

## Auditor's report

To the Shareholders, the Supervisory Board and the Executive Board of ING Groep N.V.

### REPORT ON THE ANNUAL ACCOUNTS

We have audited the annual accounts 2007 of ING Groep N.V., Amsterdam (as set out on pages 88 to 239). The annual accounts consist of the consolidated annual accounts and the parent company annual accounts. The consolidated annual accounts comprise the consolidated balance sheet as at 31 December 2007, the profit and loss account, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The parent company annual accounts comprise the parent company balance sheet as at 31 December 2007, the parent company profit and loss account for the year then ended and the notes.

#### *Management's responsibility*

Management of the company is responsible for the preparation and fair presentation of the annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the annual accounts based on our audit. We conducted our audit in accordance with Dutch law and the standards of the Public Company Accounting Oversight Board (United States). This law and these standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion with respect to the consolidated annual accounts*

In our opinion, the consolidated annual accounts give a true and fair view of the financial position of ING Groep N.V. as at 31 December 2007, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

#### *Opinion with respect to the parent company annual accounts*

In our opinion, the parent company annual accounts give a true and fair view of the financial position of ING Groep N.V. as at 31 December 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

### REPORT ON OTHER LEGAL REQUIREMENTS

Pursuant to the legal requirement under 2:393 sub 5 part e of the Dutch Civil Code, we report, to the extent of our competence, that the report of the Executive Board is consistent with the annual accounts as required by 2:391 sub 4 of the Dutch Civil Code.

**Amsterdam, 17 March 2008**

For Ernst & Young Accountants

signed by C.B. Boogaart

## Proposed profit appropriation

amounts in millions of euros, except for amounts per share

### PROPOSED PROFIT APPROPRIATION

The profit is appropriated pursuant to Article 38 of the Articles of Association of ING Groep N.V., the relevant stipulations of which state that the part of the profit remaining after the Executive Board, with the approval of the Supervisory Board, has determined the appropriation to reserves, shall be at the disposal of the General Meeting of Shareholders.

It is proposed to declare a dividend of EUR 1.48 per ordinary share of EUR 0.24.

On 16 August 2007, an interim dividend of EUR 0.66 per ordinary share of EUR 0.24 was made payable. This interim dividend was paid in cash. Therefore, a final dividend remains of EUR 0.82 per ordinary share. The final dividend will be paid entirely in cash and will be made payable on 5 May 2008.

#### Proposed profit appropriation

Net profit	<b>9,241</b>
Addition to reserves pursuant to Article 38 (5) of the Articles of Association	<b>6,061</b>
At the disposal of the General Meeting of Shareholders pursuant to Article 38 (6) of the Articles of Association	<b>3,180</b>
Dividend of EUR 1.48 per ordinary share	

## Provisions concerning issue of shares

---

### **PROVISIONS CONCERNING ISSUE OF SHARES**

It is proposed that the Executive Board be appointed as the corporate body that will be authorised, upon approval of the Supervisory Board, to issue ordinary shares, to grant the right to take up such shares and to restrict or exclude preferential rights of shareholders. This authority applies to the period ending on 22 October 2009 (subject to extension by the General Meeting of Shareholders):

(I) for a total of 200,000,000 ordinary shares, plus

(II) for a total of 200,000,000 ordinary shares, only if these shares are issued in connection with the take-over of a business or company.

## 2.4 Additional financial information

## RAROC performance

ING Bank applies the Risk Adjusted Return on Capital framework (RAROC). This method consistently measures the performance of different activities and has a clear link to shareholder-value creation. The use of RAROC increases focus on risks versus return in the decision-making process, and consequently stimulates the use of scarce capital in the most efficient way. Risk-adjusted pricing tools are also used as a basis for the pricing of certain transactions and as an important determinant in the credit-approval procedures.

RAROC is calculated as the risk-adjusted return divided by economic capital. The risk-adjusted return is based on similar valuation policies as applied in the financial accounts, with two important exceptions. The actual credit-risk provisioning is replaced by expected losses reflecting statistically calculated average credit losses over the entire economic cycle. In addition the profit and loss account is adjusted for effects that relate to replacing actual book capital by economic capital.

