+10%	-125	-98	-130	-101
	-10%	125	98	130	101

The sensitivities represent a one-time increase/decrease of the realised claims of P&C and morbidity and an increase/decrease of the mortality rates over 2005. Due to the standard definition of the shocks the mortality risk partly hedges the longevity risk globally, but mortality risk may not offset longevity risk in particular region. In this case the total risk increases after including the existing reinsurance contracts.

MARKET RISK

General

Market risks arise when the market value of assets and liabilities do not move consistently as financial markets change. Changes in interest rates, equity prices, foreign exchange rates and real estate prices can impact present and future earnings of the insurance operations as well as the shareholders equity.

In 2005, ING implemented Market Value at Risk (MVaR) limits to manage the market and credit risks resulting from the Insurance operations world-wide. ALCO Insurance has set a MVaR limit for ING Group Insurance and each of the business lines that relates to the economic capital of ING Group Insurance. The MVaR is based on a 99.95% confidence interval over a one-year horizon.

These limits are further allocated to the ING Insurance business units through MVaR sublimits. These limits are managed by an ALCO Insurance structure on the respective organisational levels.

Corporate Insurance Risk Management (CIRM) consolidates and monitors the MVaR exposures of the business lines including diversification effects on a quarterly basis. In 2005 there were no breaches of the overall ING Insurance MVaR limit.

Measurement
At an ING Group level, CIRM is responsible for implementing and monitoring asset and liability management (ALM) practices and for consistency of the MVaR calculation methods world-wide.

The market risk of ING Insurance is primarily related to interest rate risk and equity risk although it also includes real estate and foreign currency risks. The following sections provide an analysis of the exposures of the different types of market risks.

ALM risk – interest rate risk
ING's insurance operations are exposed to changes in interest rates with respect to guaranteed interest rates on the insurance and investment contract liabilities when interest rates fall. The current product portfolio also includes products where interest rate risks are entirely or partially passed on to the policyholder, thereby reducing ING's exposure to interest rate movements.

Through scenario analyses, ING Insurance measured the potential changes in earnings of the insurance operations from an instantaneous increase/decrease in interest rates of 100 basis points. These changes to income can relate to investment income, interest paid to policyholders, adequacy of provision for liabilities, market-value adjustments, amortisation of Deferred Acquisition Costs (DAC) or any other net-income item that would be affected by interest rate changes. The effect of interest rate changes is different by business line and by product. In addition, ING has estimated the impact to the 31 December 2005 shareholders equity of ING Insurance from such an instantaneous change in interest rates.

INTEREST-RATE SENSITIVITY

	Effect on ING Insurance 2005 net profit	Effect on ING Insurance 2005 shareholders' equity
Increase interest rates by 1%	**-68**	**-2,814**
Decrease interest rates by 1%	**-1,743**	**1,255**

The sensitivities represent an instantaneous increase/decrease of interest rates as of 31 December 2005. The net profit sensitivity reflects the related immediate effect on net income after-tax for the year 2005. Sensitivity disclosures include the effect of non-bifurcated embedded derivatives contained in insurance contracts.

The most significant interest rate risk within ING's insurance businesses exists in Taiwan where ING has material exposure to a sustained low interest rate environment. This is due to long term interest rate guarantees of 6-8% embedded in the life contracts sold by the business until 2001. Since 2002, ING has changed the design of its Taiwan life insurance products, strengthened reserves and increased the internal capital allocation for this business.

The net profit impact related to a 1% change in current interest rates is asymmetric due to the need to increase reserves for ING's business in Taiwan if interest rates were 1% lower, including a 1% shift of the long term interest rate assumption from 5.75% to 4.75%. The IFRS-EU profit impact on Taiwan of 1% lower interest rates at 31 December 2005 is EUR 1.7 billion. This is the amount necessary to bring reserves to a best estimate (50%) level in this sensitivity. There is not a corresponding benefit for rising interest rates in 2005 since the additional profit from a rising interest scenario is not recognised in profit through unlocking of reserves.