**Underlying RAROC for banking operations**

	RAROC (after-tax)		RAROC (pre-tax)	
	2007	2006	2007	2006
Netherlands	14.8%	13.1%	18.0%	17.7%
Belgium	27.5%	28.6%	26.1%	28.0%
Rest of the world	13.8%	16.8%	12.3%	16.7%
Other Wholesale	-35.5%	-3.6%	-66.5%	-17.6%
Subtotal Wholesale Banking	17.6%	17.7%	17.6%	19.2%
ING Real Estate	32.7%	40.1%	44.6%	58.6%
Total Wholesale Banking	20.3%	20.6%	22.5%	24.3%
Netherlands	60.4%	46.4%	78.8%	65.9%
Belgium	45.8%	45.5%	55.6%	60.5%
Poland	56.9%	17.6%	70.5%	22.5%
Other Retail	2.0%	-0.5%	0.9%	-1.9%
Total Retail Banking	39.5%	32.0%	50.3%	44.4%
Total ING Direct	14.3%	11.8%	17.7%	19.4%
Corporate Line	-59.5%	-60.8%	-86.8%	-115.4%
Total banking operations	22.3%	20.5%	26.2%	26.2%
Total banking operations including divestments and special items	19.9%	19.7%	23.1%	25.5%

Note: The underlying figures exclude divestments and special items.

## 2.4 Additional financial information

## Embedded value

amounts in millions of euros unless stated otherwise

Embedded Value is an indicator of the economic value creation as a consequence of selling and managing long-term contracts such as life insurance, annuities and pensions. Embedded value is defined as the sum of Adjusted Net Worth and the Value of the in-force covered business. Adjusted net worth equals the free surplus and the required capital. The value of in-force covered business is defined as the present value of future after-tax statutory book profits expected to arise from the in-force business, including new business written in the reporting period, less the cost of capital. The value of new business is the embedded value added with sales during the year, and therefore provides insight into the expected profitability related to 2007 sales. Future profits are estimated using actuarial methods and ING's best estimates for future assumptions except for economic assumptions, which are more aligned with market rates.

The European Embedded Value (EEV) Policies were published in May 2004 by the CFO Forum, a group representing the Chief Financial Officers of major European insurers. The Policies and associated guidance provide a framework for calculating and reporting supplementary embedded value information. ING has adopted the EEV Principles in respect of the year-end results from 2004 through 2007. This Report also takes account of the Additional Guidance on EEV Disclosures effective for 31 December 2006 reporting.

Before dividends less capital injections, the Embedded Value of ING's life insurance operations increased to EUR 32,460 million compared to EUR 27,718 million at year-end 2006. After cash dividends less capital injections from the business covered in the Embedded Value results, the embedded value decreased to EUR 26,993 million, primarily due to dividends from Nationale-Nederlanden. Both the 2006 and 2007 figures are before deduction for the life insurance pension deficit. The pension deficit was EUR 513 million in 2006 and is EUR – 154 million in 2007.

Except for the divestment of business and currency effects, all components of the Embedded Value movement contributed to the increase in the embedded value result.

## New business value

	Annual premium	Single premium	IRR <sup>(1)</sup>	Value of new business	VNB/PV premiums <sup>(2)</sup> 2007	Annual premium	Single premium	IRR <sup>(1)</sup>	Value of new business	VNB/PV premiums <sup>(2)</sup> 2006
Netherlands	156	1,191	12.2%	70	2.9%	154	1,495	12.8%	76	2.8%
Belgium/Luxembourg <sup>(3)</sup>	22	1,037	13.2%	17	1.3%	21	904	12.3%	19	1.4%
Central Europe & Spain	465	1,028	18.4%	313	4.0%	314	711	18.1%	124	4.0%
USFS	1,419	18,791	11.3%	215	0.9%	1,495	16,418	10.3%	145	0.7%
Latin America	354	193	15.8%	55	8.9%	322	210	10.5%	22	3.8%
Asia/Pacific	1,777	9,034	16.8%	442	2.5%	1,621	5,609	16.8%	421	3.1%
ING Group	4,193	31,273	14.3%	1,113	2.1%	3,927	25,347	13.3%	807	1.9%

<sup>(1)</sup> IRR = internal rate of return adjusted for expected currency movements relative to the euro.

<sup>(2)</sup> VNB/PV premiums = value of new business divided by the present value of new business premiums.

<sup>(3)</sup> Belgium figures for 2006 were adjusted to exclude the business divested in 2007.

The Value of New Business for 2007 of EUR 1,113 million compares to EUR 807 million in 2006, an increase of 37.9%. The largest contributions were from the developing markets in Asia/Pacific and Central Europe. The largest increases were in Central Europe, where the Romania Pillar II pension funds added EUR 150 million; and the USFS, where the US Life insurance business and ING Financial Products sales increased significantly, and in Mexico's pension business. The developed markets of Belgium, the Netherlands, and Luxembourg combined for a 8.4% decline in VNB, from EUR 95 million in 2006 to EUR 87 million. Profitability of the business sold, as measured by the internal rate of return (IRR) improved by 1.0 percentage point, to 14.3% on greater volume of business, as measured by the investment in new business. The investment in new business increased to EUR 2,093 million from EUR 1,831 million in 2006. The higher investment and IRR is consistent with the higher VNB. The expected internal rate of return in developing markets is 18.6%, compared to 17.7% in 2006.

Acquisition expense overruns decreased from EUR 87 million in 2006 to EUR 44 million in 2007, a decrease of 49.4%. This is explained by a combination of 13.3% higher sales, the reallocation of expenses in the US from acquisition to maintenance expenses, and the removal of Greenfield start-up costs from acquisition expenses.

### Embedded value of the life operations

	2007	2006
Free surplus	1,128	3,781
Required capital	13,498	13,873
Adjusted net worth	14,626	17,654
Present value of future (statutory) book profits	17,102	15,382
Cost of holding required capital	-4,734	-5,318
Value of in force covered business	12,367	10,064
Embedded value	26,993	27,718

### Embedded value per business line – life operations

	2007	2006
Netherlands	9,723	12,032
Belgium/Luxembourg	546	1,111
Central Europe & Spain	3,887	2,961
Insurance Europe	14,156	16,103
United States	9,068	9,376
Latin America	1,565	896
Insurance Americas	10,633	10,272
Insurance Asia/Pacific	2,204	1,343
ING Group	26,993	27,718

### Change in embedded value of the life operations

Reported value 2006	27,718
Addition of business/(divested business)	-431
Currency effects	-996
Model changes	185
Revised starting embedded value	26,476
Value of new business	1,113
Financial variances	1,172
Operational variances	394
Operating assumption changes	123
Embedded value profit	2,802
Required return	1,770
Investment return on free surplus	470
Discount rate changes	210
Economic assumption changes	261
Embedded value of business acquired	472
(Cash dividends and) capital injections	-5,468
Ending embedded value 2007	26,993

## 2.4 Additional financial information

## Embedded value (continued)

Major drivers of change in EV 2007 are:

- Value of New Business, EUR 1,113 million is a large increase over the 2006 figure of EUR 807 million. The VNB of the Americas and Europe increased by 61.7% and 82.6%, respectively. Asia/Pacific increased by 5.0% and remains the largest contributor to VNB of the three regions.
- Financial variances of EUR 1,172 million are down slightly from 2006 and are attributed to realised equity gains in the Netherlands.
- Operational variances of EUR 394 million compare to EUR –33 million in 2006. Better than anticipated reserve development, implementation of US Life reinsurance transaction for redundant reserves and improved general account asset strategies in USFS were the largest contributors to the increase.
- Operational assumption changes of EUR 123 million are primarily due to a better reflection of the US variable annuity fees in the actuarial projection models.
- Total impact of economic assumption changes (EUR 261 million) and corresponding discount rate adjustments (EUR 210 million) was EUR 471 million. Economic assumption changes include interest rates, equity & real estate, and other asset return assumptions, as well as expense and wage inflation.
- Required return on beginning in-force (unwind of discount rate) increased the embedded value EUR 1,770 million.
- The addition of business/(divested business) of EUR –431 million primarily reflects a divestment in Belgium and the increase in ING's ownership percentage of ING Life Korea. Note that the acquisition of Santander's Latin America pension business is reflected in a separate category – Embedded Value of business acquired.
- Currency effects of EUR –996 million reflect the weakening of currencies in the Americas vs. the Euro.
- Model changes reflect the true-up of year-end 2006 inforce to the actual figures to re-establish the starting point for 2007 reporting, changes to Embedded Value that result from asset mix changes, a change in expense policy to include the start-up expenses for Greenfields, and changes to the models used to project distributable earnings. Asset mix changes in the Netherlands account for the large contribution in Europe. Model changes and the Greenfield expenses account for the reduction in Asia/Pacific.
- Dividends, net of capital injection reduced the Embedded Value by EUR 5,468 million, primarily due to dividends paid by Nationale-Nederlanden.

#### Sensitivity embedded value to economic assumptions

The tables below show the outcomes of sensitivity analysis of the Embedded Value as at 31 December 2007 to:

- One percentage point decrease and increase in new-money interest rates;
- One percentage point decrease and increase in the discount rates;
- New money rates based on implied market forward rates derived from the swap rates as at 31 October 2007. The discount rate is adjusted accordingly;
- One percentage point decrease in assumed investment returns for equity and real estate investments;
- Ten percent fall in market value of equity and real estate investments; and
- Local regulatory minimum capital requirement.