Shareholders equity impacts also relate directly to use of market values for available for sale securities offset by shadow accounting of reserves and DAC where possible.

ALM risk – equity risk
ING's insurance operations are exposed to changes of prices in equity markets on two levels: 1) business units that have direct equity holdings in their general accounts; and 2) products where the revenues of the insurance operations are linked to the value of underlying equity funds, since this has an impact on the level of charges deducted for unit-linked and variable business.

Through scenario analyses ING Insurance measured the potential changes in earnings of the insurance operations resulting from an instantaneous increase/decrease in equity markets of 10%. These changes to income can relate to fee income, unrealised or realised gains and losses, amortisation of DAC or any other net-income item that would be affected by a substantial change to equity markets. The effect of equity market changes is different by business line and by product. In addition, ING has estimated the impact to the 31 December 2005 shareholders equity of ING Insurance from such a change in equity markets.

EQUITY SENSITIVITY

	Effect on ING Insurance 2005 net profit	Effect on ING Insurance 2005 shareholders' equity
Increase of equity of 10%	**59**	**1,072**
Decrease of equity of 10%	**-80**	**-1,094**

The sensitivities represent an instantaneous increase/decrease in equity markets as of 31 December 2005. The net profit sensitivity reflects the related immediate effect on net income after-tax for the year 2005. Sensitivity disclosures include the effect of non-bifurcated embedded derivatives contained in insurance contracts.

ALM risk – foreign exchange risk
Foreign-exchange risk in the investments backing ING's insurance and investment contract liabilities is dealt with in the investment-management processes in each business unit. An immaterial portion of the investment portfolio backing insurance liabilities is invested in assets of a different currency than the liabilities.

Another type of foreign exchange risk exists as translation risk. Locally required capital levels are invested in local currencies in order to satisfy regulatory requirements and to support local insurance business regardless of currency movements. These capital levels may affect the consolidated balance sheet when translated to Euros. Depending on hedging costs and the capital exposure, ING may hedge the capital over locally required margins.

Through scenario analysis ING Insurance measured the potential changes in the reported earnings of the insurance operations resulting from an instantaneous increase/decrease on 31 December 2005 in foreign exchange markets of 10%. In addition, ING has estimated the impact to the 31 December 2005 shareholders equity of ING Insurance from such a change in foreign exchange markets.

FOREIGN CURRENCY SENSITIVITY

	Effect on ING Insurance 2005 net profit	Effect on ING Insurance 2005 shareholders' equity
10% Increase of Euro versus all other currencies	**-81**	**-950**
10% Decrease of Euro versus all other currencies	**87**	**1,041**

The sensitivities represent an instantaneous increase/decrease in the Euro on 31 December 2005.
The net profit sensitivity reflects the related effect on net income after tax for the year 2005. Sensitivity disclosures include the effect of non-bifurcated embedded derivatives contained in insurance contracts.

The main foreign exchange risks of ING Insurance relate to the translation risk from net income and equity from business units in USA and Canada. For net income the impact is mitigated through the usage of average yearly exchange rates.

ALM risk – Real estate risk
Real Estate risk exists in some of the investment portfolios of ING Insurance, most significantly in the Netherlands. ING Insurance is exposed to the risk of decreasing real estate prices to the extent these cannot be shared with contract holders in participating insurance plans.

Through scenario analyses ING Insurance measured the potential changes in the earnings of the insurance operations resulting from an instantaneous increase/decrease in real estate markets of 10%. In addition, ING has estimated the impact to the 31 December 2005 shareholders equity of ING Insurance from such a change in real estate markets.