In each sensitivity calculation, all other assumptions remain unchanged except

- where they are directly affected by the revised economic conditions; for example, future bonus crediting rates are automatically adjusted to reflect sensitivity changes to future investment returns; and
- when indicated above that the risk discount rate is adjusted accordingly; in this case the risk margin remains unchanged.

#### Sensitivity embedded value to economic assumptions

	Insurance Europe	Insurance Americas	Insurance Asia/Pacific	Total
As reported – Embedded Value (net of tax)	<b>14,156</b>	<b>10,633</b>	<b>2,204</b>	<b>26,993</b>
1% decrease in new-money rates	–310	–532	–1,656	–2,499
1% increase in new-money rates	279	304	1,532	2,115
1% decrease in discount rates	1,161	499	522	2,182
1% increase in discount rates	–979	–451	–446	–1,876
Implied market forward rates (31 October 2007)	–2	57	17	73
1% lower equity and real estate returns	–846	–190	–197	–1,233
10% downward shift in market values of equity and real estate investments	–1,245	–396	–304	–1,946
Local regulatory minimum capital requirement	295	220	2,107	2,621
Net impact of <sup>(1)</sup> :				
1% decrease in new-money and 1% decrease in discount rates	851	–34	–1,134	–317
1% increase in new-money and 1% increase in discount rates	–700	–147	1,086	239

<sup>(1)</sup> Net impact shown here is the sum of the individual sensitivities presented above. Note that this may differ from an exact calculation of changing both parameters together.

We make the following observations to above results:

- The net impact of 1% decrease in new money rate (1% downward parallel shift) and discount rates is EUR –317 million, whereas these two effects are somewhat offsetting the 1% increase sensitivity (EUR 239 million). This is due to interest guarantees, which reduce margins when interest rates fall.
- The impact of using local regulatory minimum capital instead of ING capital model is positive EUR 2,621 million and primarily due to Taiwan for which ING allocates capital at a significantly higher level than local regulatory level.

#### New business value from developing markets <sup>(1)</sup>

	Annual	Premiums single	IRR	Value 2007	Annual	Premiums single	IRR	Value 2006
Central Europe	369	539	20.1%	278	232	451	18.6%	88
Americas	354	193	15.8%	55	322	210	10.4%	21
Asia/Pacific	1,462	992	18.7%	344	1,228	668	19.7%	320
ING Group	2,185	1,723	18.6%	678	1,782	1,329	17.7%	429

<sup>(1)</sup> Countries classified as developing markets are:

- Central Europe: Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, Russia;
- Americas: Chile, Mexico, Peru;
- Asia/Pacific: China, Hong Kong, India, Korea, Malaysia, Taiwan, Thailand.

Developing markets new business value of EUR 678 million, increased by 57.7% from 2006.

#### INDEPENDENT OPINION

Watson Wyatt Limited ('Watson Wyatt'), an international firm of consulting actuaries, has reviewed the calculation of the Embedded Value of ING as at 31 December 2007 and the Value of its New Business written during 2007. All material business units were included in the review. The covered business included all life insurance and other material long-term business lines.

The primary focus of the review was the methodology and assumptions used. Watson Wyatt was also requested to perform a limited high level review of the results of the calculations but was not asked to perform any detailed checks on the models and processes used.

Watson Wyatt has concluded that the methodology and assumptions used comply with the European Embedded Value Policies and Guidance.

## Financial glossary

### ACTUARIAL AND UNDERWRITING RISKS

Emerge from the pricing and acceptance of insurance contracts. Actuaries play a key role in determining insurance premium rate levels and in ensuring that insurance companies have set aside enough provisions to pay claims. Actuarial risk is the risk that assumptions that actuaries input into a model to determine premium rate levels and provisions may turn out somewhat inaccurate. Underwriting risk is the risk that an issuer will receive a claim under an insurance policy it issues/underwrites. Maximum underwriting exposures are limited through exclusions, cover limits and reinsurance.

### ALT-A MORTGAGE

A type of US residential mortgage which is considered riskier than 'prime' and less risky than 'sub-prime' mortgages. Parameters generally taken into account are borrower credit scores, residential property values and loan-to-value ratios. Alt-A mortgages are further characterised by a limited degree of income and / or asset verification.

### AMORTISED COST

The amount at which the financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

### ASSET AND LIABILITY COMMITTEE (ALCO)

Manages the balance sheet of ING, especially with regard to strategic non-trading risk. These risks comprise interest rate exposures, equity risk, real estate risk, liquidity, solvency and foreign exchange risk and fluctuations.

### ASSET LIABILITY MANAGEMENT (ALM)

The practice of managing a business such that decisions on assets and liabilities are coordinated. It involves the ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities.

### ASSET BACKED SECURITIES (ABS)

A type of bond or note that is based on pools of assets, or collateralised by the cash flows from a specified pool of underlying assets.

### ASSOCIATE

An entity over which the Group has significant influence, generally accompanying a shareholding of between 20% and 50% of the voting rights, and that is not a subsidiary not a joint venture.

### AVAILABLE-FOR-SALE FINANCIAL ASSETS

Those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit and loss.

### BASEL I

Basel I is the first Basel Accord, which includes recommendations on banking regulations issued by the Basel Committee on Banking Supervision. These are, for ING, superseded by Basel II from 2008 onwards.

### BASEL II

Basel II is the second Basel Accord. Basel II is an international standard for how much capital banks need to put aside for the financial and operational risks they face. Basel II introduced the possibility for banks to measure those risks based on their own internal models.

### BASIS POINT VALUE (BPV)

The change in the Net Present Value of a cash flow or a pool of cash flows due to a one basis point change of the yield curve.

### BASIS RISK

Arises from imperfect correlation in the adjustment of the rates earned and paid on different financial instruments. Examples of products in which these risks are inherent are demand deposits, saving accounts and mortgages with prepayment options.

### BIS

An international organisation which fosters international monetary and financial co-operation and serves as a bank for central banks. BIS has set a minimum for the solvency ratio reflecting the relationship between capital and risk weighted assets. The ratio should at least be 8%.

### CAPITAL AT RISK (CAR)

The maximum negative impact on ING Group's economic surplus over a one year forward looking horizon under normal market conditions. CaR is calculated at a 90% confidence interval.

### CERTIFICATES OF DEPOSIT

Short-term negotiable bearer debt instruments issued by banks.

### CLAIM

A demand for payment of a policy benefit because of the occurrence of an insured event, such as the death or disability of the insured or the maturity of an endowment, the incurrence of hospital or medical bills, the destruction or damage of property and related deaths or injuries, defects in, liens on, or challenges to the title to real estate, or the occurrence of a surety loss.

### CLAIMS RATIO

Claims, including claims handling expenses, expressed as a percentage of net earned premiums.

### COLLATERALIZED DEBT OBLIGATION (CDO)

A type of asset-backed security which provide investors exposure to the credit risk of a pool of fixed income assets.

### COLLATERALISED LOAN OBLIGATION

A type of CDO which are backed primarily by leveraged bank loans.

### COMBINED RATIO

The sum of the claims ratio and the cost ratio for a non-life insurance company or a reinsurance company. A combined ratio of more than 100% does not necessarily mean that there is a loss on non-life insurance policies, because the result also includes the allocated investment income.

**COMPLIANCE RISK**

The risk of impairment of ING Group's integrity, leading to damage to ING's reputation, legal or regulatory sanctions, or financial loss, as a result of a failure (or perceived failure) to comply with applicable laws, regulations and standards.

**CONCENTRATIONS**

Of credit risk exist when changes in economic, industry or geographical factors similarly affect groups of counterparties whose aggregate exposure is material in relation to ING Group's total exposure.

**CONTINGENT LIABILITIES**

Possible obligations that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because:

- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

**CONTROL**

The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

**CONVERTIBLE DEBENTURES**

Debentures with embedded options issued by corporations. The holder has the right to exchange a convertible debenture for equity in the issuing company at certain times in the future according to a certain exchange ratio. Very often, the conversion is callable. This means that it can be repurchased by the issuer at a certain price at certain times in the future. Once the debentures have been called, the holder can always choose to convert prior to repurchase.

**CONVEXITY**

The non-linear relationship between changes in the interest rates and changes in bond prices and their NPV. It is a very important measure for portfolios containing (embedded) options.

**COST RATIO**

Underwriting costs expressed as a percentage of premiums written.

**COUNTRY RISK**

The risk that a foreign government will not fulfil its obligations or obstructs the remittance of funds by debtors, either for financial reasons (transfer risk) or for other reasons (e.g. political risk).

**CREDIT INSTITUTIONS**

All institutions which are subject to banking supervision by public authorities, including mortgage banks, capital market institutions, multilateral development banks and the International Monetary Fund (IMF).

**CREDIT RISK**

The risk of loss from the default by borrowers (including bond issuers) or counterparties. Credit risks arise in ING's lending, pre-settlement and investment activities, as well as in its trading

activities. Credit risk management is supported by dedicated credit risk information systems and internal rating methodologies for debtors and counterparties.

**DEFERRED TAX LIABILITIES**

The amounts of income tax payable in future periods in respect of taxable temporary differences between carrying amounts of assets or liabilities in the balance sheet and tax base, based on tax rates that are expected to apply in the period when the assets are realised or the liabilities are settled.