RISK MANAGEMENT (CONTINUED)

REAL ESTATE SENSITIVITY

	Effect on ING Insurance 2005 net profit	Effect on ING Insurance 2005 shareholders' equity
Increase of real estate of 10%	509	525
Decrease of real estate of 10%	-513	-525

The sensitivities represent an instantaneous increase/decrease in real estate markets as of 31 December 2005. The net profit sensitivity reflects the related immediate effect on net income after tax for the year 2005.

The main real estate risk of ING Insurance exists within ING Real Estate investment portfolio in The Netherlands.

Liquidity risk
Liquidity problems arise if an insurance business does not have enough cash or liquid assets to meet its cash obligations. Demands for funds can usually be met through ongoing normal operations, premiums received, the sale of assets or borrowing. Unexpected demands for liquidity may be triggered by a credit-rating downgrade, negative publicity, deterioration of the economy, reports of problems of other companies in the same or similar lines of business, significant unanticipated policy claims, or other unexpected cash demands from policyholders.

Liquidity risk decreases as the time frame allowed for generating cash increases. Longer time frames increase the probability of finding a buyer for some of the company's non-maturing or less liquid assets or securing external financing. Expected liquidity demands within ING Insurance are managed through a combination of treasury, investment and asset-liability management guidelines, which are monitored on an ongoing basis. Unexpected liquidity demands are managed through a combination of product design, diversification limits on liabilities, investment strategy, systematic monitoring and advance contingency planning. CIRM has issued formal guidelines requiring all insurance businesses to regularly assess, monitor and report on their liquidity risk profile. The guidelines require an analysis of liabilities that increase liquidity risk, a review of the investment portfolio to ensure adequate liquidity, and analysis of the expected asset-and-liability cash flows in regards to the ability of the business to meet cash demands.

CREDIT RISK

General
ING Insurance is exposed to credit risk through the investment of insurance premiums into assets subject to credit risk. ALCO Insurance sets the constraints for the overall asset allocation of the insurance activities including credit risk. These issuer limits are set by rating class and average credit quality and are translated in economic capital terms. Credit risk is managed through the MVaR limit structure described above. Issuer limits are determined based on the obligor's rating. These limits are managed in the region where the parent company is domiciled. In addition each insurance company has one or more investment mandates that specify credit-risk appetite by issuer, type and quality.

Measurement
For the investment portfolios backing the insurance liabilities, ING's policy is to maintain a well diversified investment portfolio.

The credit exposure of ING Insurance is mainly related to investments in debt securities, private placements and traditional lending to private individuals. Loans to private individuals are mainly mortgage loans secured by residential property. Credit exposure also arises from derivatives, repurchase and reverse-repurchase transactions, securities lending/borrowing and reinsurance contracts used to hedge the portfolio.

The tables below are based on EUR 172 billion of general account fixed income assets on 31 December 2005 and exclude equities and real estate but include preferred shares.

In the table below a summary is shown of the outstandings in the general account fixed-income portfolios per credit rating expressed in Standard & Poor's ratings at 31 December 2005.

RISK CLASSES: ING INSURANCE PORTFOLIO BY S&P RATINGS, AS % OF THE TOTAL OUTSTANDINGS	
in percentages	2005
AAA	26.3%
AA	23.0%
A	32.8%
BBB	14.3%
Other	3.6%
Total	100.0%

Rating classes are defined based upon the quality of the exposures in terms of credit worthiness, varying from investment grade to problem grade. Assets are generally rated based on issuer rating. Securitisations are rated based on issue rating The Dutch mortgage portfolio is included with an average credit rating of A in the table above. The category 'Other' contains assets rated BB and lower as well as assets that are not rated.

In the table below a summary is shown of the outstandings in the general account fixed-income portfolios per industry sector.

RISK CONCENTRATION: ING INSURANCE PORTFOLIO, BY ECONOMIC SECTOR AS % OF TOTAL OUTSTANDINGS	
in percentages	2005
Sovereigns	24.0%
Financials	20.5%
Mortgages/retail	18.8%
Securitisations	15.8%
General industries	4.8%
Food, beverages and personal care	1.7%
Chemicals	1.5%
Automotive	1.1%
Media	1.0%
Other	10.8%
	100.0%

In the table below a summary is shown of the outstandings in the general account fixed-income portfolios per region of the issuer.

GEOGRAPHICAL SPREAD: ING INSURANCE PORTFOLIO, BY REGION AS % OF TOTAL OUTSTANDINGS	
in percentages	2005
North America	42.8%
Western Europe	39.9%
Asia	10.2%
Latin America	5.1%
Central and Eastern Europe	1.8%
Other	0.2%
	100.0%

Debtor provisioning
For credit risks, a provision for loan losses is maintained that is considered adequate to absorb losses arising from the existing insurance investment portfolios. For 2005, ING Insurance added EUR 21 million to the provision for loan losses compared with a release of EUR 12 million in 2004.

Collateral policies
As with all financial institutions, ING Insurance is in the business of taking credit risks. As such, we continually evaluate the creditworthiness of our customers, trading partners and investments for their ability to meet their financial obligations to ING Insurance. During the assessment process of creating new loans, acquiring securities, as well as reviewing existing loans and securities positions, ING Insurance determines the amount and type of collateral, if any, that a customer may be required to pledge to ING Insurance. 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 Insurance actively enters into various legal arrangements whereby counterparties (or ING Insurance) 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 Insurance can receive or pledge. Additionally, ING Insurance will sometimes enter into credit default swaps, and other similar instruments, in order to reduce the perceived credit risk on a given borrower or portfolio.

Restructuring
In some cases, ING Insurance will work with the obligor and its other creditors, if any, to restructure the company and its financial obligations in order to minimise any financial losses to the creditors as a whole, and ING Insurance in particular. This can be accomplished through many means available to the creditors, the most common of which are (1) extending the repayment period, (2) selling assets; (3) selling business lines of the debtor, (4) forgiving part of the financial obligations, and (5) a combination of the above. The decision to enter into such a restructuring is made only after careful internal assessment and an internal approval. Once a restructuring is completed, the obligor is again subject to normal credit risk monitoring procedures.

Past-due obligations
ING Insurance continually measures its portfolio in terms of payment arrears. Particularly the retail portfolios (such as residential mortgages, consumer loans and policy loans) 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 are considered to be operational risk. After this period, letters will be sent to the obligor reminding it of its (past due) payment obligations. If payment has not been made after 90 days, the obligation is generally considered impaired and transferred to one of the ‘problem loan’ units. In order to reduce the number of arrears, most ING Insurance units encourage obligors to set up automatic debits from their accounts to ensure timely payments.

There is no significant concentration of a particular type of loan structure in the watch-list or the impaired loan portfolio. As such, the make up of the collateral received generally mirrors that of the portfolio as a whole.

Generally, all loans with past due financial obligations of more than 90 days past due are automatically reclassified as impaired. However, there can also be other reasons for declaring a loan impaired prior to being 90 days past due. These include, but are not limited to, ING Insurance’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.

Repossession policy
It is ING Insurance’s general policy not to take repossession of assets of defaulted debtors. Rather, ING Insurance attempts to sell the assets from within the legal entity that has pledged these assets to ING Insurance, in accordance with the respective collateral or pledge agreements signed with the obligors. In those cases where ING Insurance does take possession of the collateral, ING Insurance generally attempts to sell the asset as quickly as possible to prospective buyers. Based on internal assessments to determine the highest and quickest return for ING Insurance, the sale of repossessed assets could be the sale of the company as a whole (or at least all of its assets), or the assets could be sold over time.