**DEFINED BENEFIT PLAN**

Post-employment benefit plans other than defined contribution plans.

**DEFINED CONTRIBUTION PLAN**

Post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**DELTA HEDGE**

Minimises the exposure of the employee option scheme by holding an appropriate number of (depository receipts for) ordinary shares. The exposure is reassessed every quarter and, if necessary, ordinary shares are bought from the market (or employees).

**DEPOSITORY RECEIPT**

For ordinary and preference shares, issued by the Trust, in exchange for ordinary and preference shares issued by ING Group.

**DERIVATIVES**

Financial instruments, which include forwards, futures, options and swaps, whose value is based on an underlying asset, index or reference rate.

**DISCOUNTED BILLS**

Bills that are sold under deduction of interest giving the owner the right to receive an amount of money on a given date.

**DISCRETIONARY PARTICIPATION FEATURE**

A contractual right to receive, as a supplement to guaranteed benefits, additional benefits that: are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the insurer, that are contractually based on the performance of a specified pool or type of contract, (un)realised investment returns on a specified pool of assets held by the insurer, or the profit of the company, fund, or other entity that issues the contract.

**EARNINGS AT RISK (EAR)**

Measures the impact on IFRS earnings resulting from changes in market rates over a one year horizon.

**ECONOMIC CAPITAL**

The minimum amount of capital that is required to absorb unexpected losses in times of severe stress. Given ING Group's AA target rating, ING calculates economic capital requirements at a 99.95% level of confidence. This confidence level is derived from the historical default frequency of AA-rated companies (probability of default in 2000 years or 0.05%).

## 2.4 Additional financial information

## Financial glossary (continued)

**EFFECTIVE INTEREST METHOD**

A method of calculating amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period.

**ELIMINATION**

A process by which intercompany transactions are matched with each other and deducted, so that the assets, liabilities, income and expenses are not inflated.

**EMPLOYEE BENEFITS**

All forms of consideration given by a company in exchange for service rendered by (former) employees.

**FAIR VALUE**

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**FINANCE LEASE**

A lease that transfers substantially all the risks and rewards associated with ownership of an asset to the lessee. Title may or may not eventually be transferred.

**FINANCIAL ASSET**

Any asset that is:

- cash;
- an equity instrument of another company;
- a contractual right to;
- receive cash or another financial asset from another company; or
- exchange financial instruments with another company under conditions that are potentially favourable; or
- certain contract that will or may be settled in ING's own equity instruments.

**FINANCIAL INSTRUMENTS**

Contracts that give rise to both a financial asset for one company and a financial liability or equity instrument for another company.

**FINANCIAL LIABILITY**

Any liability that is a contractual obligation:

- to deliver cash or another financial asset to another company; or
- to exchange financial instruments with another company under conditions that are potentially unfavourable; or
- certain contracts that will or may be settled in ING's own equity instruments.

**FORWARD CONTRACTS**

Commitments to exchange currencies or to buy or sell other financial instruments at specified future dates.

**FUTURE CONTRACTS**

Commitments to exchange currencies or to buy or sell other financial instruments at specified future dates. Exchanges act as intermediaries and require daily cash settlement and collateral deposits.

**GROSS PREMIUMS WRITTEN**

Total premiums (whether or not earned) for insurance contracts written or assumed (including deposits for investment contracts with limited or no life contingencies written) during a specific period, without deduction for premiums ceded.

**HELD-TO-MATURITY INVESTMENTS**

Non-derivative financial assets with fixed or determinable payments and fixed maturity that ING Group has the positive intention and ability to hold to maturity other than:

- a. those that ING Group upon initial recognition designates as at fair value through profit and loss;
- b. those that ING Group designates as available for sale; and
- c. those that meet the definition of loans and receivables.

**HISTORICAL SIMULATION**

A model to calculate Value at Risk, assuming that future changes in risk factors will have the same distribution as they had in the past taking into account the non-linear behaviour of financial products.

**IMPAIRMENT LOSS**

The amount by which the carrying amount of an asset exceeds its recoverable amount.

**INTEREST BEARING INSTRUMENT**

A financial asset or a liability for which a time-proportionate compensation is paid or received, in relation to a notional amount.

**INTEREST-RATE REBATES**

Profit sharing for group life insurance business. A rebate granted to policyholders based on the discounted value of the difference between the interest rate used for calculating the premiums and the expected yield on investment. The profit sharing is granted by means of a premium discount related to the yield on government bonds.

**IN THE MONEY**

A call option is said to be in the money if the exercise price is lower than the price of the underlying value; a put option is said to be in the money if the exercise price is higher than the price of the underlying value.