OPERATIONAL RISK

GENERAL

The aim for the ING Insurance and local operational risk management departments is to support general management of the business lines, which is responsible for managing operational risk by raising operational risk awareness and insight, increasing operational risk and loss transparency, improving early warning information and allocating risk ownership and responsibilities. This contributes to more stable business processes and lower operational risk costs. Furthermore, implementing an appropriate operational risk management function will prepare ING Insurance for the Basel II regulations applicable from 31 December 2007. ING Insurance intends to apply for the Advance Measurement Approach, the most sophisticated risk capital charge option available under Basel II.

MEASUREMENT
ING Insurance has defined operational risk as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. ING Insurance distinguishes the following event types (based on the Basel Committee level 1 and 2 event types):

— processing failure
— control failure
— unauthorised activities
— internal crime/fraud
— external crime/fraud
— information security failure
— employment practices & workplace safety
— clients, products and business malpractice
— system failure
— business disruption

Each of these risks has a related function (e.g. Compliance, IT, Legal, Information Security, Finance, Human Resources, Operations) responsible for the management process and oversight of that risk.

Operational risk measurement as calculated in the economic capital model consists of two parts. The first part is a probabilistic model in which a generic capital per business unit is calculated based on an incident loss database and the relative size and inherent risk of the business units. The second part is the scorecard adjustment, which reflects the business unit specific level of Operational Risk Management, or ORM implementation.

To assess, monitor and manage operational risk, ING Insurance has developed a sophisticated framework of activities which includes:
— risk awareness programmes and risk & control self assessments
— audit finding action tracking and incident reporting and analysis
— key-risk indicators reporting and local operational risk committees
— new-product reviews

The maturity of the ORM process is measured on an annual basis by a set of five scorecards assessing the ORM-framework activities. The Basel II progress reporting is based on these scorecards and supporting evidence.

In order to protect ING Insurance against financial consequences of uncertain operational events ING Insurance has acquired insurance policies issued by third-party insurers, with world-wide cover for (Computer) Crime, Professional Liability, Directors & Officers Liability, Employment Practices Liability and Fiduciary Liability. ING Insurance retains a portion of these risks that matches industry practice.

ING Insurance has begun calculating economic capital for operational risk on a quarterly basis beginning 2005. Although not required for regulatory purposes ING has decided internally that ING Insurance will also adhere to the new Basel II regulations with respect to operational risk management.

PARENT COMPANY BALANCE SHEET OF ING INSURANCE

BEFORE PROFIT APPROPRIATION, AMOUNTS IN MILLIONS OF EUROS

PARENT COMPANY BALANCE SHEET OF ING INSURANCE AS AT 31 DECEMBER

	2005	2004
ASSETS		
Investments in wholly owned subsidiaries 1	**25,719**	17,342
Other assets 2	**17,078**	14,814
Total assets	**42,797**	32,156
EQUITY 3		
Share capital	**174**	174
Share premium	**4,374**	4,374
Revaluation reserve	**8,158**	1,683
Reserve for associates	**-2**	-95
Currency translation reserve	**234**	-381
Other reserve	**4,398**	4,163
Net profit for the period	**3,291**	3,361
	20,627	13,279
LIABILITIES		
Subordinated loans 4	**4,376**	2,616
Other liabilities 5	**17,794**	16,261
Total liabilities and equity	**42,797**	32,156

References relate to the notes starting on page 84 which form an integral part of the parent company annual accounts.

PARENT COMPANY PROFIT AND LOSS ACCOUNT AND STATEMENT OF CHANGES IN EQUITY OF ING INSURANCE

AMOUNTS IN MILLIONS OF EUROS

PARENT COMPANY PROFIT AND LOSS ACCOUNT OF ING INSURANCE FOR THE YEARS ENDED 31 DECEMBER

	2005	2004
Result of group companies after taxation	3,267	3,303
Other results after taxation	24	58
Net profit for the period	3,291	3,361

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER

	Total	Share capital	Share premium	Revaluation reserve	Currency translation reserve	Other reserves
Balance as at 31 December 2004	13,279	174	4,374	1,683	-381	7,429
Implementation IAS 32/39 and IFRS 4	2,223			3,773	2	-1,552
Unrealised revaluations after taxation						
- revaluations	1,870			1,832		38
- transferred to profit and loss (realised)	-501			-501		
- unrealised revaluations transferred to deferred profit sharing liabilities and DAC	-89			-89		
Unrealised revaluations from cash flow hedges	526			526		
Unrealised revaluations from net investment hedges	1,294				1,294	
Exchange differences	296			934	-681	43
Employee stock option and share plans	33					33
Total amount recognised directly in equity	3,429			2,702	613	114
Net profit for the period	3,291					3,291
	6,720			2,702	613	3,405
Dividend	-1,595					-1,595
Balance as at 31 December 2005	20,627	174	4,374	8,158	234	7,687

ACCOUNTING POLICIES FOR THE PARENT COMPANY BALANCE SHEET AND PROFIT AND LOSS ACCOUNT OF ING INSURANCE

BASIS OF PRESENTATION

The parent company accounts of ING Insurance are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Netherlands 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. Investments in group companies and investments in associates are initially recognised at cost and subsequently accounted for by the equity method of accounting.
The accounting policies with regard to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Netherlands Civil Code.

The profit and loss account has been drawn up in accordance with Section 402, 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 Revaluation 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 Other reserves, which forms part of Shareholders' equity.

A statutory 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 Reserve for associates, which forms part of Shareholders' equity.

CHANGES IN ACCOUNTING PRINCIPLES

ING Insurance applies IFRS-EU as adopted by the EU as of 2005 for the consolidated annual accounts. For the parent company accounts the principles of valuation and determination of results are similar as those applied to the consolidated annual accounts. The 2004 comparatives have been restated to comply with IFRS-EU. However, as permitted by IFRS 1, ING Insurance has not restated the 2004 comparatives for the impact of IAS 32 and IAS 39. Accordingly, comparative information with respect to financial instruments is prepared under ING Insurance's previous accounting policies (ING GAAP). The effects of implementing IFRS-EU are set out below under 'Impact of changes in accounting principles on net profit and equity'.
ING Insurance has implemented IFRS-EU retrospectively, using the following transitional provisions:

- Goodwill is only capitalised on acquisitions after 1 January 2004. Accounting for acquisitions before that date has not been restated; goodwill on those acquisitions was charged directly to shareholders' equity.
- Hedge accounting is applied to all hedge relationships that were accounted for as a hedge under ING GAAP and meet the IAS 39 criteria for hedge accounting as of 1 January 2005.
- Unrecognised actuarial results on employee benefit plans were recognised directly in equity at 1 January 2004.
- The cumulative translation differences reserve in equity was reset to nil at 1 January 2004.
- IFRS 2 (share-based payments) is applied for awards issued after 7 November 2002, that have not vested by 1 January 2005.

IMPACT OF CHANGES IN ACCOUNTING PRINCIPLES ON NET PROFIT AND EQUITY

IMPACT OF CHANGES IN ACCOUNTING PRINCIPLES	Net profit 2004	Group equity 1 January 2004[1]	Group equity 31 December 2004	**Impact IAS 32/39 and IFRS 4**	**Group equity 1 January 2005[2]**
Amounts in accordance with ING GAAP	3,580	12,011	13,934		**13,934**
Goodwill			197		**197**
Investment property and property in own use	-310	-7		**-8**	**-8**
Employee benefits	77	-1,521	-1,360		**-1,360**
Available-for-sale debt securities				**5,999**	**5,999**
Insurance provisions		59	59	**-3,126**	**-3,067**
Derivatives/hedge accounting/fair value option				**-58**	**-58**
Loans and advances to customers				**167**	**167**
Loan loss provisions				**147**	**147**
Venture capital investments				**90**	**90**
Foreign currency translation	-20				
Other	-29	85	42	**71**	**113**
Taxation	63	477	407	**-1,059**	**-652**
IFRS-EU impact on net profit and shareholders' equity	-219	-907	-655	**2,223**	**1,568**
Amounts in accordance with IFRS-EU	3,361	11,104	13,279	**2,223**	**15,502**

(1) IFRS as adopted by the EU, excluding IAS 32, IAS 39 and IFRS 4.
(2) IFRS as adopted by the EU, including IAS 32, IAS 39 and IFRS 4.