**INVESTMENT PORTFOLIO**

Comprises those assets which are intended for use on a continuing basis, and have been identified as such. These investments are held in order to cover the insurance provisions and to manage interest rate, capital and liquidity risks.

**IRREVOCABLE FACILITIES**

Mainly constitute unused portions of irrevocable credit facilities granted to corporate clients and commitments made to purchase securities to be issued by governments and private issuers.

**IRREVOCABLE LETTERS OF CREDIT**

Concerns an obligation on behalf of a client to, within certain conditions, pay an amount of money under submission of a specific document or to accept a bill of exchange. An irrevocable letter of credit cannot be cancelled or adjusted by the bank that has granted it during the duration of the agreement unless all those concerned agree.

**JOINT VENTURE**

A contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.

**LIQUIDITY RISK**

The risk that ING Group or one of its subsidiaries cannot meet its financial liabilities when they fall due, at reasonable costs and in a timely manner.

**MARKET VALUE AT RISK (MVAR)**

A calculation method which measures the decrease in the market value surplus caused by movements in financial markets, at a 99.95% confidence level over a 1 year horizon.

**MARKET RISK**

The potential loss (value or earnings) due to adverse movements in market rates, including equity prices, interest rates and foreign exchange rates.

**MINORITY INTERESTS**

That part of the profit or loss and net assets of a subsidiary attributable to an interest which is not owned, directly or indirectly, by the parent.

**MONETARY ASSETS AND LIABILITIES**

Assets and liabilities whose amounts are fixed in terms of units of currency by contract or otherwise. Examples are cash, short or long-term accounts, notes receivable in cash and notes payable in cash.

**MONTE CARLO SIMULATION**

A model to calculate Value at Risk, assuming that changes in risk factors are (jointly) normally distributed taking into account non-linear behaviour of financial products.

**MORTGAGE BACKED SECURITIES (MBS)**

A security whose cash flows are backed by typically the principal and/ or interest payments of a pool of mortgages.

**NET ASSET VALUE**

Used in the equity method of accounting. The initial net asset value of the investment is determined by the fair value of the assets and liabilities of the investee. After the initial valuation of assets and liabilities of the investee at fair value, the assets and liabilities of the investee are valued in accordance with the accounting policies of the investor. The profit and loss account reflects the investor's share in the results of operations of the investee.

**NET PREMIUMS WRITTEN**

Gross premiums written for a given period less premiums ceded to retrocessionaires during such period.

**NET PRESENT VALUE AT RISK (NPV-AT-RISK)**

Establishes what the value of future cash flows is in terms of today's monetary value. NPV-at-Risk establishes the change in value of future cash flows as a result of interest rate changes in terms of today's monetary value.

**NOTIONAL AMOUNTS**

Represent units of account which, in respect of derivatives, reflect the relationship with the underlying assets. They do not reflect, however, the credit risks assumed by entering into derivative transactions.

**OPERATING LEASE**

A lease other than a finance lease.

**OPERATIONAL RISK**

The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

**OPTION CONTRACTS**

Give the purchaser, for a premium, the right, but not the obligation, to buy or sell within a limited period of time a financial instrument or currency at a contracted price that may also be settled in cash. Written options are subject to market risk, but not to credit risk since the counterparties have already performed in accordance with the terms of the contract by paying a cash premium up front.

**ORDINARY SHARE**

An equity instrument that is subordinate to all other classes of equity instruments. Ordinary shares participate in the net profit for the financial year after other types of shares such as preference shares.

**OUT OF THE MONEY**

A call option is said to be out of the money if the exercise price is higher than the price of the underlying value; a put option is said to be out of the money if the exercise price is lower than the price of the underlying value.

**OVER-THE-COUNTER INSTRUMENT**

Non-standardised financial instrument not traded on a stock exchange but directly between market participants.

**PLAN ASSETS**

Comprise assets held by a long-term employee benefit fund and qualifying insurance policies. Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting enterprise) that:

- are held by an entity (a fund) that is legally separate from the reporting enterprise and exists solely to pay or fund employee benefits; and
- are available to be used only to pay or fund employee benefits, are not available to the reporting enterprise's own creditors (even in bankruptcy), and cannot be returned to the reporting enterprise, unless either the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting enterprise or the assets are returned to the reporting enterprise to reimburse it for employee benefits already paid.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party of the reporting enterprise, if the proceeds of the policy:

- can be used only to pay or fund employee benefits under a defined benefit plan; and
- are not available to the reporting enterprise's own creditors (even in bankruptcy) and cannot be paid to the reporting

## 2.4 Additional financial information

## Financial glossary (continued)

enterprise, unless either the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations or the proceeds are returned to the reporting enterprise to reimburse it for employee benefits already paid.