For an explanation of the individual items reference is made to the section Changes in accounting principles in the Consolidated annual accounts.

NOTES TO THE PARENT COMPANY BALANCE SHEET OF ING INSURANCE

AMOUNTS IN MILLIONS OF EUROS, UNLESS STATED OTHERWISE

ASSETS

1 INVESTMENTS IN WHOLLY OWNED SUBSIDIARIES

INVESTMENTS IN WHOLLY OWNED SUBSIDIARIES

	Ownership (%)	**Balance sheet value 2005**	Ownership (%)	Balance sheet value 2004
Name of investee				
ING Verzekering Nederland N.V.	**100**	**10,341**	100	6,543
ING America Insurance Holding inc	**100**	**5,450**	100	3,836
ING Insurance International B.V.	**100**	**5,319**	100	2,902
Aconto B.V.	**100**	**2,207**	100	2,205
Kievietsdaal Beleggingsmaatschappij B.V.	**100**	**762**	100	775
ING Holdinvest B.V.	**100**	**471**	100	479
ING Continental Europe B.V.	**100**	**989**	100	485
Nationale-Nederlanden Interfinance B.V.	**100**	**61**	100	39
Other		**119**		78
		25,719		17,342

MOVEMENTS IN INVESTMENTS IN WHOLLY OWNED SUBSIDIARIES

	2005	2004
Opening balance	**17,342**	17,216
Change in accounting principles	**2,500**	-907
Repayments to group companies		-325
Divestures of group companies		262
Revaluations	**3,211**	-842
Result of the group companies	**3,267**	3,695
Dividend	**-601**	-1,757
Closing balance	**25,719**	17,342

2 OTHER ASSETS

OTHER ASSETS

	2005	2004
Receivables from group companies	**16,669**	14,244
Other receivables, prepayments and accruals	**409**	570
	17,078	14,814

3 SHAREHOLDERS' EQUITY

The revaluation reserve, share of associates reserve and currency translation reserve cannot be freely distributed. The reserve for cash flow hedging is included in the revaluation reserve on a net basis.

See Note 11 to the consolidated annual accounts for additional information.

4 SUBORDINATED LOANS

SUBORDINATED LOANS

Interest rate	Year of issue	Due date	Balance sheet value 2005	2004
5.775%	2005	8 December 2035	**859**	
4.176%	2005	8 June 2055	**298**	
6.125%	2005	15 October 2055	**167**	
6.125%	2005	15 October 2055	**84**	
6.375%	2002	7 May 2027	**1,173**	1,000
7.200%	2002	12 December 2052	**423**	366
6.250%	2001	21 June 2021	**1,372**	1,250
			4,376	2,616

5 OTHER LIABILITIES

OTHER LIABILITIES BY TYPE

	2005	2004
Debenture loans	**3,681**	3,364
Amounts owed to group companies	**10,259**	11,164
Other amounts owed and accrued liabilities	**3,854**	1,733
	17,794	16,261