**POST-EMPLOYMENT BENEFIT PLANS**

Formal or informal arrangements under which a company provides post-employment benefits for one or more employees. Post-employment benefits are employee benefits other than termination benefits and equity compensation benefits, which are payable after the completion of employment.

**PREFERENCE SHARE**

Similar to an ordinary share but carries certain preferential rights. These rights usually concern the guarantee of a fixed (cumulative) return to the shareholder or a guaranteed return on the investment.

**PREMIUMS EARNED**

That portion of net premiums written in current and past periods which applies to the expired portion of the policy period, calculated by subtracting movements in unearned premium reserves from net premiums.

**PRIVATE LOAN**

Loans to governments, other public bodies, public utilities, corporations, other institutions or individuals with a loan agreement as the only instrument of title.

**PRIVATE PLACEMENT**

A placement where newly issued shares or debentures come into possession of a limited group of subscribers who are prepared to buy the new securities.

**PROJECTED UNIT CREDIT METHOD**

An actuarial valuation method that considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

**QUALIFYING ASSET (WITHIN THE MEANING OF BORROWING COSTS)**

An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

**RECOGNITION**

The process of incorporating in the balance sheet or profit and loss account an item that meets the definition of an element and satisfies the following criteria for recognition:

- it is probable that any future economic benefit associated with the item will flow to or from the enterprise; and
- the item has a cost or value that can be measured reliably.

**RECOVERABLE AMOUNT**

The higher of an asset's net selling price and its value in use.

**REDEMPTION VALUE**

With respect to investments in fixed-interest securities, the amount payable on the maturity date.

**REINSURANCE**

The practice whereby one party, called the reinsurer, in consideration for a premium paid to him, agrees to indemnify another party, called the reinsured or ceding company, for part or all of the liability assumed by the reinsured under a contract or contracts of insurance which the reinsured has issued. The reinsured may also be referred to as the original or primary insurer, the direct writing company, or the ceding company.

**RISK ADJUSTED RETURN ON CAPITAL (RAROC)**

An advanced business performance measurement tool that enables management to view its revenues in the perspective of the risks that had to be taken to obtain that revenue. RAROC is calculated by dividing the risk-adjusted-return by economic capital.

**SETTLEMENT RISK**

Arises when there is an exchange of value (funds, instruments or commodities) for the same or different value dates or times and receipt is not verified or expected until ING has paid or delivered its side of the trade. The risk is that ING delivers, but does not receive delivery from the counterparty.

**SIGNIFICANT INFLUENCE**

The power to participate in the financial and operating policy decisions of an entity, but not control over these policies. Significant influence may be gained by share ownership, statute or agreement.

**SUB-PRIME MORTGAGES**

Mortgage loans made to borrowers who cannot get a regular mortgage because they have a bad credit history or limited income.

**SUBSIDIARY**

An entity that is controlled by another entity.

**SURRENDER**

The termination of a life or retirement contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, on the contract.

**SWAP CONTRACTS**

Commitments to settle in cash at a specified future date, based on differentials between specified financial indices as applied to -a notional principal amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party.

**TIER-1 CAPITAL**

Also referred to as the core capital of ING Bank. It comprises paid up share capital, reserves excluding revaluation reserves, fund for general banking risks, retained earnings, minority interests.

**TIER-1 RATIO**

Reflecting the tier-1 capital of ING Bank as a percentage of its total risk weighted assets. The minimum set by the Dutch central bank is 4%.

**TRADING PORTFOLIO**

Comprises those financial instruments which are held to obtain short-term transaction results, to facilitate transactions on behalf of clients or to hedge other positions in the trading portfolio.

**TREASURY BILLS**

Generally short-term debt certificates issued by a central government. Dutch Treasury Certificates are regarded as Dutch Treasury bills.

**TREASURY SHARES**

An entity's own equity instruments, held by the entity or other members of the consolidated group.

**VALUE AT RISK (VaR)**

Quantifies, with a one-sided confidence level of at least 99%, the maximum overnight loss in Net Present Value that could occur due to changes in risk factors (e.g. interest rates, foreign exchange rates, equity prices, credit spreads, implied volatilities) if positions remain unchanged for a time interval of one day.

**VALUE IN USE**

The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

**VARIANCE-COVARIANCE**

A model to calculate Value at Risk, assuming that changes in risk factors are (jointly) normally distributed and that the change in portfolio value is linearly dependent on all risk factor changes.

**WARRANT**

A financial instrument that gives the holder the right to purchase ordinary shares.