DEBENTURE LOANS

Interest rate	Year of issue	Due date	Balance sheet value 2005	2004
3.500%	2005	28 November 2012	**497**	
4.750%	2005	15 March 2010	**326**	
2.000%	2005	11 November 2011	**194**	
2.000%	2005	11 November 2011	**190**	
3.500%	2005	28 November 2012	**100**	
3.750%	2004	11 February 2009	**507**	500
3.000%	2002	19 January 2007	**195**	194
2.750%	2002	19 July 2005		194
3.000%	2001	19 January 2007	**261**	259
5.500%	2001	5 September 2006	**254**	220
3.500%	2001	24 August 2006	**195**	194
5.500%	2001	5 September 2006	**170**	147
3.750%	2001	29 December 2005		194
7.500%	2000	22 February 2005		294
3.750%	2000	29 December 2005		194
6.000%	1999	19 May 2006	**339**	294
5.875%	1997	24 September 2007	**340**	341
6.250%	1995	28 December 2005		113
7.000%	1995	30 August 2005		113
6.250%	1994	12 January 2009	**113**	113
			3,681	3,364

NOTES TO THE PARENT COMPANY BALANCE SHEET OF ING INSURANCE (CONTINUED)

AMOUNTS OWED TO GROUP COMPANIES BY REMAINING TERM

	2005	2004
- up to one year	**10,185**	9,061
- one year to five years	**74**	2,103
	10,259	11,164

REMUNERATION

See Note 26 Staff costs.

Amsterdam, 6 March 2006

THE SUPERVISORY BOARD

Cor A.J. Herkströter, *Chairman*
Eric Bourdais de Charbonnière
Luella Gross Goldberg
Paul F. van der Heijden
Claus Dieter Hoffmann
Jan H.M. Hommen
Aad G. Jacobs
Wim Kok
Godfried J.A. van der Lugt
Paul J.A. Baron de Meester
Karel Vuursteen

EXECUTIVE BOARD

Fred S. Hubbell, *Chairman*
Cees Maas, *Chief Financial Officer*
Eric F. Boyer de la Giroday
Eli P. Leenaars
Alexander H.G. Rinnooy Kan
Michel J. Tilmant
Hans K. Verkoren

AUDITOR'S REPORT

INTRODUCTION

We have audited the annual accounts of ING Verzekeringen N.V., Amsterdam, for the year 2005 (as set out on pages 10 to 86). These annual accounts consist of the consolidated annual accounts and the parent company annual accounts. These annual accounts are the responsibility of the company's management. Our responsibility is to express an opinion on these annual accounts based on our audit.

SCOPE

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual accounts. We believe that our audit provides a reasonable basis for our 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 the company as at 31 December 2005 and of the result and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code as far as applicable.

Furthermore we have established to the extent of our competence that the report of the executive board is consistent with the consolidated annual accounts.

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 the company as at 31 December 2005 and of the result for the year then ended in accordance with the accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Furthermore we have established to the extent of our competence that the report of the executive board is consistent with the parent company annual accounts.

Amsterdam, 6 March 2006

for Ernst & Young Accountants

Rob J.W. Lelieveld　　　　Jan J. Nooitgedagt

PROPOSED PROFIT APPROPRIATION

The profit is appropriated pursuant to Article 35 of the Articles of Association of ING Verzekeringen N.V., the relevant stipulations of which state that the part of the profit remaining after the dividend to the preference shareholders is made payable, shall be at the disposal of the General Meeting of Shareholders.

PROPOSED PROFIT APPROPRIATION

Amounts in millions of euros	
Net profit	3,553
Addition to reserves pursuant to Article 35.1 of the Articles of Association	1,958
At the disposal of the General Meeting of Shareholders pursuant to Article 35.2 of the Articles of Association	1,595

DISCLAIMER

Certain of the statements contained in this Annual Report are statements of future expectations and other forward-looking statements. These expectations are based on management's current views and assumptions and involve known risks and uncertainties. Actual results, performance or events may differ materially from those in such statements due to, among other things, (i) general economic conditions, in particular economic conditions in ING's core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) interest-rate levels, (vii) currency exchange rates, (viii) general competitive factors, (ix) changes in laws and regulations, and (x) changes in the policies of governments and/or regulatory authorities. ING Insurance assumes no obligation to update any forward-looking information contained in this document.

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